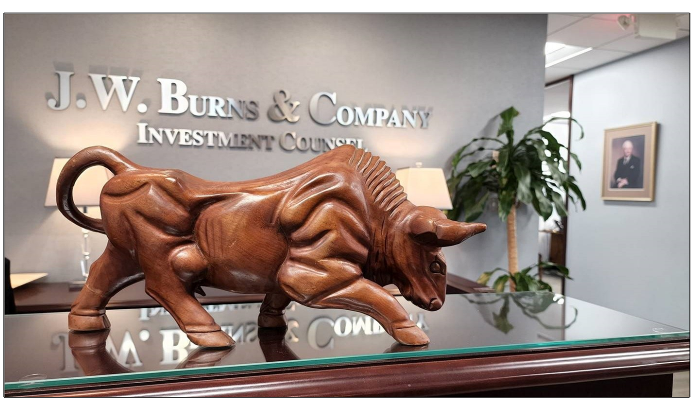
J.W. Burns & Company
Investment Counsel
Quarterly Update - October 2024

The Right Environment For Owning Stocks

"The key to making money in stocks is not to get scared out of them." - Peter Lynch

Dear Clients and Friends,

Stocks generated superb returns in the third quarter of 2024, adding to the robust gains from the first half of this year. For the three-month period ending September 30, the S&P 500 Index rose 5.9%, the Dow Jones Industrial Average 8.7%, and international stocks, as measured by the MSCI All World ex USA, were up 8.2%.



Even bonds made money, with the Schwab US Aggregate Bond ETF rising nearly 4% during the quarter, bolstered by the Federal Reserve's 50 basis point interest rate cut in September - the first cut in four years.

While the first two quarters of 2024 were dominated almost exclusively by the "Magnificent Seven" technology stocks, particularly chip maker Nvidia, the third quarter had a healthy broadening out of participation. Small and mid-cap stocks were up both over 9% respectively, while technology stocks gained "only" 1.44%, and Nvidia was actually down -1.69%. **But any way you slice it, it was a strong quarter during what has thus far been an excellent year for stocks.**

Most importantly, to you, our valued clients, we are confident in your portfolio's positioning and remain bullish heading into the last quarter of the year – historically the market's strongest quarter.

"Our bullish thesis that we laid out in January was predicated on...a healthy economy, continued disinflation and least importantly, interest rate cuts. To this point, all three have come to pass."

Our bullish thesis that we laid out in January was predicated on the maintenance of a healthy economy, continued disinflation, and least importantly, interest rate cuts. To this point, all three have come to pass.

Recent data points continue to show strength in the underlying economy. Second quarter GDP registered a 3% gain, and estimates for the third quarter are a gain of 2.6%. Inflation has been tame over the last several months, with the Producer Price Index (PPI) flat for the month of September, and up only 1.8% from a year ago. Although September's Consumer Price Index (CPI) came in a little higher than expected at 2.4%, we are close enough to the Fed's 2% inflation goal that they will have cover to continue to lower

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interest rates. The consensus now is for two more 25 basis point rate cuts in November and December for a total of three rate cuts in 2024.

A few economists believe the Federal Reserve's 50 basis point rate cut in September will be all that we get until early next year. However, if that is the case, it will be due to stronger than expected economic growth, a net positive for stocks. Regardless, the trend for interest rates remains lower, and I believe the economy will continue to show sustained resilience.

Finally, another positive for stocks is the ample liquidity throughout the financial system. According to Rick Reider, Chief Investment Officer of Global Fixed Income at investing behemoth Blackrock, there is $9 trillion dollars parked in money market funds at brokerage accounts, and, if you include savings deposits, that number jumps to a staggering $23 trillion. True, some of these deposits are already pledged, but overall, the backdrop for further fund flows into equities remains constructive.

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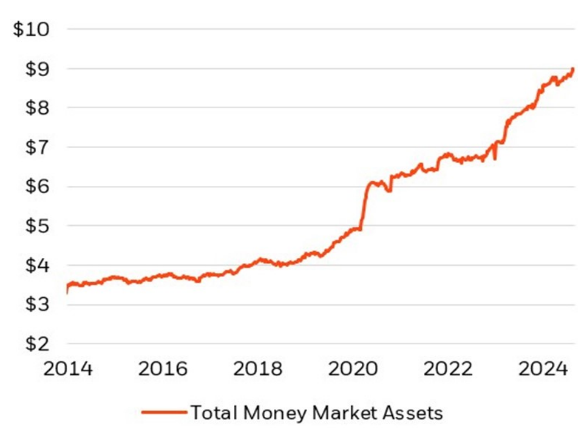

Source: Federal Reserve

So, to borrow from the title of our July letter, this is a "bull market obeying bull market rules," and it is our view that equities will continue to grind higher.

