FORTHRIGHT PARTNERS, LLC

INVESTMENT LETTER, 2ND QUARTER 2024

EXECUTIVE SUMMARY

The stock market is overbought AND oversold.

Make investment decisions based on policies, not politics.

Political uncertainties and relatively high valuations may act as a headwind in the second half of the year.

Rebalance and rebalance often.

POLITICAL UNCERTAINTIES

Six months ago, our note to clients recapping 2023 alluded to possible volatility coming from the political arena in this most-unique Presidential election year. Given the events over the past 3 weeks, that statement might qualify as the understatement of the year.

For 250 years, American democracy has been a beacon of hope for billions of people worldwide. Today, our nation is facing constant assault from foreign threat actors who are pouring millions of dollars into misinformation campaigns to sow chaos and disorder. Additionally, instantaneous information delivered by algorithms often prevents the flow of diverse viewpoints, thus creating echo chambers that further aggravate domestic tensions.

In a satiric twist of the War of 1812 naval hero Oliver Perry's famous quote "We have met the enemy and they are ours.", the creator of the 1960s comic strip Pogo, Walt Kelly, coined the phrase "We have met the enemy and he is us." If we are indeed our own worst enemies, it is a very remedial situation. Maybe the latest episode of political violence will once again bring to light the importance of civility, unity and compromise.

... AND THE STOCK MARKETS

Stock markets hate uncertainties. However, reactions to Presidential election results have tended to be short-lived and ultimately muted. At the end of the day, stock prices are driven by earnings and economic growth. It's the actual economic and tax policies that matter. Campaign rhetoric can become reality only if both the Executive Branch and the Legislative Branch agree. Maybe that's why Wall Street tends to favor a divided government. When making investment decisions, it is probably more productive to be policy-based rather than politics-based.

"Right Actions in the future are the best apologies for bad actions in the past."

Tyron Edwards, American Theologian

INFLATION EXPECTATIONS AND INTEREST RATES (AGAIN)

We believe the Federal Reserve has seen enough data over the past 12 months to finally support a rate cut. Both consumer-level and producer-level price data have recently shown disinflation, albeit not as fast as central bankers would have liked. The overall inflation picture remains "partly cloudy," as discretionary prices have come down but non-discretionary prices remain sticky. But as Fed Chairman Powell stated last week, policymakers do not want to wait so long that continued economic growth will be harmed by the Fed's inaction. With economic growth slowing down to ~2% and the unemployment rate creeping up to ~4%, the economy seems to have reached a sweet spot where inflationary pressures stemming from a tight labor market have abated. The Federal Reserve has a dual mandate: to promote maximum employment and stable prices. With inflation seemingly under control, the Federal Reserve has shifted its focus to employment. However, as we have mentioned over the past 6 months, we do not expect dramatic rate cuts if current economic conditions remain steady. The Federal Reserve seems to be in a maintenance mode, not a stimulating mode.

OVERBOUGHT *AND* OVERSOLD

At the beginning of this year, our concerns regarding the market had focused on the issue of concentration risk. This concern only intensified with the strong first half rally driven by the proverbial "Party of One." Nvidia's stratospheric ascent alone accounts for roughly 1/3 of the S&P 500 Index's gain. The top ten stocks of the S&P 500 Index (Microsoft, Apple, Nvidia, Amazon, Meta, Alphabet, Berkshire Hathaway, Eli Lilly, JP Morgan and Broadcom) are responsible for roughly 60% of the index's gain this year. With the Index posting a 15% gain, that means the top 10 stocks represented 10% of the gains, and the other 490 stocks 5%. The market was overbought (top 10) AND oversold (rest of the market).

As we move into the second half of the year, we are finally seeing signs of broadening participation from all corners of the global equity markets. The mid-cap and small-cap indices are showing signs of life as well. In our opinion, this is healthy for long-term investors.

"Buy not on optimism, but on arithmetic."

Benjamin Graham

SELL IN MAY AND GO AWAY? NOT THIS YEAR.

For those of us expecting that past seasonal patterns would repeat this year, the markets proved them wrong. Historically, the period leading up to the summer months tended to be weak due to weak seasonal flows of capital into the equity markets. This phenomenon did not materialize this year, as the S&P 500 rose almost 10% for the combined months of May and June. In addition to the AI frenzy remaining a key pillar for the market's upward move this past quarter, overall corporate earnings showed surprisingly healthy growth despite lingering concerns of a slowing economy. The one constant is volatility, which is just as pronounced in bonds as in stocks. 10-year U.S. Treasuries yields started the year at 3.9%, rose to 4.7% late April and declined over 50 basis points (1/2 a percentage point) to 4.2% as of this writing. While the Federal Reserve is expected to cut short-term interest rates later this year, longer-term interest rates, being market-driven, may stay volatile due to budget deficit concerns.

PORTFOLIO POSITIONING

As the market is both overbought and oversold, we continue to find attractive investments mostly outside the semi-conductor space. We expect to experience more short-term volatility in the second half. While corporate earnings will likely remain healthy, relatively-high stock valuations may act as a headwind against substantial stock price appreciation in the short run. At the risk of sounding like a broken record, we still believe that active rebalancing is important, especially in a potentially difficult pre-election season when investors are bombarded with short-term noises.

