Quarterly Update – June 30, 2024

The 2nd quarter of 2024 showed mixed results for the stock market while the bond market was basically flat. Strong results from large cap growth stocks led to impressive results for the S&P500 and the NASDAQ. The S&P500 returned 4.28% this quarter and is now up over 15% for the year. The NASDAQ index returned 8.26% for the quarter and 18% for the year. Emerging markets stocks were the only other asset class to post a positive return this quarter as they gained 5.29%.

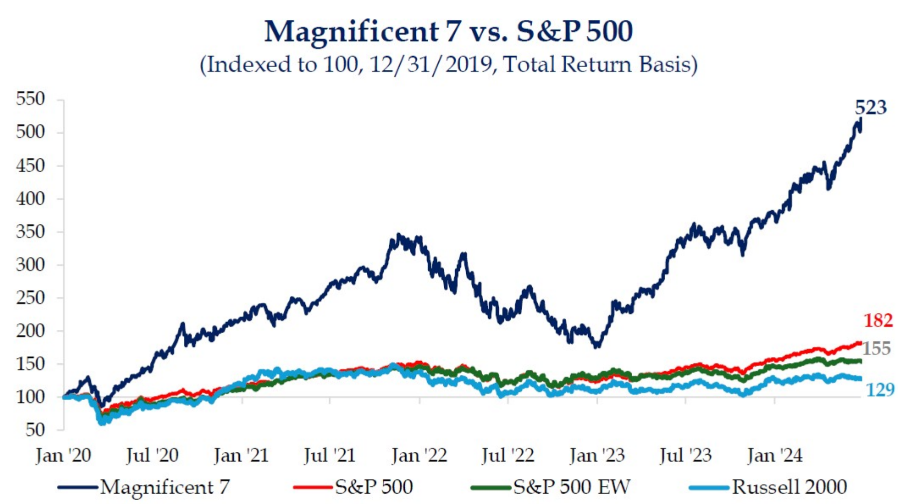
International stocks, small caps, midcaps, dividend payers, and the Dow Jones Industrial index all posted small losses during the 2nd quarter, however they still remain positive for the year. Bonds were only slightly positive and continue to trail all the other major asset classes.

Here are the returns of the major asset classes at the end of the 2nd quarter 2024:

Asset Class	Index	2nd Q	YTD	1yr	3yr*	5yr*
US Large Cap Stocks	S&P500	4.28%	15.29%	24.56%	10.00%	15.03%
US Mid Cap Stocks	Russell Midcap	-3.35%	4.96%	12.88%	2.37%	9.45%
US Small Cap Stocks	Russell 2000	-3.28%	1.73%	10.06%	-2.58%	6.93%
Dow Jones Industrial Avg	DJIA	-1.27%	4.79%	16.02%	6.42%	10.31%
US Dividend Paying Stocks	DJ Select Dividend	-1.01%	5.03%	11.44%	5.26%	8.32%
NASDAQ	NASDAQ	8.26%	18.13%	28.61%	6.92%	17.22%
Int'l Developed Mkt Stocks	MSCI EAFE	-0.31%	5.34%	11.54%	2.89%	6.46%
Int'l Emerging Mkt Stocks	MSCI EM	5.29%	7.49%	12.55%	-5.06%	3.09%
US Bonds	Bar Aggregate Bond	0.07%	-0.78%	1.70%	-2.45%	0.36%

[1]

