FORTHRIGHT PARTNERS, LLC

INVESTMENT LETTER, 3RD QUARTER 2024

EXECUTIVE SUMMARY

As Good as it gets but still optimistic long-term.

Concentration and complacency risks can be managed.

Uncertain tax and trade policies in 2025.

Will diversified portfolios finally be rewarded?

AS GOOD AS IT GETS?

There are wars. There are natural disasters. But this bullish stock market is seemingly unstoppable. The S&P 500 Stock Index gained 26% in 2023 and after such a strong showing, few strategists had expected the index to garner another 22% in the first nine months of this year. This is truly a humbling business.

The strong equity market is a reflection of our resilient economy. Economic growth has slowed but remained healthy. With 3% GDP growth, 4% unemployment and 3% inflation, what's not to like? With this benign backdrop and subsiding inflationary pressures, the Federal Reserve finally began cutting interest rates in September. While the 0.5% reduction was somewhat larger than expected, the cut was well telegraphed and anticipated by the market.

As mentioned in our last investment letter, the Federal Reserve has shifted its focus from combating inflation to protecting employment. Barring any unexpected flare-ups on the inflation front, investors can expect gradually lower interest rates.

"Statistics are used much like a drunk uses a lamppost: for support, not illumination."

Vin Scully, American Sportscaster

The bull market has gotten everything it can possibly ask for: a healthy economy, strong corporate profits, lower inflation and lower interest rates. **What if this is as good as it gets?** What will further propel stock prices higher?

PERPETUAL ECONOMIC GROWTH?

As we have penned in the past, the stock market is priced to perfection. The top 10 stocks in the S&P 500 Index are selling at almost 31 times forward earnings while the remaining stocks are selling at 18 times, as compared to the 30-year average of 17 for the index. Yes, we do have a favorable backdrop for stocks, but earnings growth will need to stay very robust to support current valuation levels, especially for the top 10 stocks.

This year's stock market rally is supported mostly by companies benefiting from artificial intelligence-related capital investments. The AI race has led to unprecedented investments in semi-conductors, data centers and even power procurement. This investment boom is certainly welcome as the manufacturing sector has been struggling with a COVID overhang. We just have to hope another sector of the economy will pick up the slack when the AI boom cools down.

The strong economy, while positive for the stock market, is a double-edge sword for bonds. Long-term bond yields dropped before the September interest rate cut but have since climbed above the 4% level. While short-term rates will gradually decline as the Federal Reserve loosens monetary policy, long-term rates may not decline in lock-step due to the high budget deficits.

"There is no evidence that the business cycle has been repealed."

Alan Greenspan

THE PROVERBIAL CAUTIOUS OPTIMIST

Everyone should be an optimistic long-term stock investor. Even though the stock market has been punctuated with gut-wrenching drawdowns (1929, 1987, 2009, 2020, to name a few), patient long-term investors have been handsomely rewarded over time. Bear markets are far and few between, so investors should stay invested. The keys have always been preparing for cash needs and holding onto stocks during bear markets, which can at times be easier said than done.

The resilience and innovativeness of the US economy provide the backbone for a bullish point of view. However, it does not mean that the US economy is immune to business cycles and that stocks are immune to periodic corrections. We have discussed **concentration risk** in the past few months. The top 10 stocks now represent 36% of the S&P 500 Index, the highest level in over 30 years. We are also worried about **complacency risk**. As mentioned in the preceding page, with stretched valuations and high earnings expectations, stock prices can be vulnerable to the slightest imperfections. For example, the stock market tumbled briefly in early August due to the unwinding of the "yen carry trade" (global investors borrowing the Japanese Yen at low rates and buying assets around the globe) when the Japanese currency appreciated unexpectedly, thus making the loan repayments more expensive and the trades less profitable.

While the economic underpinning remains sound, 2025 may be more challenging as current stock prices appear not to be pricing in uncertainties in tax and trade policies as well as continued geopolitical tensions.

"People tend to forget about the importance of the price they pay as the experience of a bull market just sort of dulls the senses generally."

Charlie Munger

PORTFOLIO POSITIONING

Raising cash early in anticipation of cash needs, rebalancing portfolios, focusing new purchases in more attractively-valued asset classes and stocks, are all steps we are taking with client portfolios. Concentration and complacency risks can be managed while remaining a long-term optimist. Equity market returns have finally started to broaden beyond technology stocks (please see page 3 for details), maybe diversified portfolios will once again be rewarded.

Barring an unexpected flare-up in inflation, intermediate bonds are likely to outperform cash going forward. With bond yields hovering in the 4-5% area, bonds provide a stable stream of income and stability in a balanced portfolio.

As always, please do not hesitate to contact us if you have any questions.

