

NEWSLETTER – JULY 2024

MARKET TRENDS 6.30.24

Asset Class	3 Mo	YTD
Global Stocks		
MSCI World	2.7%	11.8%
US Stocks		
S&P 500	4.3%	15.3%
Large Cap Value	-2.2%	6.5%
Large Cap Growth	8.3%	20.6%
Mid Cap	-3.5%	6.2%
Small Cap	-3.3%	1.7%
International Stocks		
Developed Markets	-0.4%	5.4%
Emerging Markets	4.5%	6.8%
Fixed Income		
Taxable Bonds	0.1%	-0.6%
Municipal Bonds	0.0%	-0.4%
Alternatives		
EM Bonds	0.2%	2.0%
Floating Rate	1.5%	3.4%
Preferred	-0.6%	3.9%
Gold	5.2%	12.8%
Real Estate	-1.7%	-2.9%

Source: Factset

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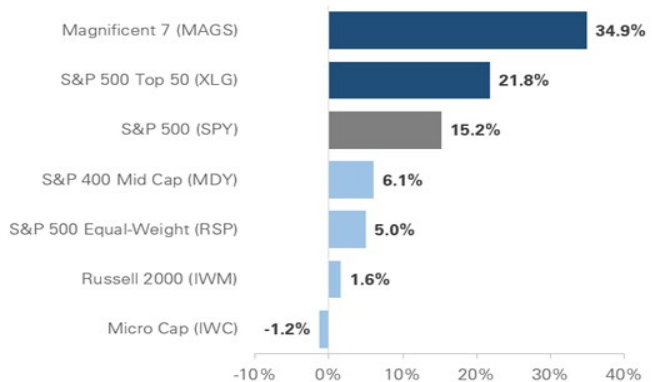
Growth Shines & Value Lags

The first half of 2024 ended with solid performance across the equity markets. We experienced some equity volatility in the second quarter, but stock prices firmed by mid-year. Value (and dividend-paying) stocks continued to underperform growth stocks at a historical level.

The excitement over artificial intelligence (AI) continued to drive outperformance in technology stocks, with a few mega-cap growth companies distorting the index returns.

For the first half of 2024, the S&P 500 was up about 15%, but when positions were equally weighted, the return dropped to about 5%!

FIGURE 4 – The Biggest Companies Are Outperforming YTD



Source: Walden Financial, data as of 6/30/2024

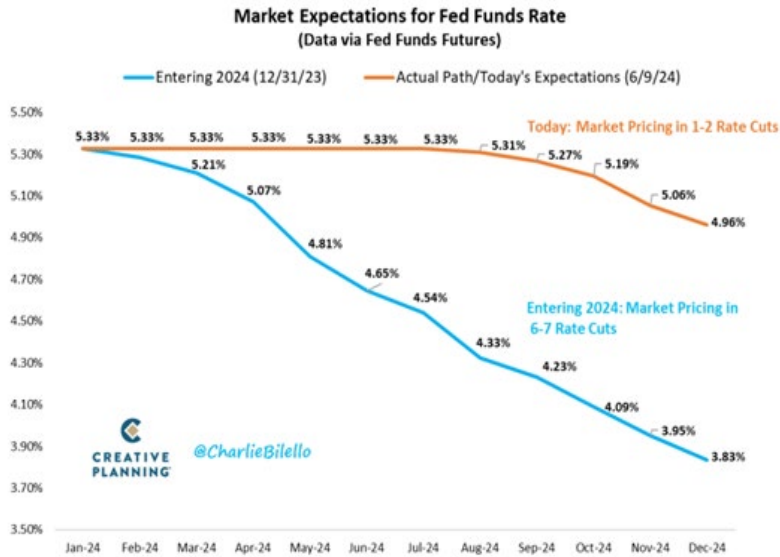
This speaks to the worries about the significant concentration in the broad market cap-weighted indexes; nearly a third of the S&P 500 is now held in just seven stocks. Notably, at Shorepoint, we aim to create broadly diversified equity portfolios with minimal concentration and risks spread across an average of 30 to 40 holdings.

Regarding fixed income performance, although bond yields remain attractive, returns have been subpar due to the Federal Reserve's ("Fed") hesitation to cut interest rates due to continued inflation concerns. Thankfully, money market yields remain near 5%, and we have maintained an overweight position in cash.