YTD = Year to Date *return is annualized



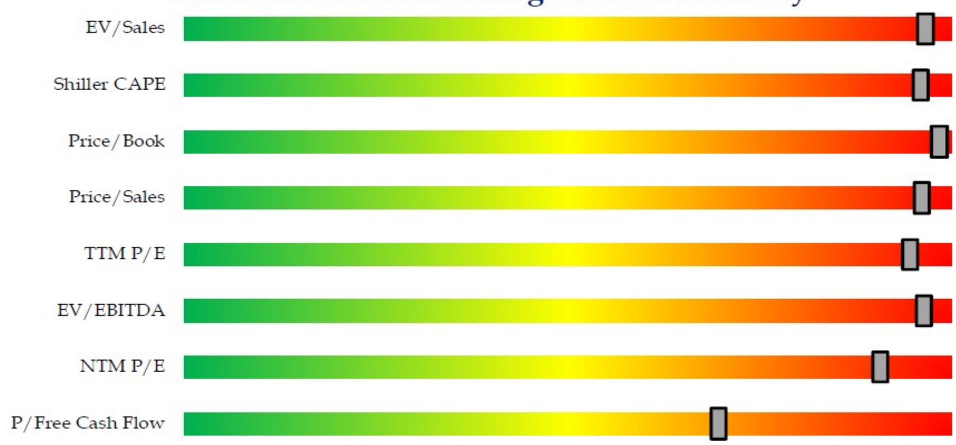
[2]

The investment story of the last year has been the impressive growth of the mega cap companies driven by an acceleration in artificial intelligence (AI). The growth has been so impressive, market commentators started calling these companies the Magnificent Seven (Apple, Nvidia, Microsoft, Alphabet, Meta, Tesla, and Amazon). The performance of these stocks has dramatically outpaced the average performance of other S&P500 stocks and small cap stocks in the Russell 2000 index.

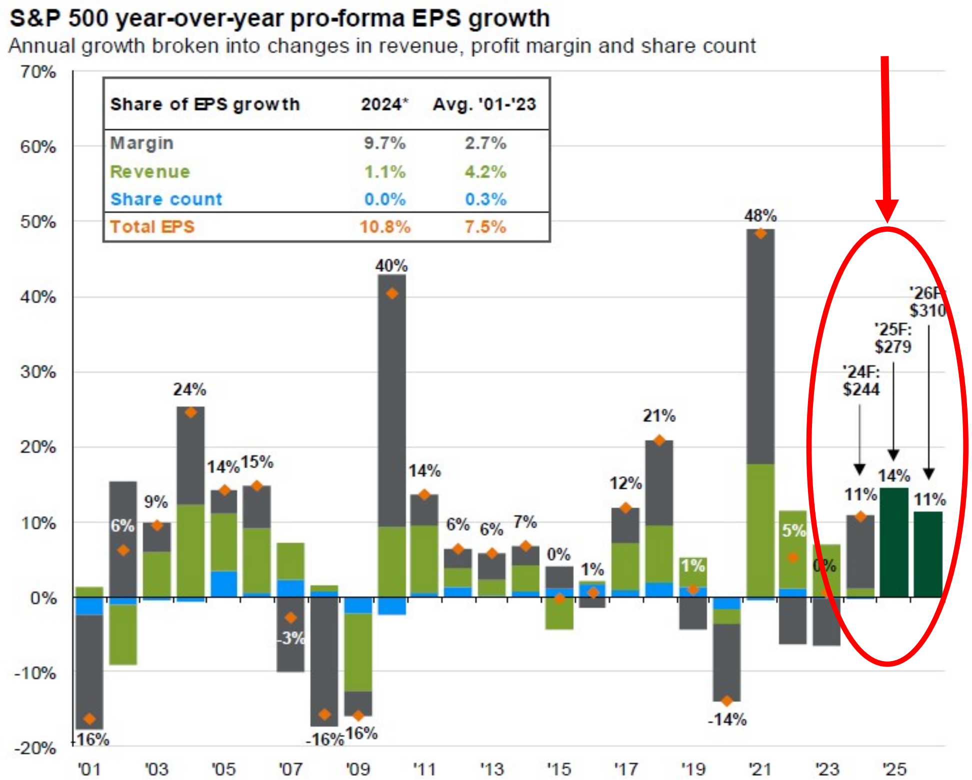
[1] Source: Raymond James Client Center Reporting
[2] Source: Strategas, "Quarterly Review in Charts" 2Q 2024 p.9

