



## 2024 Halftime Report



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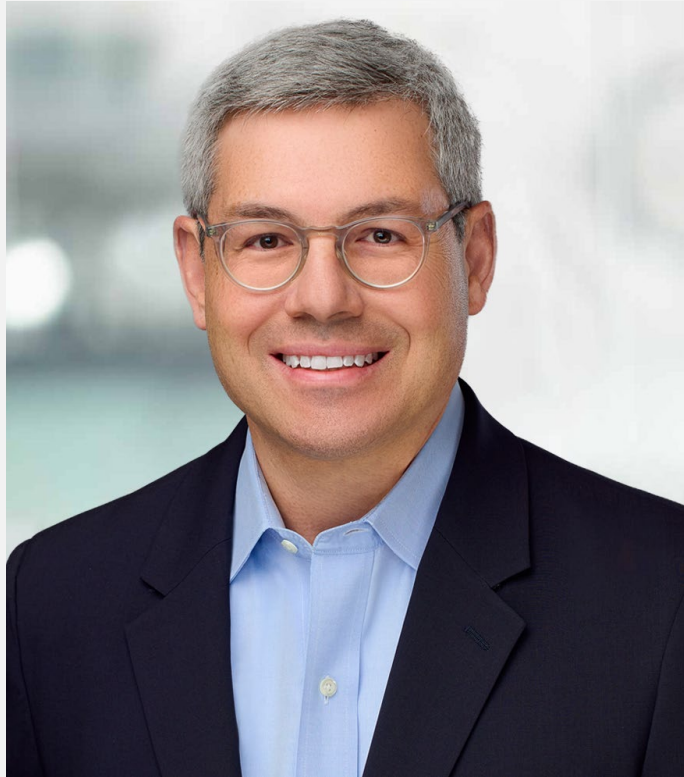
# Questions?



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# Introduction



## Gary Aiken

### Chief Investment Officer

Gary brings over 21 years of experience to Concord's internal asset management team. He oversees macroeconomic analysis, asset allocation, security selection, trading, and investment operations.

Before joining Concord, Gary held the position of CIO at a trust company and served as Chief Risk Officer at a mutual life insurance company. His rich background includes managing various investment types such as stocks (value and growth), bonds (core investment grade, high yield, and opportunistic), and mutual funds (asset allocation) for individuals and institutions.

# Our Agenda



## Review Our Forecast

What did we get right and wrong in January?



## The Election

What should really matter to investors?



## The Second Half

Macroeconomic outlook  
“Gary’s crystal ball”.

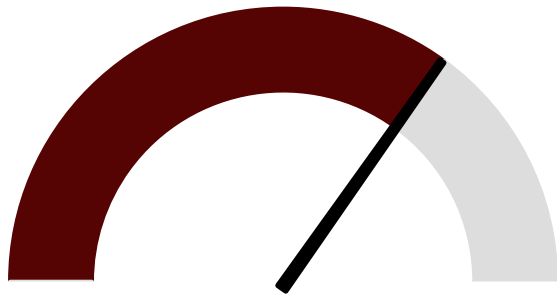
# Our January 2024 Forecast in Review

What did we get right and wrong?

# Our January 2024 Forecast in Review

Less Likely

Most Likely



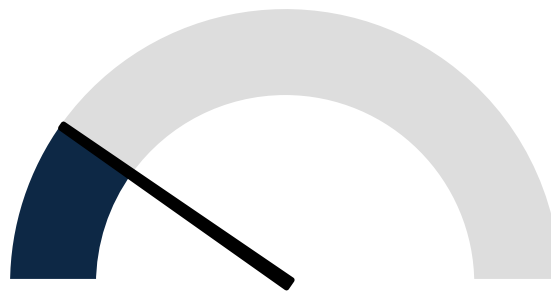
● 70% Likelihood

## **SLOW GROWTH**

The Fed returns to traditional monetary policy, while fiscal policy stays restrained. The economy grows at 2%, with inflation matching this rate.

Less Likely

Most Likely



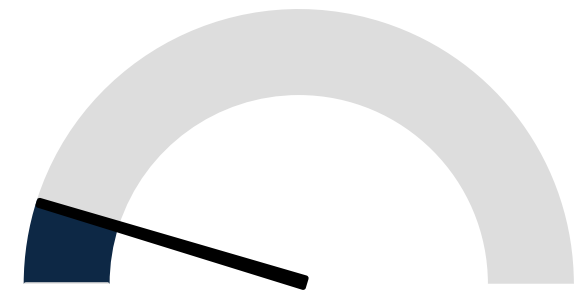
● 20% Likelihood

## **RECESSION**

The Fed monetary policy was too restrictive. Slow growth becomes a contraction.

