Investment Tally & Perspective

MAJOR ASSET CLASS RETURNS					
	2nd Qtr. 2024	1-Year	3-Year	5-Year	10-Year
Equities					
S&P 500 Composite	4.3%	24.6%	10.0%	15.0%	14.3%
MSCI EAFE Net	-0.4%	11.5%	2.9%	6.5%	5.7%
MSCI EM (Emerging Markets) Net	5.0%	12.6%	-5.1%	3.1%	3.5%
Fixed Income					
Bloomberg US Aggregate	0.1%	2.6%	-3.0%	-0.2%	0.9%
Bloomberg US Corp Investment Grade	-0.1%	4.6%	-3.0%	0.6%	1.8%
Bloomberg Emerging Markets Unhedged	0.7%	8.0%	-2.2%	0.5%	1.7%
Other Assets					
Dow Jones US Select REIT	-0.2%	7.2%	-0.1%	2.8%	4.0%
S&P GSCI	0.7%	15.0%	12.7%	8.3%	8.0%
S&P GSCI Gold Spot	4.5%	21.3%	9.7%	10.6%	9.5%

Source: Tamarac

All returns greater than one year are annualized

* The market indices discussed are unmanaged. Investors cannot directly invest in unmanaged indices

Market Activity - U.S. equities generated positive returns during the second quarter, albeit at a slower pace than seen in Q1. Large cap equities continued to dominate index level returns. The FANG+ Index, which is comprised of ten, well-known large cap technology equities, returned 13.2% during the quarter, according to Bloomberg. In comparison, the equal-weighted S&P 500 (as measured by the ETF RSP) had a negative quarter, posting returns of -2.6%.

Fixed income, as measured by the Bloomberg Aggregate Bond Index, was able to eke out a slightly positive return for the quarter, despite a slightly higher 10-year treasury yield. The ability to offset price declines with higher coupons is a pivotal point to our constructive view on fixed income today.

Economic Activity – In recent quarters, it has been difficult to describe the U.S. economy as anything but strong. However, fraying appeared at the edges during Q2. To start, the Citi Economic Surprise Index, which measures if recent economic data was better or worse than expected, turned negative in May, and now sits at the lowest point since 2022.

The Federal Reserve Bank of Atlanta's "GDP Now" forecast tool has also rolled over. The GDP Now estimate for Q2 growth started the quarter above 4% and has since been revised down to 1.7%. GDP numbers can be swung around easily due to patterns in international trade or business inventories; however, a sizable portion of the downtrend recently observed is attributed to personal consumption expenditures (PCE). Continued weakness in PCE would be troublesome, as consumption is the ballast of the U.S. economy, representing 68% of GDP. Core retail sales, the category most consequential for GDP, grew at a meager 0.1% annualized during the first five months of this year. Consumer spending on services has increased, continuing the post-pandemic trend.

LINCOLN CAPITAL

Volume 33, Issue 3

July 2024

Our 34th Year as a Registered Investment Advisor (RIA) Providing Fiduciary Asset Management and Financial Planning Services