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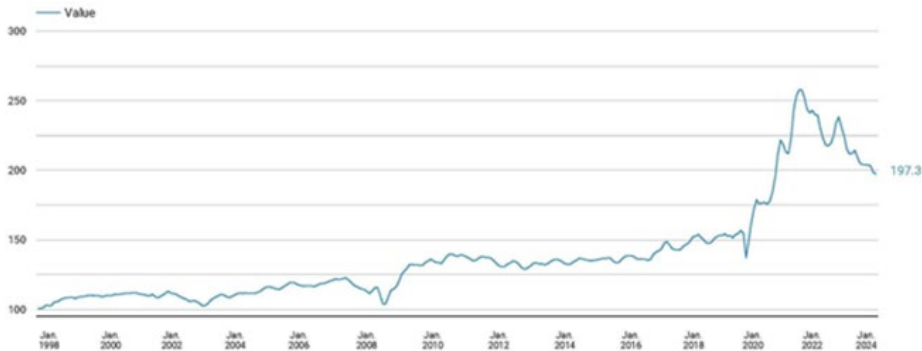
Interest Rates

The Wall Street consensus in late 2023 was for six or more Fed cuts in 2024. However, that expectation has yet to be borne out, with most pundits now anticipating only one rate cut this year. The real economy has accepted the normalizing of interest rates much more favorably than anticipated, and inflation has remained a concern for the Fed.



The probability of a recession has also decreased as the Fed tries to engineer the ever-elusive soft landing. Savers are enjoying higher money market yields, and consumers are finally seeing inflation moderate, especially in everyday grocery shopping and large purchases such as used cars. The bottom 50% of US earners have witnessed the most significant increase in net worth.

MANHEIM USED VEHICLE VALUE INDEX May 2024



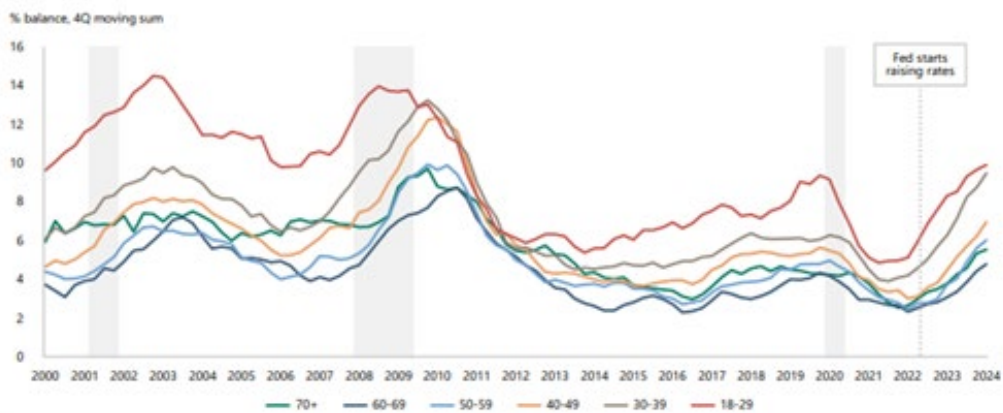
The US Economy

While U.S. citizens are understandably upset and feeling squeezed by inflation (the first bout of it in almost 15 years), we remain the envy of the developed world as our inflation rates have been much lower than our counterparts.

In addition, the unemployment rate remains historically low and has persisted that way for the longest time in over half a century. Wages are growing decently, and overall corporate earnings have remained strong thus far.

Of course, there are always concerns on the horizon. Credit card delinquencies are approaching rates not seen since the Global Financial Crisis, and auto loan delinquencies are nearly as bad.

Exhibit 3: Credit card delinquency rates are rising, especially for younger households
Credit card transitions to serious delinquency (90+), by age



Data as of March 2024.

Sources: New York Fed Consumer Credit Panel / Equifax, Apollo Chief Economist

In addition, the macro picture of our economy has worrisome signs, especially when you look at our budget deficits and debt-to-GDP ratios. To put it bluntly, our government has taken on massive debt over the last several administrations.

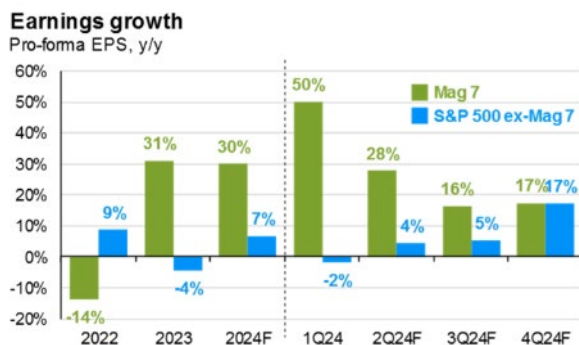
Fiscal responsibility, which we counsel our clients on, is almost nonexistent at the federal level. Our politicians seem hell-bent on testing bond investors' risk tolerance by piling on more and more debt. Someday, the math will force a reckoning, and we'll see a mix of higher taxes, reduced government benefits, and less spending. Americans have been squeamish about modest inflation. It likely won't go well when they must pay higher taxes and live in a more austere world.

