Cambridge ADVISORS inc.
INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE SEPTEMBER 2024

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MARKET COMMENTARY

Stocks indices reached new highs in the third quarter. Large cap stocks in the S&P 500 gained 5.89% in the quarter bringing their year-to-date return to 22.08%. Small cap stocks in the Russell 2000 Index jumped 9.27% in the quarter resulting in an 11.17% year-to-date return. International stocks in developed markets were up 7.26% so their return so far in 2024 is 12.99%. Stocks in emerging markets surged 8.72% bringing their year-to-date gain to 16.86%. Yields fell during the quarter so the Barclays U.S. Aggregate Bond Index had a 5.2% return in the quarter turning its year-to-date return positive and registering a 4.45% gain.

Stock market performance is broadening out and is not as concentrated in the megacap growth stocks as it was in 2023. The best performing sector is now Utilities at 30.1% and then Technology and Communication Services at 29.6% and 27.8%, respectively. Financials, Industrials and Consumer Staples are close behind with 21.5%, 19.6% and 18.6% returns, respectively. Energy is the only sector in single digit returns at 7.5%.

Second quarter had earnings growth of 10%. Earnings estimates for third quarter have been revised lower throughout the quarter and growth is currently projected to be only 3.2% and concentrated mostly in Technology, Communication Services and Healthcare. The negative revisions trend has been felt in 14 of the 16 Zacks sectors—only Technology and Finance have had positive revisions. Fortunately, fourth quarter earnings are projected to grow near 10% again bringing full year earnings growth projections for 2024 to 7.6%.

The S&P 500 now has a price/earnings multiple (PE) of 21.5 times earnings which is much higher than its long-term average PE of 16.6 times. The top 10 stocks of the S&P 500 are making this valuation look more stretched than it is. These stocks make up 36% of the weighting of the S&P 500 and their PE is at 30.3 times earnings. The remaining 490 stocks have a PE of 18.3 times earnings which is still higher than average but not as extreme as indicated at first glance.

GDP growth picked up and was 3% in the second quarter after 1.4% growth in the first quarter. David Kelly is projecting 2-3% GDP growth in third quarter. The Fed is projecting full year GDP growth of 2.0% for 2024. Recession fears seem to have cooled although analysts are keeping an eye on the port strike, political landscape of an election year, and unrest in the Middle East.

Unemployment has increased to 4.4% and the Fed is projecting it to stay at this level through 2025. Although this is higher than it has been and is above the Fed's original projection for the year, it is still quite low. There may be cracks forming in the labor market as economist Brian Wesbury notes that full-time employment is down one million jobs from a year ago while part-time employment is up 1.1 million for the same period.

Inflation has plateaued and the Fed's favorite measure—the Core PCE deflator—is at 2.7% in August (the same as it was in May) and is projected to be 2.6% at year end. The Fed expects to reach its 2% target in 2026. Some analysts such as Brian Wesbury and Strategas Research are concerned that an increase to the money supply could cause higher inflation reappear. The concern of inflation reemerging may be partially responsible for the rise in gold prices. Gold is often thought to be an inflation hedge.

After fighting higher inflation by raising short-term interest rates, the Federal Reserve has finally initiated the rate cut cycle. In September, the Fed cut the Fed Funds rate by 50 basis points. The current rate resides between 4.75% and 5.00%. Fed Chairman Powell says that he sees two more cuts of 25 basis points each by year-end "if the economy performs as expected".

2024 BENCHMARK RATES OF RETURN

INDEX	THIRD QUARTER	YTD
S&P 500	5.89%	22.08%
Russell 2000	9.27%	11.17%
International	7.26%	12.99%
Fixed Income	5.20%	4.45%
JPMorgan Diversified*	6.39%	11.83%

*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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Further cuts are expected in 2025 with a projected ending rate around 3.0%.

The 10-year Treasury bond yield fell from 4.34% at the end of June to 3.80% at the end of September. Money markets have moved lower to around 4.7% as expected with the cut in short-term rates. The 10-year Treasury yield may not move much lower. If the short term yield ends up around 3.0%, current longer-term yields are reasonable for an upward sloping yield curve. The yield curve had been inverted for 26 months but now has moved back to a more normal upward-sloping curve with 10-year Treasury yields higher than the 2-year Treasury yield.

Concern continues to mount surrounding the Federal debt which is now above $35 trillion. The deficit for 2024 is expected to be $1.9 trillion; this amount is 6.7% of GDP. Wesbury notes that this is the largest gap in a year where there wasn't a major war or recession. Pre-pandemic, the deficit was 4.6% of GDP in 2019. Since then, revenue has grown from 16.3% of GDP to 17.2%. The problem has been that spending has grown more. Net interest on the debt has grown from 1.8% of GDP to 3.1% - the highest since 1995. "Other" government spending was 2.7% of GDP in 2019 and is now 3.8% in 2024. Healthcare spending on Medicare and Medicaid has also grown from 5.3% to 5.8% of GDP. Now that interest rates on debt are higher, this has become a bigger issue.

Strategas notes 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 capital-ism 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 portfoli-os 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 software to help us measure your risk tolerance and make sure you have the appropriate risk in your accounts. Want to check your risk tolerance? Scan this QR code and you will be directed to a risk survey. We'll receive your results and compare it to your current risk score.

CAMBRIDGE ADVISORS NEWS

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!

Cambridge Advisors votes proxies for clients according to Eagan-Jones' Standard Policy. If you would like to vote your own proxies, please let your advisor know. Also, if you'd like to see how proxies have been voted, please contact our operations manager John Goolsby.

SCAM ALERT

Each quarter we want to highlight a scam we've seen in hopes it helps prevent it from happening to you. QR codes (as seen in the previous section) are very popular and are being used more often. In some restaurants, you scan a QR code to read the menu. Some schools use a QR code now to access an event program instead of a paper copy. A QR code may also direct you to a site where you can make a payment. For example, a parking meter may have a QR code. QR codes that direct you to a site to make a payment should be scrutinized closely. Scammers are making stickers of QR codes and placing them over existing real codes and then collecting your payment information. Before scanning any QR code that would direct you to making a payment, check to make sure there is no sticker.

Have you seen scams that we should alert our clients to? Let us know so we can share in a future newsletter!