J.W. Burns & Company

Investment Counsel

Quarterly Update - April 2024

The Bull Keeps Charging And The Secret To Happiness

"I can't say enough about the fact that earnings are the key to success in investing in stocks. No matter what happens in the market, the earnings will determine the results"
- Peter Lynch, Famed Investor

Dear Clients and Friends,

The bull continued to charge forward in the first quarter of 2024. The S&P 500 Index led the way, popping 10.5%, the Dow Jones Industrial Average was up 6.1%, and international equities, as measured by the MSCI All World ex USA Index, were up around 4.6%. Technology

stocks, and Nvidia in particular, again drove a significant portion of the S&P 500's superior gains. Nevertheless, we are encouraged by the continued broadening out of returns beyond mega-cap technology stocks to include various sectors and company sizes – ***signaling healthy economic and market fundamentals.***

March was the fifth straight monthly gain for the S&P 500 Index. Since 1950, there have been only 30 other occurrences when the market rose for five consecutive months. Forward returns following these "growth spurts" were widely positive, with the average next 12 month returns of around 12%. Furthermore, the S&P 500 traded higher 93% of the time.[1]

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In our January client letter, I emphasized that presidential election cycles matter. You have to go all the way back to 1952 to find a presidential election year where the S&P 500 Index finished in the red. Additionally, over the last 70 years, when a sitting president is up for reelection, the average return has been 12.8%.[2]

Even better, and something few see, is the fact that when stocks drop in the second presidential year as they did in 2022, they rose in the fourth presidential year every time except 1932 – the bottom of the great depression.[3]

The consensus among economists in January was that the Federal Reserve would cut interest rates six times over the course of this year to prevent a recession. Yet, the economic data has continued to be strong, such that the consensus has now reduced the number of expected rate cuts to two – or less!

No question, the stock market is very sensitive to inflation readings which have recently run hotter than expected. So, while the Fed is well past the 50-yard line with its goal of 2% inflation

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(it currently stands at about 3.2%), the final yards to the goal line are proving tough. As such, we expect volatile market reaction surrounding inflation readings into the summer.

In the first quarter, the market was able to look through this as the inflation and economic data trickled in. However, on April 5, Federal Reserve member Neel Kashkari stated that the Fed may not reduce rates at all in 2024 if progress on inflation stalls. Then, five days later on April 10, the Consumer Price Index came in hotter than expected. Not surprisingly, the Dow Jones Industrial Average dropped sharply.

Our view is simple: the tightening regime from the Federal Reserve is very likely done. ***The next move from the Fed is lower, whether it is in June, September, or after the November election.*** The stock market is a forward looking mechanism and will adapt accordingly.

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Furthermore, our bullish stance is not based only on projected movements of the Federal Funds rate. We believe stocks will trend higher because an earnings recovery is underway. As I have stated many times, earnings drive stock prices. Fourth quarter 2023 earnings results for the S&P 500 companies, reported primarily in January, were better than expected. More importantly, overall forward guidance was raised and is expected to grow over 10% for the full year – which may prove conservative.

Our thesis is also based on the continued strength of the U.S. economy. Put another way, interest rates are staying high for the right reasons. Unemployment remains low, at 3.8%. The ISM Manufacturing Index just came in at 50.3% for February, a strong sign of economic activity. The consumer remains resilient, based on higher income; ADP reported wage growth at 5% in March, 10% for those changing jobs. Finally, estimates for the first quarter suggest that GDP could grow by 2.5% - a favorable backdrop for equities.

Markets indeed climb a wall of worry, and there are several concerns/events that could derail this bull market. A resurgence of inflation, geopolitical turmoil, and economic shocks all hover over the bull market. These are serious risks. Furthermore, Wall Street's tone towards this market has become decidedly bullish, a contrarian indicator. This is quite different from where things stood near market bottom in January of 2023 when it was hard to find a bull anywhere. So, this gives us pause.

That said, we think there is still more room to run in this market in 2024. That leads into our first question.