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Looking Ahead

This surge of interest in AI and the crowding in AI stocks parallels the dot-com bubble of the 1990s. But are we officially in bubble territory yet? As someone who lived through the dot-com bubble of the 1990s, I can attest that stock prices back then felt utterly detached from reality.

Today's tech frenzy feels less overzealous, but valuations are certainly stretched. However, the most significant AI beneficiaries have lived up to the hype, as the 'Mag 7' has reported stellar earnings growth well above the rest of the market.



Source: JPM Guide To The Markets

Growth stocks continue to dominate value (and dividend-paying) stocks and are trading at significantly higher multiples than their historical norms. Despite our portfolio holding many of the big-cap growth stocks like META, AMZN, GOOGL, and AVGO, value stocks might attract more investor attention in the coming quarters.

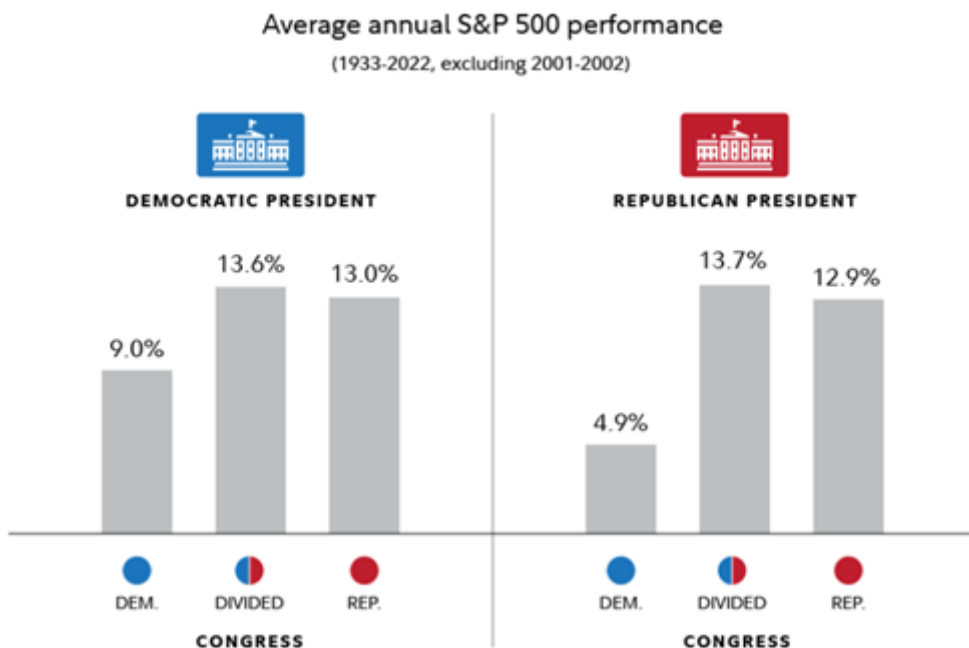


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As we always do here at Shorepoint, we will stay true to our philosophy of investing in high-quality companies with strong, consistent cash flows, healthy balance sheets, and solid prospects for capital appreciation and dividend growth. The key to our philosophy, especially in a market where the big indexes have significant concentration, is maintaining a well-diversified portfolio of stocks without making major bets on any individual company.

Our focus on navigating the markets during this election year may prove to be more challenging at times. However, as discussed in past pieces, election year results typically have little impact on long-term investment returns. Instead, we are specifically focused on any significant White House policies that could impact or interrupt any longer-term theses we might have in play, especially in hotly contested topics such as healthcare policy, spending priorities like renewable energy and defense, and anticipated tax policy changes.



Alternatives – Shorepoint Income Fund II, LP

We are fundraising for Shorepoint Income Fund II, L.P., with over \$14 million committed so far. We anticipate the first close this July.

The new fund is expected to have an investment allocation similar to that of our first private fund (Shorepoint Income Fund 1 L.P.), with an allocation to private real estate, private debt, and equity investments.

While the classic 60/40 mix of stocks and bonds offers a foundational diversification strategy, incorporating a supplementary allocation to alternative assets can enhance portfolio diversification even further. This approach helps reduce overall volatility, contributes to overall returns, and offers an additional income stream.

Hypothetical Example of Portfolio Efficiency Improved with Allocation to Private Real Estate^[1]



Source: Cadre, Returns Based on Average Annualized Return of Stocks, Bonds, and Private RE weighted by indicated percentage of each scenario in a 20-year period between 2003 and 2023. Returns represented by S&P 500, Bloomberg US Agg and NPI Total Return.

The Shorepoint Income II Fund is only appropriate for some investors, given the limited liquidity and income/net worth requirements; however, it can be an attractive alternative. We are available to discuss in detail the Fund and whether it is appropriate for your situation.