MAY WEALTH ADVISORS | RAYMOND JAMES

May Wealth Advisors Quarterly Quip

Welcome to our Sixth Edition!

Welcome to the sixth edition of our quarterly newsletter!

As your dedicated advisory team, we are committed to offering you not only valuable insights but also expert guidance on how to navigate and make the most of the dynamic market landscape. Our vigilant monitoring of the markets means that we'll promptly get in touch if any immediate action is needed. In the meantime, please don't hesitate to reach out for additional perspectives or guidance.
As we approach the year's end, we'd like to draw your attention to the remarkable divergence between what some have aptly coined the "Magnificent 7" and the rest of the companies comprising the S&P 500, an index representing the 500 largest US corporations. This year's performance has been primarily steered by these 7 influential companies (AAPL, MSFT, NVDA, GOOGL, AMZN, META & TSLA), with the remaining S&P components contributing a mere 2.06% to the overall performance. To better illustrate this, we've included three informative slides:

1. The first slide delineates the growth achieved by each of the Magnificent 7 relative to their peers.
2. The second slide offers insight into the performance of the S&P 500's five largest constituents and the substantial influence they exert on the index's performance. Over the past decade, these five companies – Apple, Microsoft, Amazon, Nvidia, and Google – have augmented their collective share from approximately 15% to roughly 25% today.
3. The last slide reveals that only 28% of S&P 500 companies have outperformed the index this year, marking the lowest percentage since 1996.

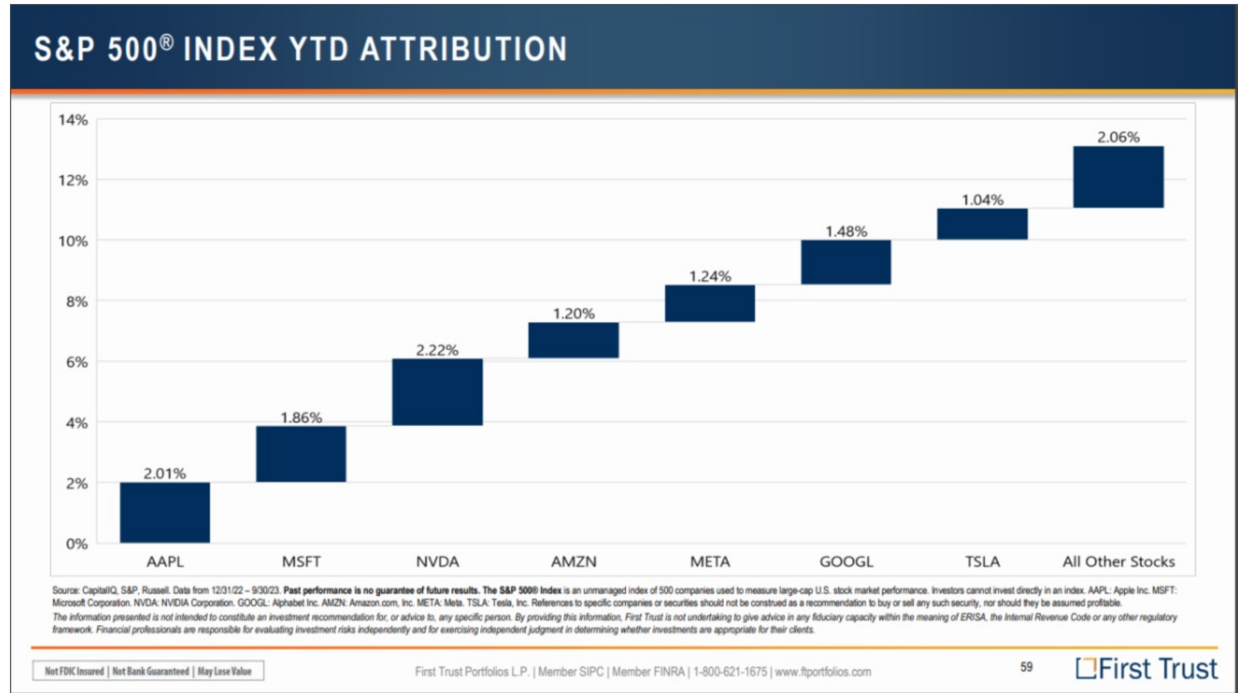
Why do we bring this to your attention? It's important to maintain realistic performance expectations as we approach the year's end. We've also faced significant challenges this year, including factors like inflation, interest rates, and, most notably, the ongoing conflict in Israel.