Ronald E. Albert, CEO

Brittany A. Moran, CFP

Sean McGuirk, CFA

Alexander Albert, CFP

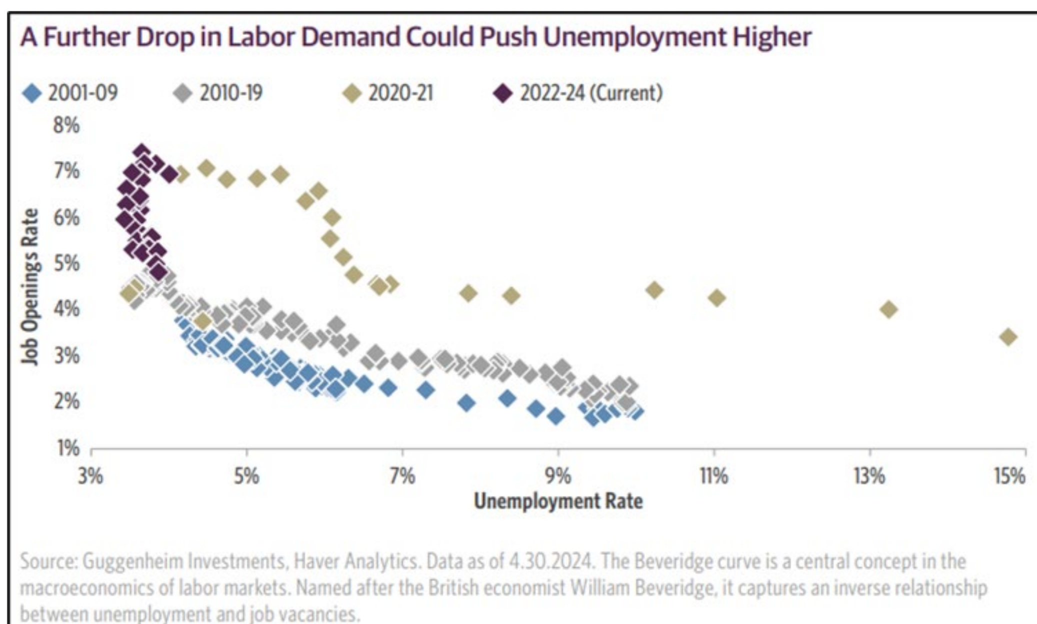
Nina Walsh

Karen Jones Ariosta

Lincoln Capital Corp.
620 Main Street, CU 2
East Greenwich
Rhode Island, 02818
401.454.3040 (phone)
info@lincolncapitalcorp.com
www.lincolncapitalcorp.com

If the excess consumer savings – derived from government pandemic largess – is finally being depleted, then personal consumption expenditures will increasingly rely on earned income and borrowing future income (debt). While debt may work in the short-term, it is income that drives durable spending growth. Like the broader economy above, the labor market has seen looser conditions of late calling into question consumer spending stamina.

While difficult to discern from the monthly Employee Situation report, the Job Openings and Labor Turnover (JOLTs) report has returned to normalcy in the labor market. Job openings, after peaking over twelve million in early 2022, have dropped to 8.1 million as of May and the jobs-per-unemployed-person ratio has similarly declined. The job openings as a percentage of job openings and total employed has reverted to pre-COVID levels. The quit rate and hires rates are now at or below pre-COVID levels. Concurrent with this, the unemployment rate stands at 4% today, up from 3.4% last April.



Source: Guggenheim Investments, Haver Analytics. Data as of 4.30.2024. The Beveridge curve is a central concept in the macroeconomics of labor markets. Named after the British economist William Beveridge, it captures an inverse relationship between unemployment and job vacancies.

Fed Governor Christopher Waller argued for these exact developments in 2022. He referenced the 'Beveridge Curve,' which plots the job openings rate on the Y-axis and unemployment rate on the X-axis. In theory, there is always a base level of unemployment, driven by firm closures, life events, and labor skill mismatch. The explosion of job openings and labor demand post COVID pushed the economy to and through this level of baseline unemployment. Whether there were twelve million job openings or twenty million, the U.S. economy was unlikely to see a drop in the unemployment rate. Waller reasoned that the job opening rate could come down without seeing an uptick in unemployment initially. Once a 4.5% openings rate or lower was achieved, the unemployment rate would increase more meaningfully as job openings declined. We appear to be close to this inflection point today, making this a key indicator to watch for the rest of 2024.

Monetary Policy – The global easing cycle mentioned last quarter has continued to gain steam, albeit very slowly. The Swiss National Bank (SNB) was the first major central bank to lower rates, which they did in March of this year. In June, the SNB, European Central Bank, and the Bank of Canada all lowered rates. Inflation has recently returned to its downward trajectory, allowing the Federal Reserve to join its peers before year end. Today the market is pricing in a 65% chance of two or more Fed cuts by December.

Valuation & Sentiment – There have been no material changes in valuation and sentiment since last quarter. Valuations are still on the high side, while sentiment appears bullish. Earnings are poised to inflect positively starting in the back half of this year (17% growth expected in Q4). After growing 4% in 2022 and 1% in 2023, analysts are expecting S&P 500 earnings per share to grow 11.3% and 14.4% in 2024 and 2025, respectively, per FactSet. While we are skeptical of growth estimates that exceed historical levels, if this level of growth is realized, then stocks today are not overly expensive.

LINCOLN CAPITAL – INVESTMENT OUTLOOK & STRATEGY

Issues of importance facing investors and advisors include the following:

- Who will be elected President for the next four years?
- Will the wars and conflicts in Russia-Ukraine and the Middle East come to settlement terms?
- Will the Fed make an error on timing cuts in interest rates or pivot and decide to raise interest rates?
- Will the U.S. economy enter a recession in the second half of 2024 or early 2025?

While we do not pretend to definitively know the answers to these questions, as they are currently unknowable with any degree of certainty, we share our brief opinions on each:

Election – The dismal reviews following the debate raise fundamental questions on the attributes and capabilities of both candidates. Though it may be just wishful thinking, we wonder if the negative views of each candidate may, inadvertently, pull Democrats and Republicans closer to middle ground as each party shares a common view of each candidate.

Wars and Conflicts – These battles have been ongoing for generations and settlement terms are far from being acceptable to each party. Continued conflicts with occasional time-outs are probable, and we hope that our next President may be able to propose terms that break the impasses.

