NEWSLETTER – OCTOBER 2024

MARKET TRENDS 9.30.2024

Asset Class	3 Mo	YTD
Global Stocks		
MSCI World	6.4%	19.0%
US Stocks		
S&P 500	5.9%	22.0%
Large Cap Value	9.4%	16.5%
Large Cap Growth	3.1%	24.4%
Mid Cap	6.9%	13.5%
Small Cap	9.2%	11.0%
International Stocks		
Developed Market	7.2%	13.0%
Emerging Markets	7.5%	14.9%
Fixed Income		
Taxable Bonds	5.2%	4.6%
Municipal Bonds	2.5%	2.1%
Alternatives		
EM Bonds	6.5%	8.5%
Floating Rate	1.5%	5.0%
Preferred	7.0%	11.3%
Gold	12.7%	27.1%
Real Estate	16.9%	13.5%

Source: Factset

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A Dizzying Pace of News

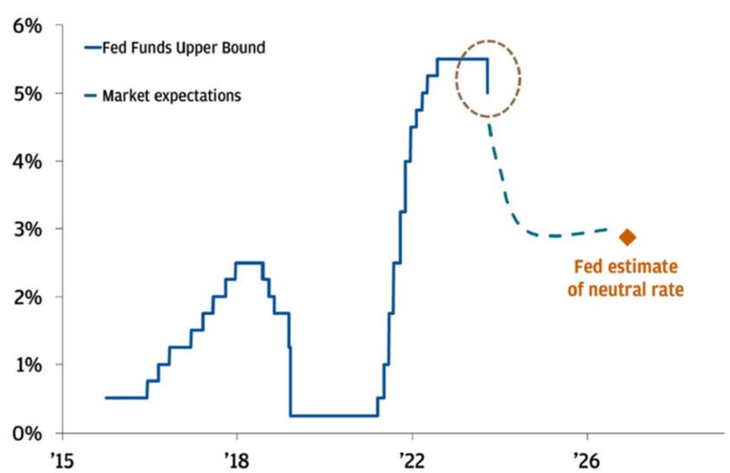
As we approach the 2024 November elections, a series of shocking events have unfolded. Joe Biden struggled significantly in the presidential debate, eventually leading to his withdrawal from the race. Vice President Kamala Harris was nominated and confirmed as the Democratic presidential nominee. Meanwhile, his opponent, Donald Trump, survived an assassination attempt during a stump speech in Pennsylvania.

Authorities thwarted a second possible attempt on former President Trump's life while he was golfing in Florida. Meanwhile, Vice Presidential candidates J.D. Vance and Tim Walz were selected as opposing running mates, reflecting the influence of rural America on this election's outcome.

The Federal Reserve ("Fed") did not cut rates in July. However, markets fully anticipated a rate cut in September, which came to fruition with a 0.50% reduction - surpassing the widely expected 0.25% cut. This was the first cut by the Fed in four years.

The Fed lowered interest rates for the first time in four years

Federal funds rate and FOMC neutral estimate, %



Source: Bloomberg Finance L.P., Haver Analytics. Data as of September 18, 2024. Market expectations is based on 3m SOFR Futures.

Meanwhile, conflicts continued in Ukraine and Russia, as well as in Gaza, spreading into Lebanon, with Israel also coming under fire from missiles launched by Iran.

The Markets Purred in Q3 2024

Despite this geopolitical turmoil, the markets moved ahead powerfully and broadly for the quarter across all sectors and asset classes. From small cap to large stocks, emerging markets to international developed equities to fixed income of all stripes and colors, it was a virtuous cycle for investors. The only exception was cash, where yields dipped slightly.

It seems that the markets are anticipating a rare outcome – an economic “soft landing” by the Fed. This would mean that the Fed navigated the U.S. economy through a tightening cycle, like the one that just concluded, without disrupting labor markets or consumer demand enough to push the country into a recession.

Inflation has cooled to the low 2% range, aligning with the Fed's target, while unemployment remains steady at a healthy 4%. Additionally, U.S. Gross Domestic Product (“GDP”) is on track to maintain a respectable 2% annual growth rate. This combination of factors suggests that a recession is unlikely in the short term.