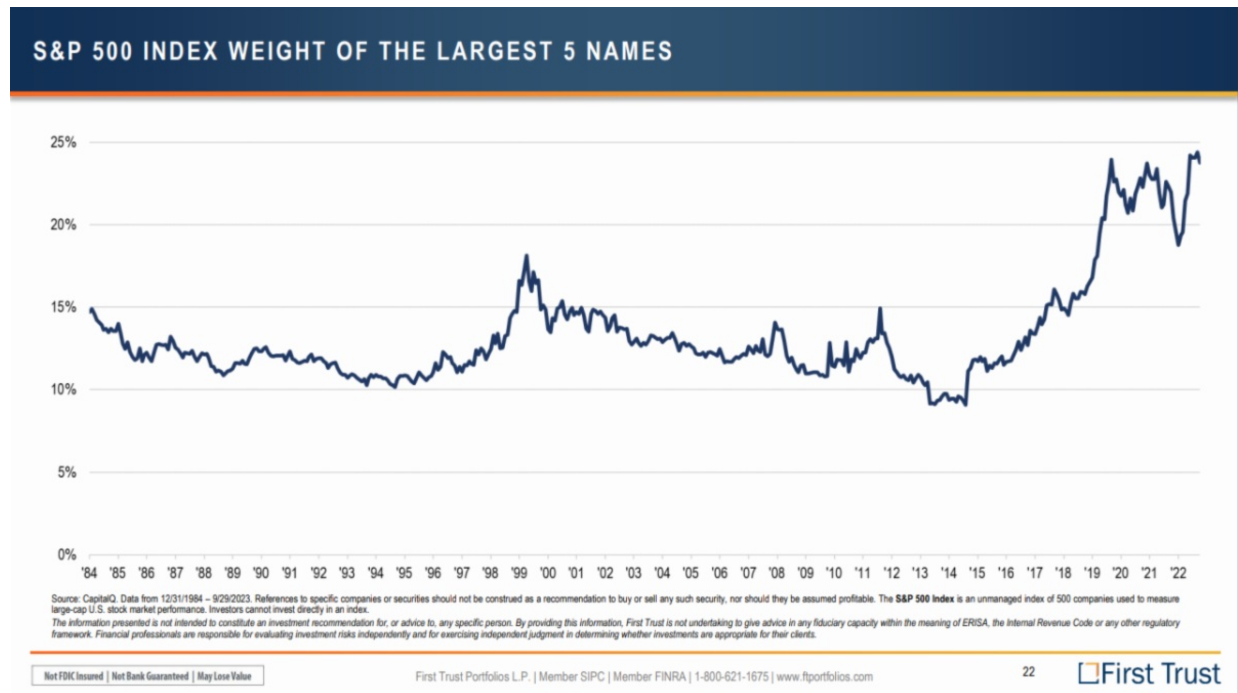
While we still see potential for growth, we advise a cautious approach in light of the potential for a recession and market volatility at the start of the new year.
Please feel free to share this newsletter with family and friends who may benefit from our insights. We welcome introductions to individuals who, like you, seek a second opinion on their portfolios, especially given the recent market developments.

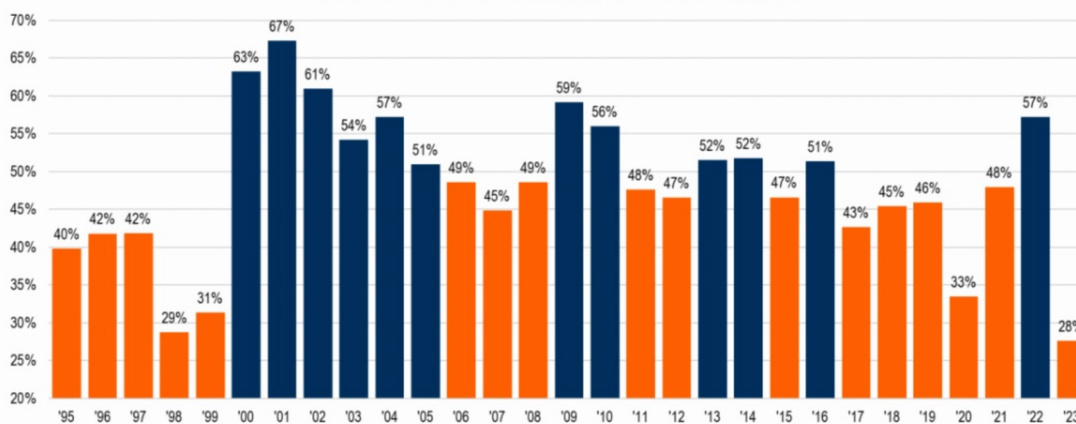
As a reminder, we'd love to include your stories in this newsletter, so please don't hesitate to send them our way.