Less Likely

Most Likely



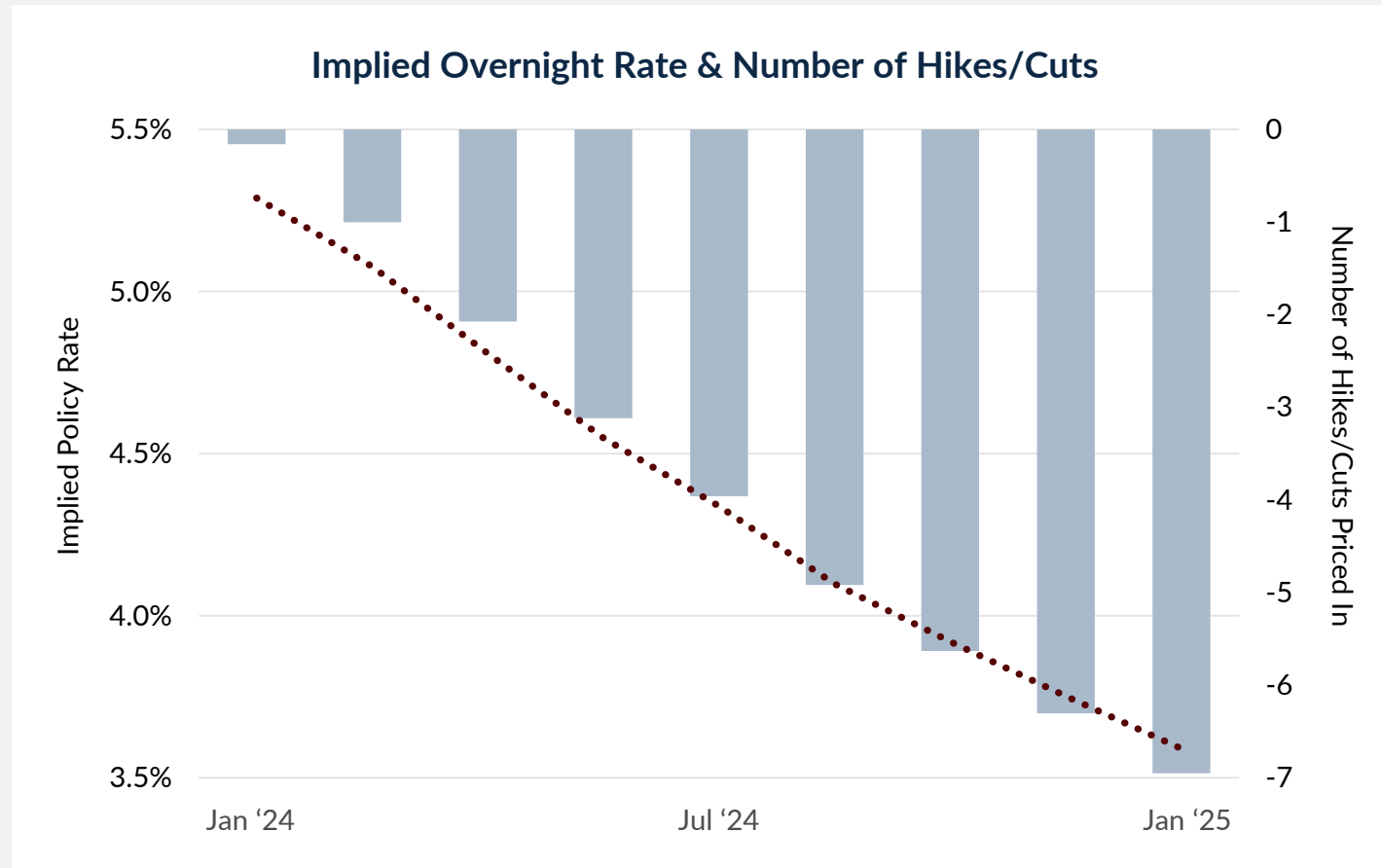
● 10% Likelihood

## **INFLATION RETURNS**

The Fed eases prematurely. Combined with fiscal expansion, higher wages, and geopolitical conflict, price increases accelerate.