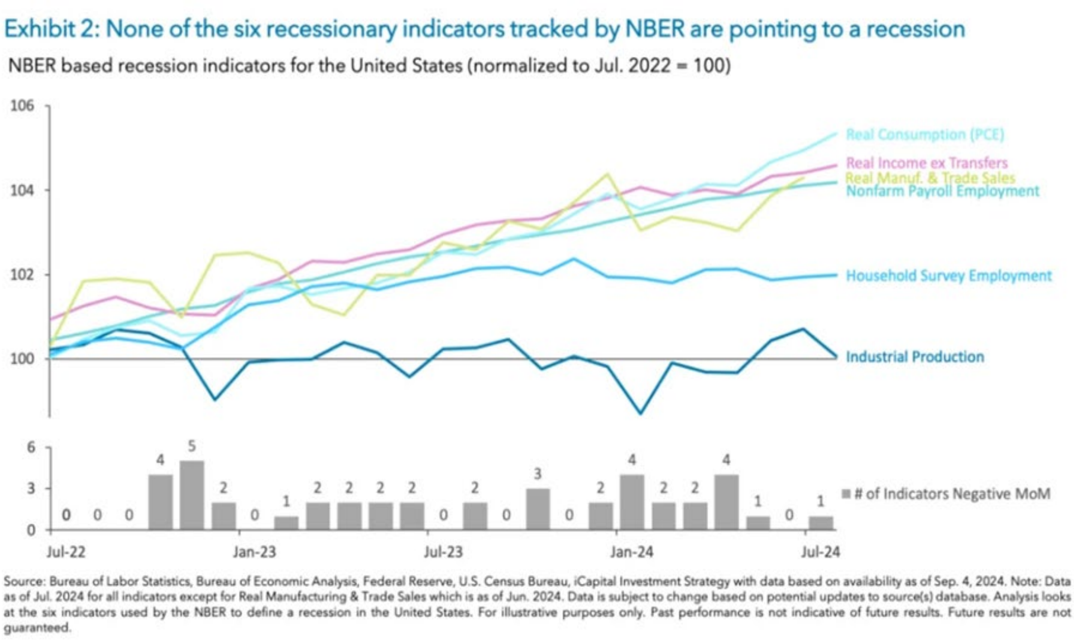


Figure 1- Source - iCapital

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What's Next?

Though no one knows, we always think about what might come next in the markets given where we are right now. And where we are now deserves a summary. We are in a steady growth environment with moderating inflation, a healthy job market, and solid corporate earnings. We are as politically divided as a nation as we can remember, and foreign wars are gruesome and scary. The negatives of these last two factors are extremely hard to predict and plan around effectively.

So, we look at facts that have been historically impactful - interest rates, valuation, earnings, and the consumer's mood. The Fed leans toward being accommodative which helps everyone from folks who need a mortgage to private equity firms that borrow money to invest in promising businesses. U.S. large-cap growth stocks are generally fully valued and will need to execute perfectly or over-achieve to support their high valuations.

However, we are pretty sanguine about a diversified approach, as almost everything else looks attractive: dividend paying stocks, small-caps, mid-caps, international, and even emerging markets. In addition, we like the overall picture for bonds following a decade plus of ultra-low interest rates. Although we still like our money market allocation, over time it will look less attractive as the Fed continues to cut interest rates. We have recently shifted some of our cash allocation to bonds as bonds typically outperform cash during cutting cycles.

Bonds typically outperform cash during cutting cycles

Market moves from the Federal Reserve's first to its last cut

	First cut	Last cut	Type	Δ Policy rate (bps)	Δ 10-year Treasury (bps)	S&P 500 return	U.S. core bonds return	U.S. cash return
1	Sep-71	Dec-71	Soft landing	-225	-25	3%	7%	1%
2	Jul-74	Apr-75	Recession	-775	66	1%	9%	6%
3	Apr-80	Jun-80	Recession	-1050	-267	10%	16%	3%
4	Jun-81	Dec-82	Recession	-1150	-296	2%	39%	23%
5	Oct-84	Aug-86	Soft landing	-587	-551	51%	46%	16%
6	Jun-89	Sep-92	Recession	-675	-197	30%	45%	25%
7	Jul-95	Jan-96	Soft landing	-75	-45	15%	7%	3%
8	Sep-98	Nov-98	Soft landing	-75	31	9%	-1%	1%
9	Jan-01	Jun-03	Recession	-550	-175	-28%	28%	7%
10	Sep-07	Dec-08	Recession	-500	-222	-40%	5%	3%
11	Jul-19	Oct-19	Soft landing	-75	-24	2%	2%	1%
12	Mar-20	Mar-20	Recession	-150	-28	-21%	-2%	0%
		Average:		-491	-145	3%	17%	7%
		Recession average:		-693	-160	-6%	20%	10%
		Soft landing average:		-207	-123	16%	12%	4%

Source: Bloomberg Finance L.P., Haver Analytics, Ibbotson, from Tim Andres & Ben Bakkum, J.P. Morgan. U.S. bond return represented by 50% Bloomberg U.S. Corporate Index and 50% Blo

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Politics and What Matters from the Shorepoint Soap Box

Today's society invests enormous time and money in politics, creating a cycle of fear fueled by media, money, manipulation, and an obsession with political power. These are significant issues that our firm cannot ignore.

However, over time, we cannot control the broader world - we can only respond to it. That's why we need to support each other - colleagues, clients, families, and friends - in making the best personal choices to improve the odds of long-term success. The world may be on fire, but as Voltaire said, we must cultivate our own garden. Focusing on family, career paths, and our daily lives will have the greatest impact on your long-term well-being.