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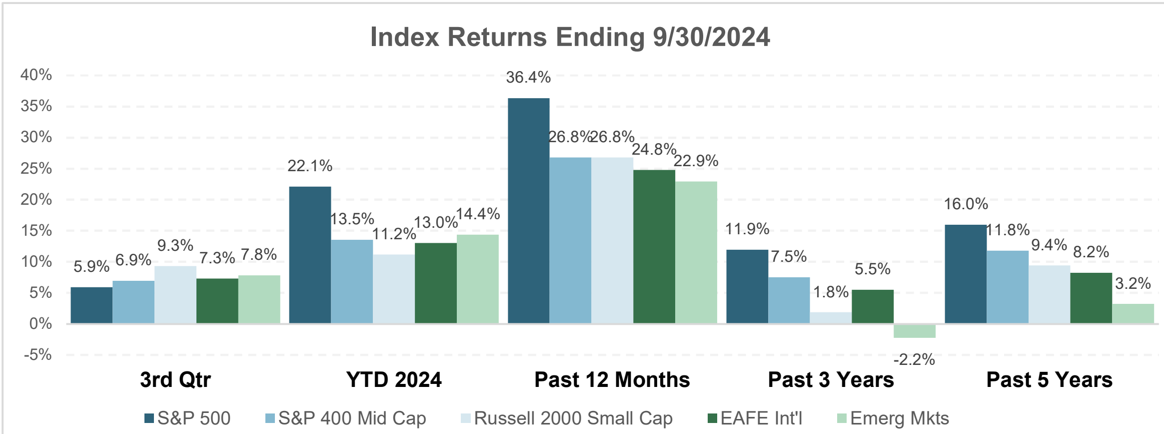
THIRD QUARTER 2024 MARKET HIGHLIGHTS

Stocks

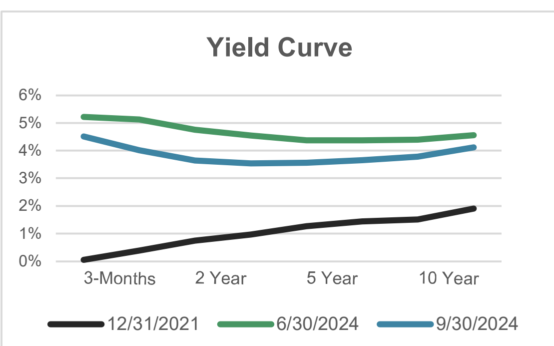


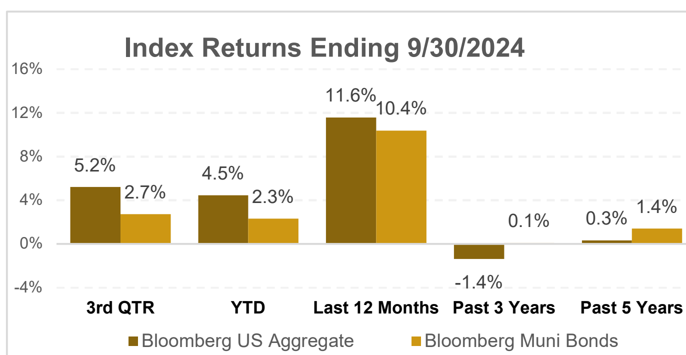
- Stock market returns have finally started to broaden in the third quarter.
- The S&P 500 Index's 5.9% return was trounced by all other asset classes.
- While the technology sector still leads in the year-to-date period, it is the second worst performing sector in the third quarter.
- Mid and small cap stocks staged a strong rally in the past three months, benefiting from September's interest rate cut and strong economic data.
- International and emerging market stocks gained over 7% in the last quarter and posted solid returns over the past twelve months. Valuations remain attractive.

Bonds

- Bond yields dropped significantly in the third quarter in anticipation of the Federal Reserve's interest rate cut in September. 2-year yields dropped from 4.8% to 3.6% last quarter.
- As bond yields dropped, bond prices rallied. A solid third quarter brought the year-to-date performance solidly in the black.
- Both taxable and municipal bonds gained over 10% in the past twelve months!

	2 Year Bond Yields	10 Year Bond Yields
12/31/2022	4.4%	3.9%
12/31/2023	4.3%	3.9%
3/31/2024	4.6%	4.2%
6/30/2024	4.8%	4.4%
9/30/2024	3.6%	3.8%





The Magnificent 7 Is truly magnificent…

- Asset manager ClearBridge points out that as of 9/30/2024, the Magnificent 7 (Microsoft, Amazon, Meta, Apple, Alphabet, Nvidia and Tesla) represent 19.2% of the MSCI All Country World Index. These seven stocks are worth more than the combined stock markets of Japan, United Kingdom, Canada, France and China, which represent only 16.6% of the index!