Despite these bullish views, our clients should always be prepared for the potential of a sharp correction that could occur at any time and increased market volatility. 2024 has had a very smooth run of it, and despite all the tailwinds I mentioned above, stocks are not cheap, selling at 21x forward earnings – above historic averages. Furthermore, we know that geopolitical tensions could expand quickly and change the earnings dynamic of corporate America. So, while a growing economy with interest rates trending lower is ideal, the overall margin of safety for stocks is relatively thin. And, of course, any surprise "black swan" event could derail the market's positive trajectory.

Let's take some questions.

Q: Forward estimates for corporate earnings growth are slowing, and the stock market is at an all- time high. Are you concerned?

A: Earnings expectations have been trending down for the second half of 2024. This could be viewed as a warning sign of a slowing economy due to the lagging negative impact of higher interest rates. However, I think there is more to it than that.

In my experience, management teams are notorious for lowering the bar on their companies' earnings expectations, also known on Wall Street as "sandbagging."

Earnings growth is expected to come down to the 5-7% range after peaking out in May at 11%. This sounds worrying – but a large portion of the slowdown is coming from the energy sector due to lower oil and gas prices.[1] In fact, according to UBS, if you exclude the energy sector, S&P 500 profit growth should be in the 8-10% range.

Of course, lower energy prices are also a positive for consumer spending, and combined with lower interest rates, will be beneficial to corporate earnings.

Further, even if earnings results do trend down in the short run, the estimated average three-year annual growth rate for corporate earnings (2023-2026) remains at a robust 12.5%.

In short, our view is that the backdrop for corporate earnings, described earlier in this letter, remains healthy. These all provide tailwinds for further earnings growth in 2025 and 2026.

Q: How do you expect the stock market to react to the presidential election?

A: As I write this, the election is a toss-up, and no one knows who is going to win.

But here are the investment facts. The stock market has historically moved higher after the election regardless of which party wins the presidency. In fact, according to LPL Financial, stocks average a 2.5% return in the fourth quarter of an election year and are higher 83.3% of the time.

Wall Street doesn't like uncertainty, and my main concern is the loss of business and consumer confidence in the case of an elongated, unknown election outcome. This certainly could shake up markets and the economy.

Eventually, however, we will have a President Elect, which usually warms sentiment regardless of personality or outcome.[2] Stocks are party blind and politically agnostic, focusing most on the likelihood of major legislative change.[3]

Along these lines, remember that stocks like political gridlock. The current chances, according to the prediction markets, of a Republican sweep this election are 38%, while a Democratic sweep is 17%. Put another way, the most likely outcome of the upcoming election is that we will have some sort of divided government between political parties across the House, Senate, and Presidency. Since 1933 when there is a split Congress, the average return of the stock market has been a powerful 13.7%.[4]

As I said in our July client letter: "Yes, politics makes for good theater, but it is paramount to divorce your politics from your portfolio. Stay invested."

As I write this, both the Dow Jones Industrial Average and the S&P 500 Index have closed at record highs. Our rationale for being bullish on stocks in January still holds. This is the right environment for owning stocks.

Of course, you know us. We believe that every environment is good for owning stocks and that mindset is what has powered our clients' success over the last 50 years.

These are pleasant times in the stock market. But remember, you really earn your money in bear markets – because that is what tests your commitment to your investment plan. The objective is not to get attached to lopsided thinking that the market will just continue to go up one way. As the old saying goes, "things are never as bad or good as they seem."

We sincerely thank you for your continued confidence and the opportunity to serve you and your family. Enjoy the fall.

Best wishes,

Jim

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J.W. BURNS & COMPANY, INC.

INVESTMENT COUNSEL
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1 - UBS, "*CIO expects S&P 500 profit growth to continue broadening out.*"

2 - Fisher Investments, *"Stock Market Outlook, Q# 2024."*

3 - Fisher Investments, *"Stock Market Outlook, Q# 2024."*

4 - Capital Group*, "How Elections Move Markets in 5 Charts."*