# BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

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## FINANCIAL MARKET OVERVIEW

The second quarter performance for stocks was negative for most stock index categories. Over the past 12 months, only about a dozen large tech (AI) stocks have performed exceptionally well and dominate the performance of large-company and total stock market indexes. As support of this statement, the Technology Select Spider Tech index (40 tech companies) is up 77% over the past two years and up 17% over the first half of 2024. The broad or total stock market index (which includes tech companies) is up 40% over the past two years and 13% year-to-date.

But here is the real story. Smaller and mid-size companies in all industries combined are *down over 3%* during the second quarter of 2024 and if you exclude tech companies, large company stock values were also down during the second quarter. Last year (especially because of the exceptional 4th quarter performance), all stock indexes were up.

The overall broad stock market index and the **S&P 500 Index** were both up about 3%-4% during the second quarter. However, if we measured stock performance by giving **equal weight** to all 500 of the stocks in the S&P 500 index, then the second quarter performance would have been DOWN 2.63%. Once again, only about a dozen very large tech (AI) stocks continue to rise and are dominating the stock market performance numbers for 2023-2024.

The NASDAQ stock index, which is dominated by technology stocks, was up 8.26% during the second quarter, and up about 18% during the first half of 2024.

The Dow Jones Industrial Average was down 1.73% during the second quarter and is up only 3.79% for the 2024 year through June 30th. The small-company stock index was down over 4% during the second quarter and up about 4% the first 6 months of 2024.

Large-company ***growth*** stocks (dominated by tech stocks) were up over 8% during the second quarter and up 20% for the 2024 calendar year through June. Large-company ***value*** stocks (older and established companies) were down about 2.5% during the second quarter and up about 6% this year through June 30, 2024.

Mid-size ***growth*** stocks were down over 3% during the second quarter and up over 5% for the calendar year. Mid-size ***value*** stocks were also down over 3% during the second quarter, but up just over 4% this year through June 30, 2024.

International stocks were down nearly 2% during the second quarter and down 4% for the year-to-date, however emerging markets (smaller-country international stock indexes) were up just under 4% during the second quarter and up about 6% during the first six months of 2024.

Investment real estate prices (real estate investments trust) continue to fall – down 3% during the second quarter and down over 5% year-to-date. Interest rates (home mortgage) moved higher during the second quarter and continue to negatively impact real estate values.

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Water utility stocks have been down for the past year, but were up 4%-5% during the second quarter and energy stocks were down about 4% during the second quarter but up about 8% during the first six months of 2024. Gold price performance was up 12.5% for the year and about 4.5% during the second quarter.

Fixed income or bond prices for intermediate and long-term bonds continue to fall due to rising interest rates – down about 1% during the second quarter and down about 2% for the year through June. Short-term bonds and Certificates of Deposit with 6-12-month maturities continue to pay just over 5% which is more than all other bonds with maturities up to 30 years. The inverted yield curve is still here – short term bonds pay more interest than long-term bonds.

The following chart displays sample returns of various asset categories for the calendar year and during the second quarter of 2024:

| **Year-To-Date 2024** | **2nd Qtr. 2024** | **Index Returns (*includes dividends reinvested*)** |
|---|---|---|
| **+ 3.79%** | **- 1.73%** | **Dow Jones Industrial Average (^DJI)** |
| **+14.86%** | **+ 4.05%** | **Standard & Poor's 500 Index (^GSPC)** |
| **+13.37%** | **+3.11%** | **DJ U.S. Total Stock Market (VTI)** |
| **+20.46%** | **+8.21%** | **Large-company stock-Growth (IWF)** |
| **+6.08%** | **- 2.56%** | **Large-company stock-Value (IWD)** |
| **+5.71%** | **- 3.36%** | **Mid-Size Stocks – Growth (IWP)** |
| **+4.14%** | **- 3.67%** | **Mid-Size Stocks – Value (IWS)** |
| **+4.13%** | **- 3.14%** | **Small-company stock- Growth (IWO)** |
| **- 1.59%** | **- 4.10%** | **Small-company stock- Value (IWN)** |
| **+3.99%** | **- 1.88%** | **International (EFA)** |
| **+ 5.99%** | **+3.75%** | **Emerging Markets (EEM)** |
| **- 5.15%** | **- 3.09%** | **Real Estate Investment Trusts (VNQ)** |
| | | *Fixed Income* |
| **+ 0.44%** (*includes appreciation*) | **+ 0.17%** | **Short-term U.S. Treasury (SHY)** |
| **- 2.06%** (*includes appreciation*) | **- 0.77%** | **Intermediate U.S. Treasury (IEF)** |
| | | *Alternative Investment Category* |
| **+ 12.48%** | **+ 4.52%** | **Gold (GLD)** |

**All returns calculated using adjusted historical quotes from finance.yahoo.com*

## FINANCIAL MARKET OUTLOOK

We will start this financial market outlook section with our conclusion and recommendation; The stock market is currently valued above a fair valuation - wait until at least the end of 2024 to make any significant changes or increases to your stock holdings.

