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MARKET COMMENTARY

Stocks were mixed in the second quarter. Large cap stocks in the S&P 500 reached new highs and gained 4.28% in the quarter bringing their year-to-date return to 15.29%. Meanwhile, small cap stocks in the Russell 2000 Index retreated and lost -3.28% in the quarter dropping their year-to-date return to 1.73%. International stocks in developed markets also slipped -0.42% so their return so far in 2024 is 5.34%. Stocks in emerging markets surged 5.00% bringing their year-to-date gain to 7.49%. Yields rose slightly during the quarter but the Barclays U.S. Aggregate Bond Index inched 0.07% higher reducing its year-to-date loss to -0.71%.

In the first quarter, it appeared that stock market performance was broadening and not concentrated in the megacap growth stocks as it was in 2023. But as of the end of second quarter, the megacap growth stocks are once again dominating. Only the communication services and technology sectors are outperforming the S&P 500. The 10 largest stocks now make up 37% of the market cap weighting of the S&P 500 which is greatly skewing returns in the index. The Magnificent 7 (the 7 largest stocks that include Microsoft, Apple, Amazon, Meta, Alphabet, Nvidia and Tesla) have a year-to-date return of 33% and they account for 61% of the returns of the S&P 500. The remaining 493 stocks have a return of just 5%.

One reason the Magnificent 7 are outperforming the rest of the S&P 500 could be because they have had significantly higher earnings growth comparatively. This disproportion reached an extreme in the first quarter of 2024 when the Magnificent 7 had 50% earnings growth and the remaining stocks had -2.0%. This inequity is expected to disappear by fourth quarter when both the Magnificent 7 and the remaining 493 stocks are projected to grow earnings 17%.

Stock prices rising faster than earnings growth has resulted in price/earnings (PE) multiples expanding again. The S&P 500 now has a PE of 21 times earnings which is much higher than its 30-year average PE of 16.7 times. Earnings growth is needed to support stock prices. Although the market has been strong and PE multiples have expanded, Strategas Research notes that they do not think we are at a bull market top. On their list of 9 indicators for a top, none are currently checked.

GDP growth in the first quarter was just 1.4% which was lower than expected and much lower than the 3.1% for 2023. We are seeing some signs of weakness: housing starts have dropped 5.5% and new single family home sales declined 11.3% in May; retail sales surprised to the downside in May; real consumer spending has slowed; and the ISM Services index fell to its lowest level in more than 4 years. Even so, most analysts are not projecting a recession in 2024. The Fed's projected GDP growth for the full year is around 2%.

Strategas Research argues that since it is an election year, Washington will do whatever it can to keep the economy strong and consumers afloat until after the election. Possible means include increasing Treasury liquidity, releasing some of the Strategic Petroleum Reserve to keep gas prices low, tax cuts, and student loan forgiveness. Strategas notes these actions could spur a second wave of inflation in 2025.

Job openings have fallen which may indicate that the labor market is weakening. Unemployment has inched higher and is currently at 4.1%. Although this is very low historically, it is the highest it has been in more than 2 years. However, it is not expected to rise much from here if at all.

2024 BENCHMARK RATES OF RETURN

INDEX	SECOND QUARTER	YTD
S&P 500	4.28%	15.29%
Russell 2000	-3.28%	1.73%
International	-0.42%	5.34%
Fixed Income	0.07%	-0.71%
JPMorgan Diversified*	1.04%	5.11%

*25% S&P 500 large cap stocks,10% Russell 2000 small cap stocks, 15% MSCI EAFE international stocks, 5% MSCI EME emerging market stocks, 5% REITs, 25% Barclays US aggregate bonds, and 5% each in short term Treasuries, high yield global bonds, and commodities.

We value our relationship with you, and we are always available to meet with you in person, virtually or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account.

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Inflation continues to fall and the Fed's favorite measure—the Core PCE deflator—is down to 2.6%. The Fed is currently projecting inflation to be 2.4% by the end of the year. They expect to reach their 2% target in 2026. Some categories of inflation are still hurting consumer budgets and actual prices are not going lower. They remain 20% higher than before the pandemic.

After fighting higher inflation by raising short-term interest rates, the Federal Reserve has again left rates unchanged. The Fed Funds rate resides between 5.25% and 5.50%. The Fed is happy that inflation has come down but they don't want to cut rates too soon. They believe they can take their time to cut interest rates as long as the labor market remains healthy. The first rate cut may not happen this summer.

The 10-year Treasury bond yield rose from 4.21% at the end of March to 4.34% at the end of June. Money markets continue to earn around 5.0% to 5.25%. If the Fed lowers rates, the short-end of the yield curve will likely move lower and money markets won't continue to earn these enticing rates.

Concern continues to grow regarding the Federal debt. Financing government spending through debt has been popular since the great recession. Now that interest rates are higher, this has become a bigger issue. Strategas Research notes that in just one year, the interest expense will be more than the defense budget. Interest expense as a percentage of tax revenues will be more than 26% in 2032. They further note that there are limited choices when dealing with the debt. We can raise taxes and/or cut spending. We could let inflation rise. We could commit to capitalism and private sector growth to grow our way out. Or, we could reform entitlement programs like social security. Hard decisions are needed from leadership and Strategas goes on to suggest it may take a crisis before deficit and debt reduction is dealt with by Washington.

Diversification continues to be prudent. Also, the "target outcome" or "buffer" ETFs can add protection to portfolios and still provide upside potential if stock prices rise. Dividend income is also attractive in equity and premium income funds. In these funds, managers own dividend paying stocks and sell out of the money call options to collect extra income. The dividends help with total returns or with income needs depending on the account.

Measuring risk tolerance and investing accordingly is important in this environment. Timing the market or chasing returns may work in the short-term but is more difficult over longer periods. We use Nitrogen (formerly Riskalyze) software to help us measure your risk tolerance and make sure you have the appropriate risk in your accounts. If you would like to check or revisit your risk score or if you have any questions about your account, please do not hesitate to contact your advisor.

CAMBRIDGE ADVISORS NEWS

In case you missed it, **Jonathan Spangler** joined our team of advisors in March. Jon spent the last 16 years wholesaling retirement solutions to financial advisors. He wanted to work more closely with individual clients and families to help them reach their financial goals. We are excited to have him as an advisor and feel he is an important piece in our long-term strategic plan. Jon is a Retirement Income Certified Professional. The RICP® designation focuses on retirement income planning, maximizing Social Security and other income sources, minimizing risks to the plan, and managing portfolios during the asset distribution phase. Jon and his wife, Mikayla, have a daughter and son who keep them busy driving to dance and baseball practices. If he has any free time, you may find him on the golf course or behind the grill.

If you haven't already, check out our new website! The address is still www.cambridgeadvisors.net but we have overhauled it to make it more useful to prospective clients and easier to navigate. Existing clients have a direct link to the client portal and to their Schwab login. If you do not have access to your client portal, please contact your advisor to get set up. The client portal has account information and also a document vault which provides a secure place to upload and download files or forms.

We are committed to remaining independent as we believe that is best for our clients. We are also preparing for the next generation of advisors at Cambridge Advisors. Although Mike and Lori are not planning to retire in the near future, we know we need to have people in place to be able to continue to serve our clients. We appreciate the trust you place in us. If you have friends or family who would benefit from a relationship with Cambridge, please do not hesitate to share our contact info and our website. We are accepting new clients right now and want to help the people who are important to you. We waive our $500,000 minimum for these referrals or offer the financial planning services on a stand alone basis. Thank you for your referrals!