Q: You said in your January client letter that you expected 2024 to produce a 9-10% return in the market. With the S&P 500 Index up 10.5% in Q1, should I temper my expectations for the rest of the year?

A: Well, it's always good to temper your expectations. As Charlie Munger said, "The secret to happiness is to lower your expectations."

The fact is, 10.5% in one quarter is rare and exceptional and that pace obviously is not sustainable for the rest of the year. However, I believe stocks will end the year higher from where they are now. According to Truist Advisory Services, there have been only 11 prior instances where the S&P 500 Index rose double digits in the first quarter. During the next three quarters, stocks rose 10 out of 11 times with an average gain of 11%.

S&P 500 returns and pullbacks after a total 1Q return of >10%

Quarter	1Q total return	2Q total return	Rest of year total return (2Q through 4Q)	Maximum pullback seen in rest of year (2Q through 4Q)
Mar-54	10%	10%	39%	-4%
Mar-61	13%	0%	13%	-4%
Mar-67	13%	1%	10%	-7%
Mar-75	23%	15%	12%	-14%
Mar-83	10%	11%	11%	-7%
Mar-86	14%	6%	4%	-9%
Mar-87	21%	5%	-13%	-34%
Mar-91	15%	0%	14%	-6%
Mar-98	14%	3%	13%	-19%
Mar-12	13%	-3%	3%	-10%
Mar-19	14%	4%	16%	-7%
Mar-24	11%			
Average (ex-2024)	**14%**	**5%**	**11%**	**-11%**
% positive		**82%**	**91%**	

Data source: Truist IAG, Morningstar Past performance does not guarantee future results.

That being said, a pullback or correction here shouldn't be unexpected and, in fact, could be healthy for the market longer term.

Q: What's new at J.W. Burns & Company?

A: It's an exciting time here at JWB. This past March marked our 50th anniversary as an investment counseling firm. My father founded this company in 1974 with the goal of breaking free from the sales and commission oriented brokerage industry and being able to provide clients with objective and completely independent investment advice. Today, I know he'd be proud of where we are and what we have accomplished.

We recently completed a year and a half long overhaul of our billing program and portfolio management system. We now have the latest, state-of-the-art platforms that will enable us to run more efficiently and better serve our clients. Within the next several months, we'll be moving into the next stage of our firm upgrades including a new client relationship management system and technology equipment.

We also completed the transition from TD Ameritrade to Charles Schwab. We sincerely thank all of our impacted clients for their patience during what has not been an easy process. We are happy to have it behind us.

After braving the Syracuse winter cold for decades, our Vice President, Ed Grassi, relocated to Florida with his wife and beloved animals. Ed will continue to work full time servicing his clients and look to expand our business in the sunshine state. Ed has been a valued member of our team since 1999, and we are excited for this new opportunity.

This past March, Thad Malley, portfolio manager & financial advisor, passed his Certified Financial Planner (CFP) exam. Thad will become our second CFP on staff and enhance our team's knowledge and ability to add value to our clients and their financial lives. Congratulations, Thad!

Finally, after 50 years in business, we took steps to ensure that we'll be around for the next 50 years serving our clients. We implemented a long-term business plan which included adding Drew Derrenbacker as an equity partner of the firm. Drew will gradually become more involved in assisting me in running our firm and help lead us into the next generation.

Bottom line: ***We are constantly looking for ways to improve our business, add value to our clients, and ensure we are staying ahead of the pack in the years ahead.*** And we are grateful that you, our valued clients, are a part of it.

As my father would say, ***"You never have to worry about being successful if you put your clients first."***

And that's what we do.

Have a wonderful spring!

Jim

James C. Burns, CFA
President & Chief Investment Officer

J.W. BURNS & COMPANY, INC.

INVESTMENT COUNSEL
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1 - LPL Financial, *Momentum Begets Momentum*, March 2024.

2 - Bob Pisani, CNBC, April 2024

3 - Fisher Investments, *2024 Stock Market Outlook*.