"The show is about to begin. Please silence any political text notifications."

Cartoon by Alison Wong

So, we will continue to support our clients in the ways we can: managing company benefits wisely, making smart decisions about buying or leasing a car, budgeting for college, and ensuring that adult children become financially independent. We will discuss your career, job security, how much to set aside for emergencies, or even how to pursue starting your own business.

Our goal is to help ensure that you are prepared for life's challenges - health-related, financial, or otherwise. And when times are good, we'll be there with strategies to maximize opportunities, such as tax-loss harvesting and making thoughtful allocation decisions, like being more aggressive in retirement accounts compared to after-tax ones.

Looking Ahead

Despite the uncertainty in the world, 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. However, we are concerned about both presidential candidate's spending plans and the enormous increase to the federal deficit and ultimate impact to financial markets. The lack of responsible spending and budgeting contradicts the way Shorepoint advises clients.

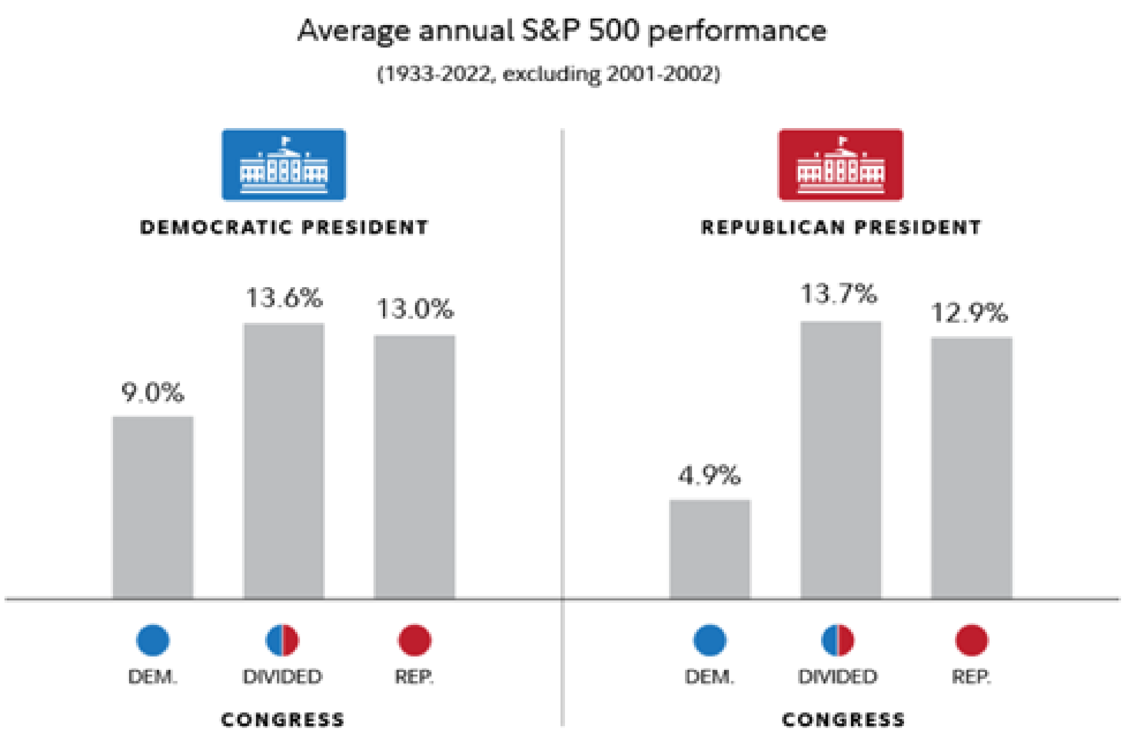

Figure 2 - Source - Fidelity Investments

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Alternatives – Shorepoint Income Fund II, LP

Our new LP is off and running, with the first close on the fund completed in late July. To date, we have raised over $13 million. The next close is anticipated to be somewhere in the November-December timeframe.

The goal of the new fund is like Shorepoint Income Fund I, which held a mix of private debt, private real estate, and private equity and a key focus on generating income for investors.

Today, the opportunities are plentiful, however, we remain focused on balancing risk and return in the face of attractive risk-free returns.

We aren't swinging for the fences in Shorepoint Income Fund II and aim to invest in exciting opportunities that can offer a blend of attractive income and capital returns.

To date we have made five investments, three equity investments in small food companies, one private multifamily credit investment and another with a firm that acquires large data centers throughout the US.

Our pipeline for other potential investments is rich with opportunities. It includes the following: multifamily, retail, and industrial real estate investments in Massachusetts, Tier 1 college campus student housing real estate, medical outpatient real estate, and several other opportunities for debt/equity deals with smaller food companies.

If you aren't an investor or know someone who could be interested in the fund, please have them get in touch: chris@shorepointpartners.com

Note: 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.