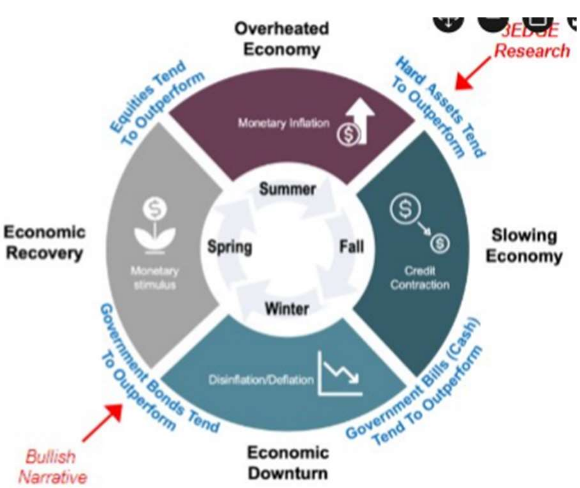
LAB Wealth Management LLC

Quarterly Newsletter: Ending March 2024

MARKET SUMMARY

The upward momentum from the year-end stock market rally continued into the first quarter of ’24, where the S&P 500 index gained over 11%. Virtually, all asset classes performed well, including gold and bitcoin. Bonds underperformed. Five of the magnificent 7 stocks continued robust gains. The bullish risk-on momentum could continue, at least in the near-term. Here are the main reasons: 1. positive GDP growth, 2. robust consumer spending, 3. low unemployment, 4. healthy corporate profits, 5. government spending, 6. lower inflation, 7. optimism around AI and, 8. speculation on interest rate cuts.

Perhaps the market has risen too far too soon, however. U.S. growth stocks are richly valued when compared to international, value, small and mid-cap stocks. Some cash, 3–6-month / inflation protected Treasury Bonds, and gold could add diversification to your portfolio should the market reverse course. Note: April is off to a rough start. We are also in an election year, and while the market looks past politics, this variable could exacerbate volatility.



Though the risk of a recession this year is now 25% or less, the current economic cycle is summer moving into fall. The Federal Reserve hopes to accomplish a ‘soft/no landing’. Cutting interest rates too close to November could be perceived as helping the incumbent presidential candidate. The central bank is caught between a rock and a hard place. If they act too soon and cut rates inflation could heat up again, but if they wait too late the economy could enter a recession from the impact of holding rates higher for longer.

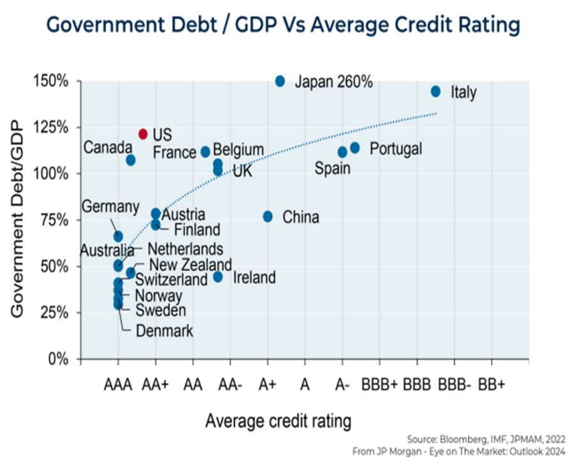
Meanwhile, the U.S. economy remains bifurcated according to Larry Swedroe, Head of Financial and Economic Research at Buckingham Wealth Partners. The less-sensitive interest rate service sector (over 80% of today’s economy) continues to grow. While interest-rate sensitive sectors such as manufacturing, housing, and capital expenditures are in recession. The ‘historically recession forecasting’ yield curve remains inverted and has been for the longest in history.

Adding to the narrative, and perhaps ignored or taken less into account when markets push ahead, are the following:

- Inflation has not reached the 2% FED target. Auto and home insurance rates, and the cost of housing make up 40% of the inflation calculation and remain stubbornly high.
- Central Banks around the world are buying gold to diversify from U.S. treasuries should the U.S. suffer a bond rating downgrade.
- U.S. Government debt, as well as that of most of the G7 countries, is unsustainable and could be a headwind to long-term economic growth. The graph below shows debt ratings among top countries. Higher interest payments will consume a larger part of GDP. Additionally, changing demographics could lead to lower tax revenues. The impact is also hard on local

governments and their ability to fund services.

- Office vacancy rates are near 20% and buildings in some areas are selling at record low prices. The work from home shift has reduced commercial building occupancy rates.
- Credit card and auto loan delinquencies are on the rise, more so in the lower end of the economic spectrum.
- Tighter interest rates = less lending. Smaller banks hold the bulk of commercial real estate loans, and many banks also hold treasury bonds that are underwater because of the current interest rate conditions.
- Multiple military conflicts and, U.S. China trade/Taiwan tension remain unresolved.



But we must find opportunities amid these challenges. Knowing your risk and what mix of stocks, bonds, real-estate, and alternative assets work for your situation will help us manage expectations and avoid disappointment.

ZOOM SEMINAR:

Please join us on Thursday, May 9TH at 4PM PST / 7PM EST. Topic: Stop paying Taxes on your CD Investment.

https://us02web.zoom.us/j/86424280122?pwd=dndieVBrbXI2bktaaUhXUUpTZy80dz09

Meeting ID: 864 2428 0122 / Passcode: 778581

BUSINESS UPDATE

I viewed the Eclipse from Dallas on 4.08.24. The weather held out and the viewing was spectacular. Definitely, a once in a lifetime event unless you're an eclipse chaser, of course.

Thanks for your continued support!

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