We greatly value our relationship with you and appreciate the trust you've placed in us.

– Ron, Taylor, Patrick, and Meg







Headwinds are building for the consumer

Key Takeaways Mild recession remains our base case Headwinds are building for the consumer Surging borrowing costs Pose a risk This week we celebrated National Mulligan Day - a day everyone gets a 'do over' or a second chance. I'm sure there are plenty of golfers, weathermen, and others that have called for a mulligan every now and then.

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Focus on philanthropy this Fall

Review key market dates and timely financial planning tasks.

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The wealth transfer: financial literacy and family values

Build a foundation for financial values long before

More

any money changes hands.

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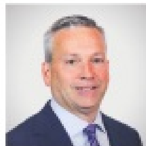
MARKET MINUTE
WITH McGAREL



Dave McGarel, CFA, CPA
Chief Investment Officer

October 2023

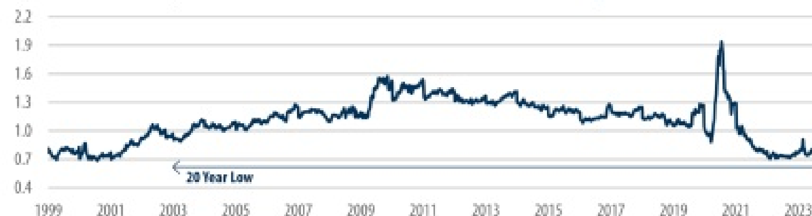
Opportunity Comes In Smaller Packages

While we wait around for the most anticipated recession in history, one thing seems clear to us. Only one size segment of the U.S. market has priced in any sort of recession, small capitalization stocks (small caps). As measured by the S&P SmallCap 600® Index, small caps peaked in early November 2021. Large caps (measured by the S&P 500® Index) did not peak until the first trading day of 2022. From their peak on November 8, 2021, the S&P SmallCap 600® Index has lost 19.0% on a total return basis versus a loss of just 6.0% for the S&P 500® Index. Since the S&P 500® Index peaked on January 3, 2022, small caps have also lagged large caps (-16.4% vs -8.0%).

Not only have small cap stocks significantly underperformed large cap stocks over the last 21 months, they also trade at close to their biggest discount to large caps since the tech bubble burst in early 2000, over 23 years ago [Chart 1]. The S&P SmallCap 600® Index currently trades at 15.4x next 12 months earnings. The S&P 500® Index trades at 19.6x. On just about any other valuation measure, such as price-to-sales, price-to-cash flow and price-to-book, small caps are cheaper than large cap stocks.

It would be correct to point out small cap stocks typically suffer larger earnings declines in recessions than large caps. However, given the significant valuation disconnect versus large caps and the fact that, in our view, small caps have already priced in some degree of slowing economy, we believe there is an attractive risk/reward opportunity going forward in small cap stocks. Additionally, if we do get a shallow recession, small caps should lead their larger peers on the road to recovery. One thing is without dispute...small caps have provided the best returns in equities over the long run [Chart 2]. Today, there are many profitable, dividend paying small cap securities that may be attractive investments.

Chart 1: S&P SmallCap 600 Index/S&P 500 Index Forward Price-to-Earnings



Source: Bloomberg. Data from 1/1/1999 through 9/29/2023.

Chart 2: Stocks vs. Bonds

Average Annual Total Returns	
Inflation	2.9%
T-Bills	3.2%
Government Bonds	5.2%
Large Company Stocks	10.1%
Small Company Stocks	11.8%