# Market Expected Significant Rate Cuts



... Implied Policy Rate (%)

— Number of Hikes/Cuts Priced In

## Our Contrarian View

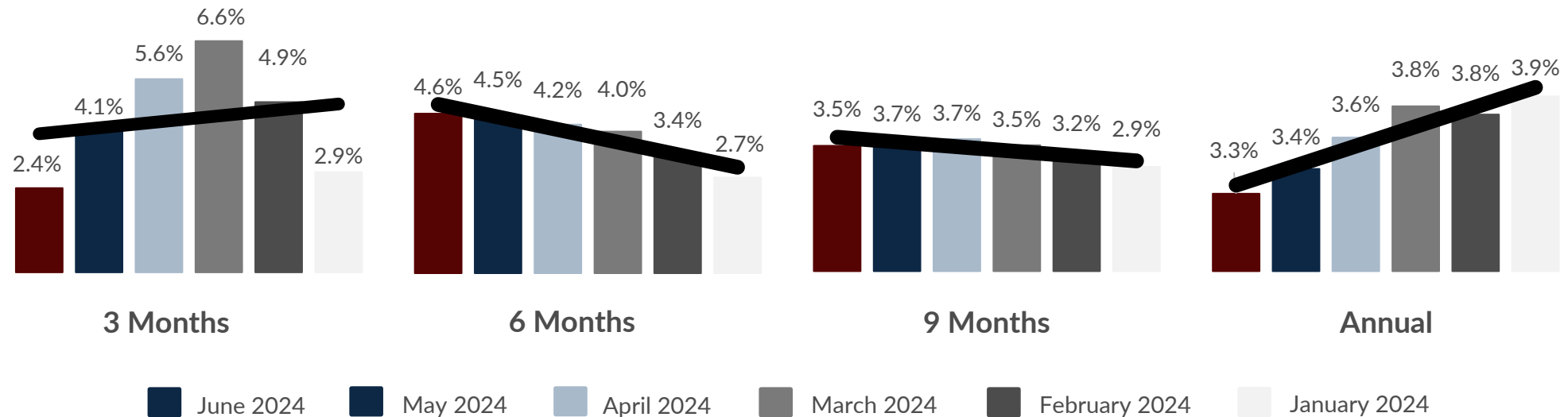
- We did not expect interest rate cuts early in 2024.
- Inflation has been stickier on the way back to the Fed's target.
- The U.S. economy continues to grow at a modest pace.