In retrospect, it is now safe to say that we made it through a very challenging and uncertain period of time dealing with the COVID pandemic. Our economy was essentially shut down and then disrupted for several years.

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The immediate response by our Federal government and the Federal Reserve was to quickly and dramatically inject money and financial relief to individuals and corporations, increase our Federal Deficit (Debt) and reduce interest rates. That was then …. now let's look at today.

Interest Rates: For nearly two years now the financial press, traders, and some forecasters have continuously suggested that the Federal Reserve Board is done *raising* interest rates and will begin lowering them soon. However, *no interest rate reductions have occurred*. Instead, the most recent prediction of at least a three quarter-point interest rate reduction would arrive sometime in 2024. Then, the media and financial "experts" changed the forecast to maybe one rate reduction in June or this Summer. Now, the theme is maybe one rate reduction by December.

Simply stated – don't expect interest rates to decline in the near term. Interest rate reductions occur when the economy is performing poorly and is expected to continue struggling. We are past that phase. The unemployment rate and monthly new job reports are positive. Corporate earnings are growing at a reasonable pace.

Inflation Rate: While the current inflation rate has moderated to 3.5% in 2023 and about the same in the current partial year 2024 from the 7%-9% range in 2021 and 2022 ….. it is still too high. In total, the inflation rate is up over 13% during the previous 2 1/2 years. Have workers/employees received a 13% pay raise?

The Government loves to use and refer to a different inflation rate – Personal Expenditures Price Index. Why? Because this index EXCLUDES energy and housing – the two components that are soaring. The PEC Index is up on average 2.6% annually but the Consumer Price Index is up over 5% annually. The inflation rate is too high and the cumulative increase over the past 2.5 years is meaningful.

Shelter costs: Real estate ownership, rents and insurance rates are soaring. Residential real estate prices have doubled over the past 5-9 years depending upon the location. The temporary decline in interest rates allowed mortgage rates to fall below 3% for nearly 2 years after the COVID pandemic. Real estate prices soared as buyers could afford a much higher mortgage at a low 3% mortgage rate. Now home mortgage rates are back to 7% and most first-time buyers and average Americans can not afford to purchase a home and sellers don't want to sell and exchange their current 3% mortgage rate for a 7% rate on a new home purchase. Housing prices are at an all-time high while the Affordability Index is at a 40-year low. Additionally, homeowners/renter's insurance rates are up 10% to 25% depending upon location. Rents are on the rise again as more would-be buyers must continue to rent and millions of new migrants are also adding pressure to rental rates.

Income Taxes: This is a big issue and I simply can't believe we haven't learned our lesson from what occurred during the Obama Administration. Back then, *corporate* tax rates were raised to 35% to "raise revenue" and many corporations began moving their operations (especially automobile manufacturers) overseas. Corporate tax revenue actually declined, and unemployment increased. In 2017, corporate tax rates were then reduced to 21% after Obama finished his term.

Now, Biden wants to raise the corporate tax rate from the current 21% to 28% while the average International corporate tax rate is 23.5%. Once again, American-based corporations will be forced into another difficult decision. A better choice is to reduce government spending, make hard choices based on spending limits and priorities just as American households do. This overspending brings us to the biggest issue.

Government Deficit Spending and credit card debt: Our total Government or National Debt (meaning the total debt all American taxpayers are responsible for)

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has reached an all-time high deficit level of 35 trillion dollars and total credit card debt is currently at a record 26 trillion dollars. In previous newsletters, we explained just how large 35 trillion dollars is. Our ENTIRE annual budget for all branches of the U.S. military is about 820 billion.

Just the *annual* interest cost on the 35 trillion Deficit (not counting paying the debt down) is one trillion seven hundred billion dollars annually. The larger our debt becomes, the higher the interest rate investors will demand – causing upward pressure on interest rates and downward pressure on the value of the U.S. dollar.

If every U.S. taxpayer received the above explanation, we would demand that all of our politicians stop spending more money than we bring in through tax revenue. We would not have to choose or take sides on which country or allies to financially support when involved in wars or whether to forgive students' college debt. We don't have the money to fund everything simultaneously without continuous borrowing.

Financially, the overall U.S. stock market has a generous current valuation when considering the level of corporate earnings growth, inflation, and interest rates. The "normal" or average value for the Standard & Poor's 500 stock index is 15 to 18 times total corporate earnings. In short, the fair value of the S&P 500 index is about 15 to 18 times total corporate earnings or simply a 15 to 18 P/E ratio. Currently, the S&P 500 Index is trading at a 25 P/E ratio when using the past four quarters (historical) of corporate earnings. If we substitute the past four quarters of earnings with "estimated forward earnings", the P/E ratio is still at an elevated 21 ratio, and this assumes the forward estimate of corporate profits is accurate.