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

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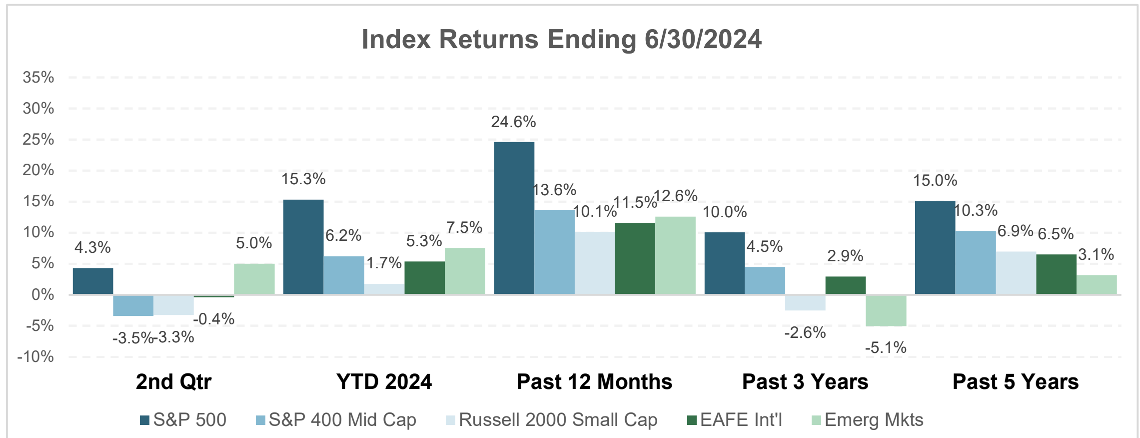
SECOND QUARTER 2024 MARKET HIGHLIGHTS

Stocks – Less than meet the eyes...

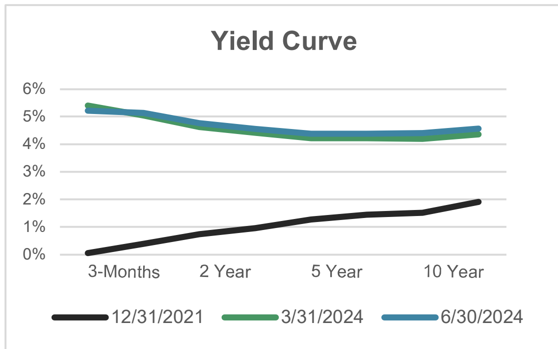
- The S&P 500 Index posted another quarter of solid gains, but gains were concentrated in only a few big technology names.
- Mid and small cap stocks declined as hopes of interest rate cuts were temporarily dashed.
- Global stocks have had solid returns over the past 12 months, with the “worst” performing asset class (small cap) gaining “only” 10%.
- Valuation remains a bit stretched in the US markets. Future price appreciation may need to rely more on earnings growth, not multiple expansion.

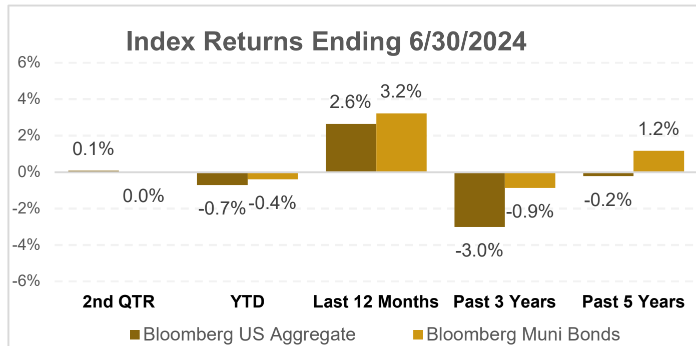


Bonds – Remain in a trading range…

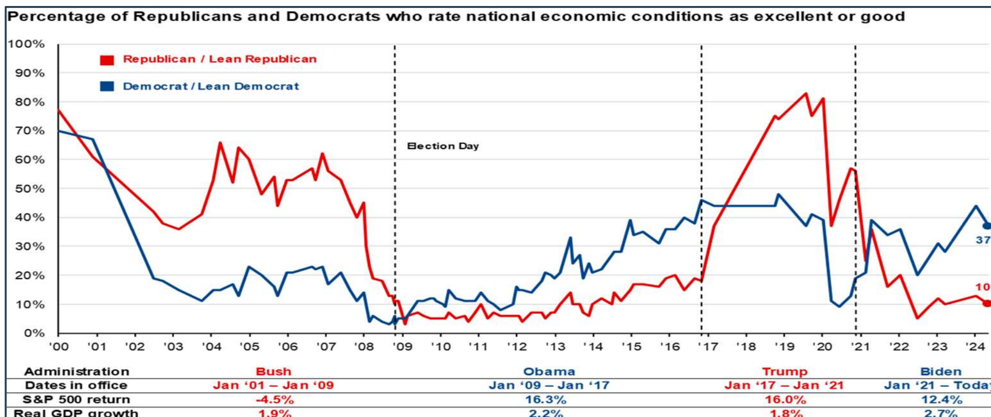
- Both taxable and municipal bonds broke even in the last quarter even though interest rates rose modestly.
- 10-year bond yields have been trading in the 4% to 4.5% area, providing solid income in a declining inflationary environment.
- With slowing economic growth and encouraging inflation indicators, the Federal Reserve will likely cut interest rates one or two times in 2024.

	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%





We are only human…



Administration	Bush	Obama	Trump	Biden
Dates in office	Jan '01 – Jan '09	Jan '09 – Jan '17	Jan '17 – Jan '21	Jan '21 – Today
S&P 500 return	-4.5%	16.3%	16.0%	12.4%
Real GDP growth	1.9%	2.2%	1.8%	2.7%

Source: Pew Research Center and JP Morgan Asset Management