J.W. Burns & Company
Investment Counsel
Quarterly Update - July 2024

A Bull Market That Is Obeying Bull Market Rules

"The stock market is an index of how investors feel about the future, not the present. In other words, it's a barometer, not a thermometer."
- John Train

Dear Clients and Friends,

At the halfway point in 2024, stocks, as measured by the S&P 500 Index, are having a great year, up over 15%. This return has been driven almost exclusively by the "Magnificent Seven" technology stocks, and particularly Nvidia, which is up 150% year to date.

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However, if you look under the hood, most other indices are generating more modest, albeit positive returns, with the Dow Jones Industrial Average up 5.56%, mid cap stocks + 4.95%, small caps + 1.73%, and international stocks up around 6%. In fact, the average stock in the S&P 500 is up only 4% for the year as compared to the 15% for the size weighted S&P 500 Index – the largest six-month variance in almost 35 years.[1]

No doubt, it has been an Artificial Intelligence (AI) driven stock market, and as I wrote to you in 2023, it is the largest technology companies that have benefited the most from the massive early investment in AI. Your portfolio has solid exposure to the AI buildout through individual stock positions as well as various ETFs, and overall, we are quite pleased with our performance for you, our valued clients, halfway through 2024.

On Artificial Intelligence - while its potential is nearly limitless, it should be noted that the technology is still in its infancy, and quite expensive. In all of my reading, it is clear that AI will be transformative in replacing low-wage jobs and many menial tasks. But solving larger, more complex jobs may take up to a decade. Therefore, generating a solid return on the estimated $1 trillion of investment that will be spent over the next few years will be a challenge. In short, while the near-time effects may be overstated, the long-term impact effect on productivity and economic activity is likely understated.[2] This is a long game, and we intend to be prudent in playing it.

As I write this in mid-July, stocks are starting the month strong with market leadership moving away from the mega-cap technology stocks and towards small, mid, and value-oriented equities. This improved breadth is overdue and a positive

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indicator for a sustained, healthy bull market in our view.

As we move into the second half of 2024, the economic backdrop for equities remains compelling. Inflation continues to fall, consumer spending is resilient, and corporate earnings have consistently come in better than expected. Despite signs of slowing economic growth from higher interest rates, the U.S. has added 2.8 million jobs over the past 12 months, and the unemployment rate hovers around an all-time low.[3]

We believe our bullish stance on stocks in a presidential election year remains intact and that 2024 is shaping up to be a good to great year for equities – even beyond the "Magnificent Seven." In fact, according to CNBC, since 1989, when the S&P 500 is up over 12% during the first half of the year, it was higher in the second half of the year 100% of the time with an average return of 10%.[4]

In my January client letter, I pointed out that although the consensus was for six interest rate cuts this year, I thought it would be more likely to be three or four. It is now fairly certain that there will be three cuts: September, November, and December. In fact, on July 9, Federal Reserve Chair Jerome Powell tacitly acknowledged that the Fed was confident in its ability to cut rates in the near future. Assuming the economy continues to chug along, this is bullish for equities.

Earnings drive stock prices, and we are beginning second quarter earnings results for corporate America. It should be noted, for the last year and a half, most market strategists have consistently underestimated profitability for American businesses. To date, they have been proven wrong.

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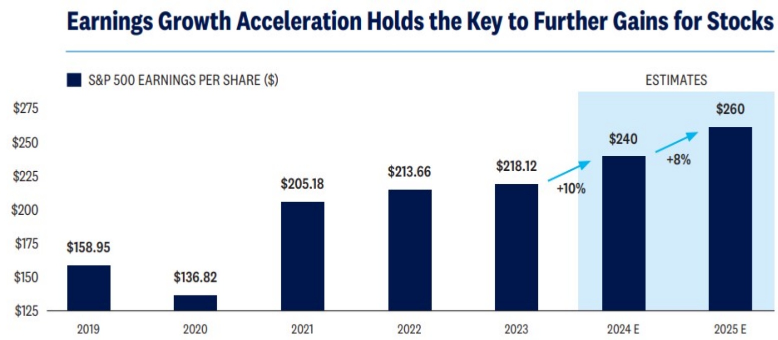
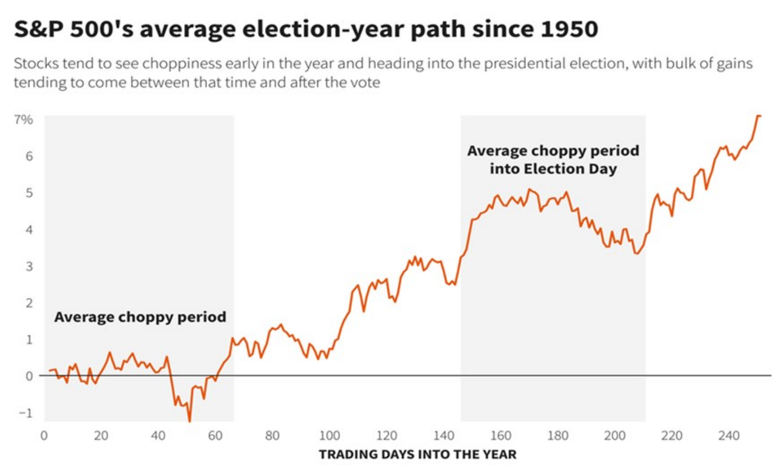
Earnings growth is actually accelerating, and the results I have seen so far in July reinforce that view.