The growth of large cap stocks has increased the valuation for the S&P500 significantly over the last year. The chart below is a view of the S&P500 current valuation ratios vs. historical averages. At first glance, it appears that market valuations are starting to be a concern. However, if you separate the top ten stocks in the S&P500 from the remaining 490 stocks, you see a slightly different picture. The top ten stocks have a P/E of 30.3x while the rest of the S&P500 index is trading at 17.6x. We see the valuation difference as an opportunity for stocks outside the top ten and possibly a risk for the mega cap stocks.

S&P 500 Valuation:
Current Percentile Ranking Relative to History



3



4

These lofty valuations do not necessarily spell doom and gloom for the market going forward. It's simply something to be aware of and forces us to focus on corporate revenue and earnings growth. Market valuations should move closer to their historic normal level if earnings growth continues as expected. If earnings do not improve, we would expect to see a market correction and stock prices with the highest valuations may be the most at risk.

2 Source: Strategas, "Quarterly Review in Charts" 2Q 2024 p. 10
4 Source: JP Morgan, "Guide to the Markets—June 30, 2024" p.7

We continue to be worried about government spending and the federal deficit. According to Piper Sandler Research, the annual federal deficit is expected to be $1.9 trillion for 2024 alone. That is 6.7% of annual GDP which we believe is completely unsustainable. The average annual deficit over the last 50 years has been 3.7% of GDP.[5] Concern about the deficit stems from the astronomical amount of total federal debt we have racked up over the years and also how quickly it is growing. According to the US Debt Clock (found at www.usdebtclock.org), we are approaching total debt of $35 trillion. That means every tax paying citizen would have to chip in $267,170 in extra tax payments to pay off our current debt.

[5]

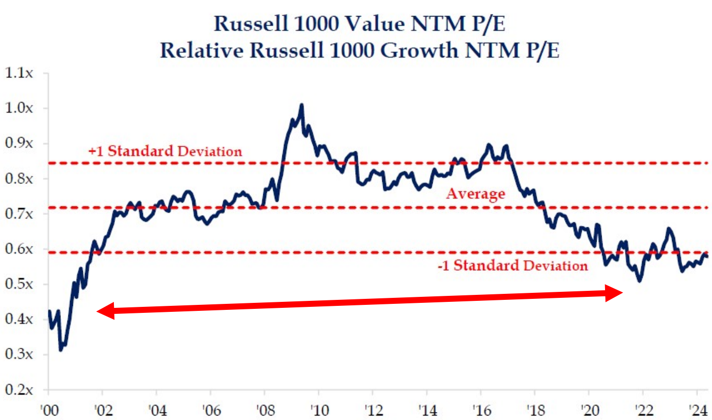
The problem with high debt is the annual interest payments we have to pay on the debt. Required annual interest payments are currently approaching $900 billion, which is about the same amount we pay annually for the total US defense budget (includes all military branches, equipment, operations, maintenance, personnel, and war). We believe the days of using the federal budget to artificially increase US growth should come to an end soon. We do not know exactly how this will end, but if we don't get serious about reducing the federal deficit soon, it will not end well.

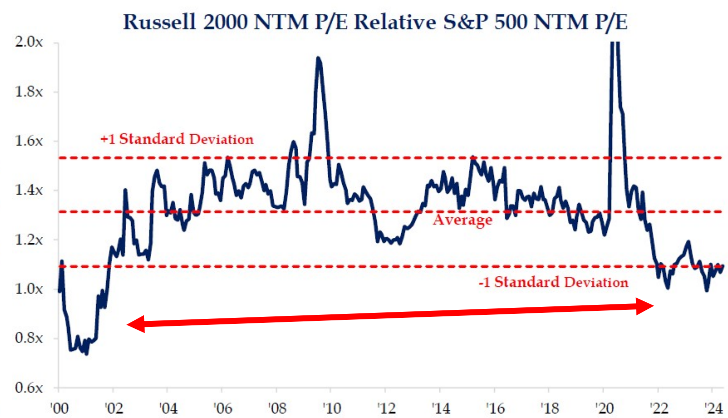
We spend a significant amount of time evaluating the potential events that may negatively impact the market. We are concerned about high stock market valuations, consumer and government debt, and the impact of inflation on consumer spending. The "landmines" are easy to see. The opportunities are sometimes more difficult to reveal. For example, the expansion of AI and its impact on growth has been evident over the last year. We believe the AI theme will continue to play out across several sectors over many years.