Source: Ibbotson Associates. Hypothetical growth of a $1 investment made on 12/31/1925. Data is monthly and shows total returns through 12/31/2022. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. **Inflation** is represented by the Consumer Price Index (CPI-U) which measures the average change in prices over time that consumers pay for a basket of goods and services. **Treasury Bills (T-Bills)** are represented by the 30-day U.S. Treasury bill. **Government Bonds** are represented by the 20-year U.S. Government bond. **Small Company Stocks (Ibbotson Small Company Stocks Index)** are represented by the fifth capitalization quintile of stocks on the NYSE from 1926 to 1981 and the performance of the Dimensional Fund Advisors (DFA) Micro Cap Fund thereafter. **Large Company Stocks (Ibbotson Large Company Stocks Index)** are represented by the S&P 500 Composite Index (S&P 500) from 1957 to present, and the S&P 90 from1926 to 1956. Index returns do not reflect any fees, expenses, or sales charges. The asset classes shown here offer different characteristics in terms of income, tax treatment, capital appreciation and risk. U.S. government securities are subject to interest rate risk but generally do not involve the credit risks associated with investments in other types of debt securities. As a result, the yields available from U.S. government securities are generally lower than the yields available from other debt securities. Common stocks are subject to risks, such as an economic recession and the possible deterioration of either the financial condition of the issuers of the equity securities or the general condition of the stock market.

Past performance is no guarantee of future results.

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The **S&P 500® Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The **S&P SmallCap 600® Index** is an unmanaged index of 600 stocks used to measure small cap U.S. stock market performance. Investors cannot invest directly in an index. **Forward Price-to-Earnings (P/E)** is the price of a stock divided by estimated forward earnings.

References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

Year-end tax tips for businesses

Help improve your bottom line with these tax mitigation strategies.

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RAYMOND JAMES

October 23, 2023

Bond Market Commentary

Fixed Income Solutions

Tentative Times, Disconcerted Consumers, Volatile Markets

DOUG DRABIK
Managing Director, Fixed Income Strategist

Higher for longer. The Federal Reserve will likely maintain higher interest rates and remain open to another rate hike. Borrowing costs for households, businesses and governments have risen with soaring rates.

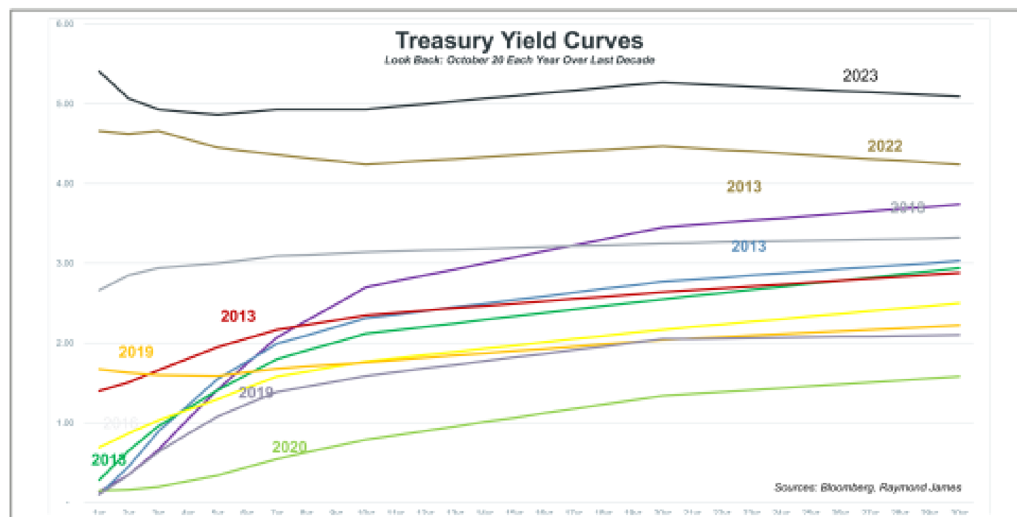
Inflation remains sticky…yet growth in the U.S. economy remains resilient.

The government will likely increase the supply of government bonds and bills to cover the widening deficits.

The national average 30-year mortgage rate just climbed over 8%, nearly doubling the 4.26% average over the past 10 years. This would take a $300,000 30-year monthly loan payment of $1,477 up 49% to $2,201. New car financing rates are at 6.6%. The amount of credit card debt outstanding just hit an all-time high sitting 36% higher than the 20-year average and increasing in size for 10 of the last 12 months reported. Student loan borrowers are now being called upon to pay. Food, gas and other staples cost more at a time when mortgage/rent, auto payments and mounting credit card debt are eating away at monthly disposable income.

Geopolitical restlessness is skyrocketing. The world affairs seem as unsettled as they've been in this lifetime.

Yet…there is one thing that is certain within the investment world. Interest rates are higher than they have been in over 16 years and income opportunities for individual bond buyers are abundant. Take advantage of these opportunities while you can.



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The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

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