The Fed – We give equal odds for a mild recession occurring in the next 12 months and find it likely that the Fed does make a timing error in calibrating interest rates. We expect the next recession to do limited damage as the balance sheets of corporations and consumers are healthy, due to government largesse in the pandemic period and the refinancing of loans when interest rates were much lower.

Investment Strategy - We see the economy continuing to expand at a lower rate with financial markets becoming more volatile. The huge amount of funds around the globe seeking investments will buffer the prices of financial assets, as well as commodities and real estate. The momentum behind widespread usage of artificial intelligence (AI) by all entities (governments, corporations, consumers), combined with increased productivity from AI utilization, will offset normal cyclical weaknesses. Accordingly, on a six-to-twelve-month basis, we continue to manage accounts with normal allocations, albeit with a defensive bias. Though we expect many more life-changing developments to spur economic growth in the years ahead – with impacts such as those from the birth of computers, the Internet, smartphones, and now Artificial Intelligence (AI) – political leaders around the globe, and particularly our President and members of Congress, will need to get the deficit spending and debt levels under control as recent and current spending and debt levels are clearly unsustainable.

As stated by Sir Winston Churchill: "Americans will always do the right thing, only after they have tried everything else." Though our nation is divisive, we will get through these times and hopefully restore the respect that our citizens and those around the globe have held since the founding of our country.

Take Advantage of High Savings Rates

In 2022, the Federal Reserve aggressively attempted to control inflation by increasing the Federal Funds rate by nearly 5 percentage points over 14 months. Many investors recall that year negatively, as both stocks and bonds yielded poor returns. However, the current environment benefits from higher bank savings rates and bond yields. Depositors have taken notice, leading to a surge in money movements throughout 2022 and 2023. While many have capitalized on this, according to the FDIC, approximately $17.5 trillion remains in commercial banks, earning only 0.45% interest. Even though inflation cooled to 3.3% this past May, the market anticipates only two rate cuts this year. Nevertheless, for those whose money is still underperforming, there is time to switch to options yielding 5% annually with minimal risk.

There are several reasons why $17.5 trillion remains in accounts that earn minimal interest. Betterment, an online investment and cash management service, conducted a survey and identified the most common reasons: a preference for consolidating accounts and loyalty to one's bank. Another factor is the belief that having too little money makes it pointless to seek better yields. However, consider a $5,000 savings account earning 5% annually; it would generate $250, compared to the national average savings rate of 0.45%, which would yield only $22.50 annually. That's a net difference of $227.50. Investing just a few hours to open and transfer funds to a new account could make this possible.

While advertisements for 5% high-yield savings accounts are ubiquitous, the national average savings rate remains at 0.45% as of June 17, 2024, according to the FDIC. However, a bank advertising a high rate does not guarantee that your cash will automatically earn that rate, so it's important to be wary of the tactics some banks use. Proposed class-action lawsuits against various lenders accuse them of deceiving their customers by promoting competitive rates while paying lower rates to long-standing customers. They achieve this by introducing new savings accounts titled to offer the higher yield, while maintaining lower yields on existing accounts. Only vigilant customers who monitor their bank's actions would notice and be able to react to these changes.

For those considering a change, Lincoln Capital advises transferring emergency funds and cash reserved for imminent expenses to a high-yield savings account or a liquid Money Market Fund. For additional funds not needed in the near future, longer-dated Treasuries, CDs, and Municipal Bonds are recommended, as they offer attractive returns between 4% and 5%. These can be secured even as the Federal Reserve begins to cut the Fed Funds rate.

Please view us as a resource for any financial questions, and as always, please contact us if we may be of assistance in any manner.

DISCLOSURES - This presentation is not an offer or a solicitation to buy or sell securities. The information contained in this presentation has been compiled from third party sources and is believed to be dependable; however, its accuracy is not guaranteed and should not be relied upon in any way whatsoever. This presentation may not be construed as investment advice and does not give investment recommendations. Any opinion included in this report constitutes the judgment of Lincoln Capital Corporation as of the date of this report and are subject to change without notice. Additional information, including management fees and expenses, is provided on Lincoln Capital Corporation's Form ADV Part 2. As with any investment strategy, there is potential for profit as well as the possibility of loss. Lincoln Capital Corporation does not guarantee any minimum level of investment performance or the success of any portfolio or investment strategy. All investments involve risk (the amount of which may vary significantly) and investment recommendations will not always be profitable. The investment return and principal value of an investment will fluctuate so that an investor's portfolio may be worth more or less than its original cost at any given time. The underlying holdings of any presented portfolio are not federally or FDIC-insured and are not deposits or obligations of, or guaranteed by, any financial institution. Past performance is not a guarantee of future results. Lincoln Capital Corporation prepare presentation, 401.454.3040, www.lincolncapitalcorp.com Copyright © 2024, by Lincoln Capital Corporation.