[4] Source: John Hancock, "Market Intelligence" Q2 2024 p.8
[5] Source: US Debt Clock, www.usdebtclock.org

We believe a near term market opportunity is cash movement. It remains our opinion that investor buying power is one of the most significant catalysts for the stock market in 2024-2025. Cash and money market balances continue to climb at record pace. We think this cash position can be a buffer to potential stock market pullbacks. We also expect money market rates to decrease over the next 12-18 months as the FED is set to start cutting rates before year end. If that occurs, investors may use cash to increase their allocation to both stocks and bonds as they look for better future returns.

We also recognize a few valuation opportunities in the current market that we want to highlight. We see "value" stocks trading much cheaper than "growth" stocks and small caps trading at better valuations than large caps. The two charts below show that we have not traded at these levels since the 2000-2001 time frame. It is difficult to pinpoint the time we would see a shift in the market sentiment for value or small cap stocks, but there are several reasons that shift may take place. The most obvious is cheaper valuations and these discounts typically don't persist indefinitely.





7

We expect short term and investment grade bonds will perform better in an environment of flat-to-falling rates rather than increasing rates. We also think it makes sense to start moving money market funds to short duration bonds in order to take advantage of the yields for a longer period of time. If the FED cuts rates this year, investors will see yields on money market funds decline quickly in lock step with the fed funds rate. We also think geopolitical tensions, US elections, FED decisions, and inflation data can cause an uptick in volatility at any time. Typically, diversification in alternative investments may help dampen volatility when it arises.

As always, we thank you for the trust you place in our team. Please reach out to us with any questions. Stay tuned for our next video, the Mid-Year Review & Election Preview coming in August.

-Shaw Investment Management

[6] Source: Strategas, "Quarterly Review in Charts" 2Q 2024 p.12

SHAW
Investment Management
of
RAYMOND JAMES®

The foregoing represents the opinions of the authors and not necessarily those of Raymond James & Associates, Inc. Information contained herein has been derived from sources believed to be reliable but is not guaranteed as to accuracy and does not purport to be a complete analysis of the security, company or industry involved. This report is designed to provide commentary on market strategy and the opinions expressed reflect the judgment of the author as of the date of publication and are subject to change without notice. Neither the information, nor any opinions expressed, constitute a solicitation for the purchase or sale of any security. The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The Russell 2000 index is an unmanaged index of small cap securities which generally involve greater risks. The Barclays Capital U.S. Aggregate Bond Index is often used to represent investment grade bonds being traded in United States. The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East), excluding the US & Canada. MSCI Emerging Markets Index is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks. The Russell Mid-cap Index consists of the bottom 800 securities in the Russell 1000 index as ranked by total capitalization. The Dow Jones US Select Dividend Index aims to represent the US's leading stocks by dividend yield. Dividends are not guaranteed and must be authorized by the company's board of directors. Investing in commodities is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

Raymond James is not affiliated with and does not endorse the opinions or services of Strategas Research Partners, LLC. It is not possible to invest directly in an index. Index performance does not transaction costs or other fees, which will affect the actual investment performance. Individual investor results will vary. Investments are subject to market risk, including possible loss of principal. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success. Past performance is not a guarantee of future results. Raymond James Financial Advisors do not provide advice on mortgages. Investing in commodities is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.