Source: LPL Research, FactSet 06/21/24

Bottom line, this is a bull market obeying bull market rules - moderating inflation, modest GDP growth, an accommodative Federal Reserve, and, most importantly, solid earnings growth.[5] For now, we see no change in the overall trend.

That said, historically, much of the market's second half gains come ***after*** November's presidential election. Stocks tend to be seasonally weak in the August to October period, even more so in a presidential election year. With the exceptionally low volatility we've seen thus far in 2024, clients should not be surprised for a sharp pullback of 10%+ between now and the election.



Additionally, as I mentioned earlier, there are signs that the economy is decelerating, as a result of higher for longer interest rates. As you know, there is a lag between interest rate hikes and economic slowing. So, there is a possibility that the economic slowdown picks up steam heading into the fall, likely derailing any year end rally.

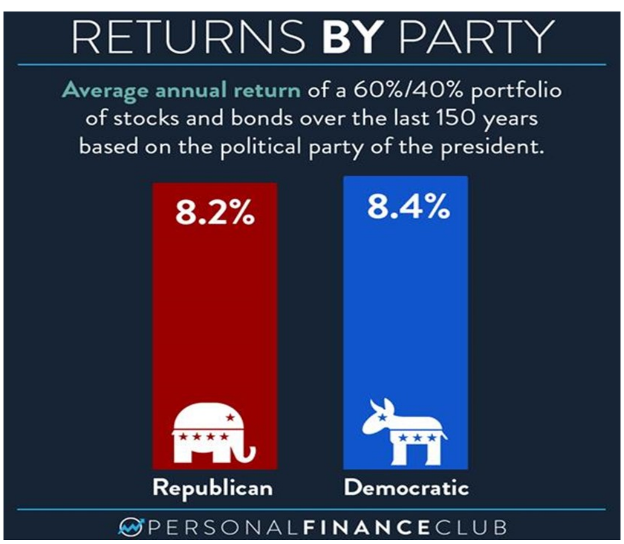
We shall see.

Now, let's get to the big question:

Q: I'm worried about the upcoming elections with stocks right at all-time highs. Can you convince me to stay invested in stocks with such a volatile political environment?

A: I sincerely understand your concern. These are without question unique and contentious times in our nation's history.

I can only share with you the facts. Over the last 100 years, stocks have averaged a 9-10% annual rate of return, with the political party in power making a statistically negligible difference. In fact, if you go back 150 years and look at a balanced 60/40 stock-to-bond portfolio, the returns during different political parties are essentially identical:



I'm reminded of the market's response in the weeks following the 2016 and 2020 elections. Depending on their side of the political aisle, many people were disappointed their candidate did not win and concerned with the potential impact on their portfolios.

Following President Trump's election in November 2016, the Dow Jones Industrial Average rallied over 5% through the end of the year. A similar trend followed President Biden's election in November 2020 with the Dow rallying nearly 10% through the end of the year. And, in fact, stocks would go on to do wonderfully under both presidents.

Our investment approach at J.W. Burns & Company is long term in its orientation and academic in its roots. Timing the market and guessing the next major pullback is a proven way to underperform - and decades of market evidence demonstrate this.

Yes, politics make for good theater, but it is paramount to divorce your politics from your portfolio. Stay invested.

As legendary investor Seth Klarman has stated: "The greatest single edge an investor can have is a long-term orientation."

We continue to manage your portfolio with the utmost care, and as always, appreciate your confidence.

Enjoy your summertime,

Jim

James C. Burns, CFA
President & Chief Investment Officer

J.W. BURNS & COMPANY, INC.

INVESTMENT COUNSEL
Important Disclosure Information

1 - CNBC.

2 - Intuitional Investor - *"Goldman Sachs Throws Cold Water on AI Mania."*

3 - State Street Global Advisors, "*Resilience Under Pressure*," July 2024.

4 - CNBC, *"Global Stocks are up 12% so far in 204. Here's what to expect next, according to history."* June 2024

5 - Michael Santoli, CNBC, June, 2024