**Looking forward,** the best case for the stock market's continued gains no longer depends on Fed interest rate cuts, but rather on the outlook for a stronger economy and reducing our national and credit card debt – and that is how it should be. The Federal Reserve should lower interest rates only when and if economic growth is declining – not when economic growth is improving. Currently, the labor market (new jobs) is solidly improving as well, and the stock market has performed well-above average for 6 quarters.

Stocks are already priced about 25% higher than "normal" as measured by price-to-earnings or P/E ratio. More importantly, the gains are concentrated in about 7-10 mega tech stocks involved in artificial intelligence, cloud computing, and other technologies of the future and are primarily responsible for the well-above average stock market performance over the past 6 quarters. *Corporate earnings growth must broaden out to include other large companies in stable industries as well as mid and smaller-size companies for stocks to maintain its recent advance and climb further*.

Normally, the price of gold and the value of stocks move in opposite directions. Yet both gold and stocks are climbing (gold is up 12.5% in 2024 and the S&P 500 stock index is up 15%). While both can and have moved in the same direction and at the same time for a short period of time, it will not last. These two asset classes are opposites – meaning the reasons for advancing gold and stock prices are contrary to each other. For example, gold prices climb during higher-than-normal inflation periods while stock prices decline and vice versa. Consistent economic growth and investor confidence is beneficial for stock prices, but instability and uncertainty are beneficial for the price of gold.

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And finally, as we enter the second half of 2024 with an economic outlook that is better and improving yet still uncertain and unclear, we will have to recognize we are also in the final stages of the most bizarre Presidential election year. No matter which party wins the election in 2024 or any other year, we must solve our economic imbalances and runaway debt. Either political side can accomplish the task or make it much worse by not making the necessary changes. If neither side will support the winning party's efforts to improve our financial circumstances, the financial markets will react. When gold, stocks, Bitcoin and Crypto currencies are all increasing at the same time, do not be surprised…… rather be prepared for volatility.

## INVESTMENT OUTLOOK AND RECOMMENDATIONS

The stock market is above a fair valuation - wait until at least the end of 2024 to make any significant changes or increases to your stock holdings. We are continuing to hold a higher proportion of short-term U.S Treasuries and certificates of deposits with very short maturities (6-12 months) in the fixed income section of client portfolios. Since the beginning of 2023, the stock portion of our client portfolios held less equities (stocks) than normal, and some portion of the accounts invested in Treasuries/certificate of deposits *will go back into stocks* sometime in the future.

The yield curve is still slightly inverted – meaning investors holding a short-term Treasury, Certificates of Deposits, or any bond with a 6–12-month maturity are receiving more interest income than bondholders holding the same investments with 1-30-year maturities. Investors are still receiving a 5% safe rate of return in this category (compared to just 1% in early 2022). It is simply a matter of time before the yield curve is upward sloping – meaning the longer the maturity a bond has, the higher the interest rate paid. I expect short-term interest rates to hold or decline slightly and mid-to-long-term interest rates to increase.

We are still taking a middle-of-the-road stance and are cautious over the short-term. A broad-based stock market improvement is still elusive and is necessary before we can experience a *sustainable* rally.

When a sustainable stock market arrives, large-company value stocks should perform well and small and mid-size company U.S. stocks are even more attractive. This category has lagged in performance over the past 6 quarters, but this category excels above the market averages when sustainable stock market advances are underway. Emerging markets that exclude China (small-company stocks of smaller international companies) have started to increase faster than expected.

We have identified several stock investments that we intend to add to client portfolios outlined on your blue recommendation sheets, but the timing of when to purchase is still uncertain. Ideally, we will begin adding additional stocks to client portfolios carefully and slowly within the next 6-12 months.

**A growing number of our clients are making *Qualified Charitable Distributions* from their IRA accounts. This option is a smart way of making gifts to charities from an IRA account.**

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For 2024, an individual can transfer up to a maximum of $105,000 directly from his/her IRA account to a qualified charity. These contributions to a qualified charity are called *Qualified Charitable Distributions (QCD).* Important rule: You must be at least 70 1/2 on the date the QCD is made.

Most clients who make these charitable gifts from an IRA account are a) already required to make Minimum Required Distributions (taxpayers turning age 73 and older in 2024) from their IRA accounts and b) these clients normally make charitable contributions regularly. There are three main benefits of QCDs.

One, the distributions from an IRA to a charity are not taxable to the individual. Two, the distributions to charity are NOT added to your adjusted gross income on your income tax return which can help retirees avoid surcharges or increases in Medicare premiums because your income is higher. These charitable gifts can save/reduce income taxes even if you do not itemize deductions (meaning some taxpayers simply use the automatic “standard deduction”). Three, QCDs count toward a taxpayer’s required minimum distribution amount. Since the QCD amount is not taxable to you, you can’t deduct the QCD as a charitable contribution on Schedule A – Itemized deductions.

If you are interested in making qualified distributions from an IRA to a charity – especially if you are age 73 or older, please contact us for a discussion.

## ANNOUNCEMENTS

Rebecca Dodge delivered a healthy baby boy, Luke on April 30, 2024. Both Mom and baby are healthy and happy


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