# Core Prices Are Still Rising, But At A Slower Pace

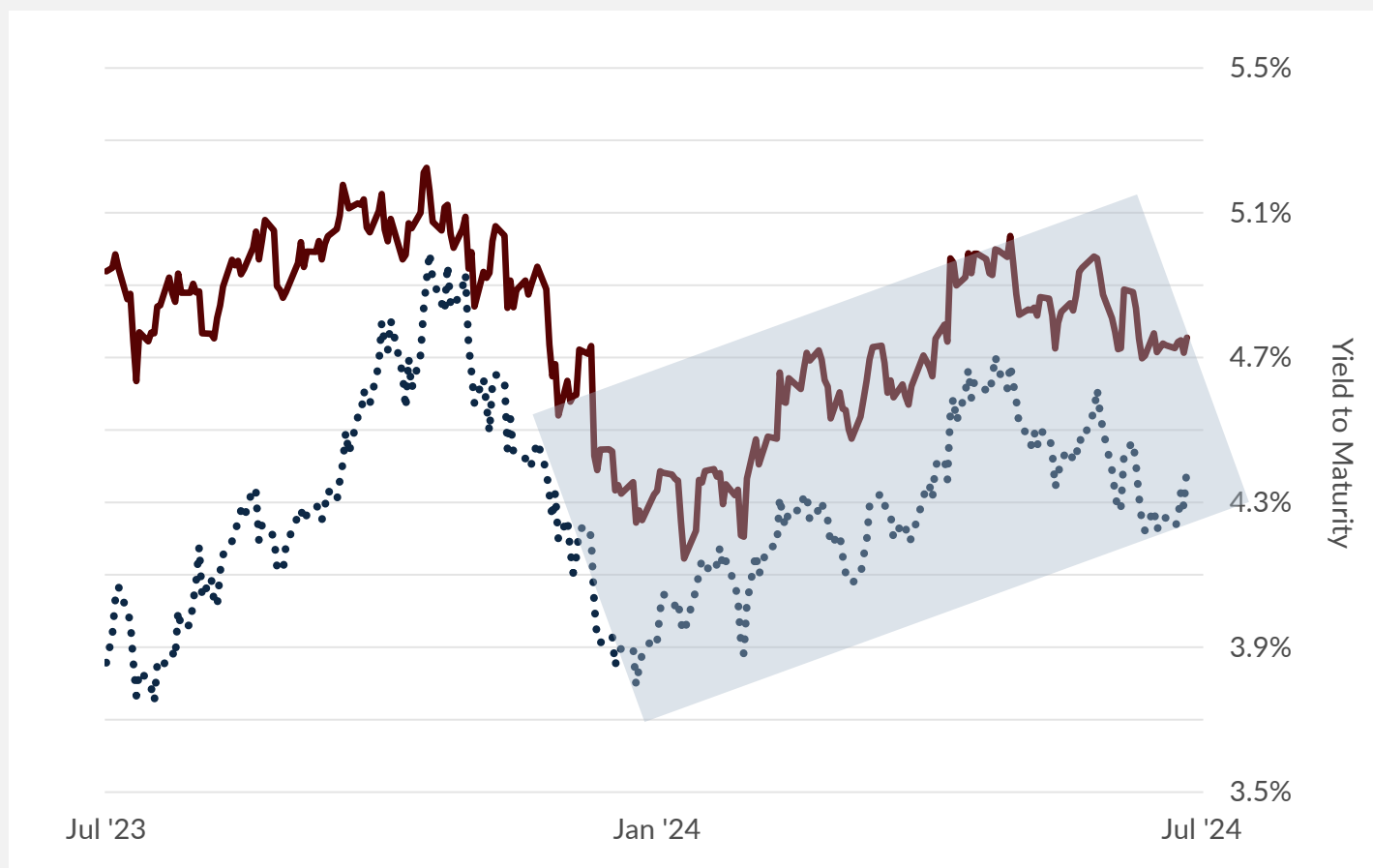
## Rolling Average Core CPI

Volatility in the short-term inflation measures has obscured the assessment of progress but...

...long-term measures show a gradual but steady decline in core inflation.



# We Preferred Credit Risk Over Interest Rate Risk



— U.S. Treasury 2-Year Yield

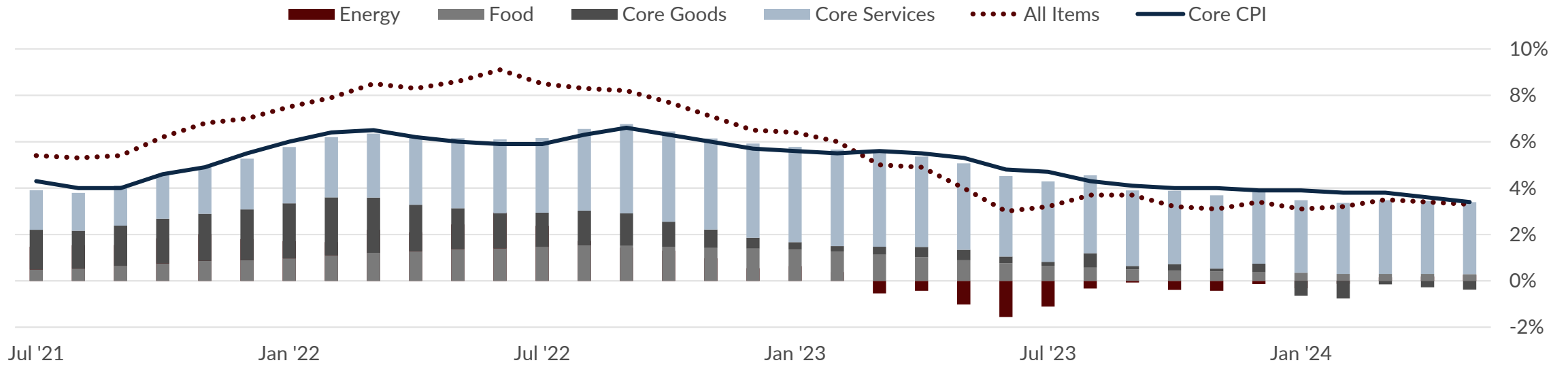
... U.S. Treasury 10-Year Yield

## We Were Right That Duration Didn't Pay

- Consistent with our contrarian view on Fed rate cuts.
- Both long- and short-term interest rates rose in the first half.
- As the economy grew, company credit ratings improved, boosting corporate bond prices.

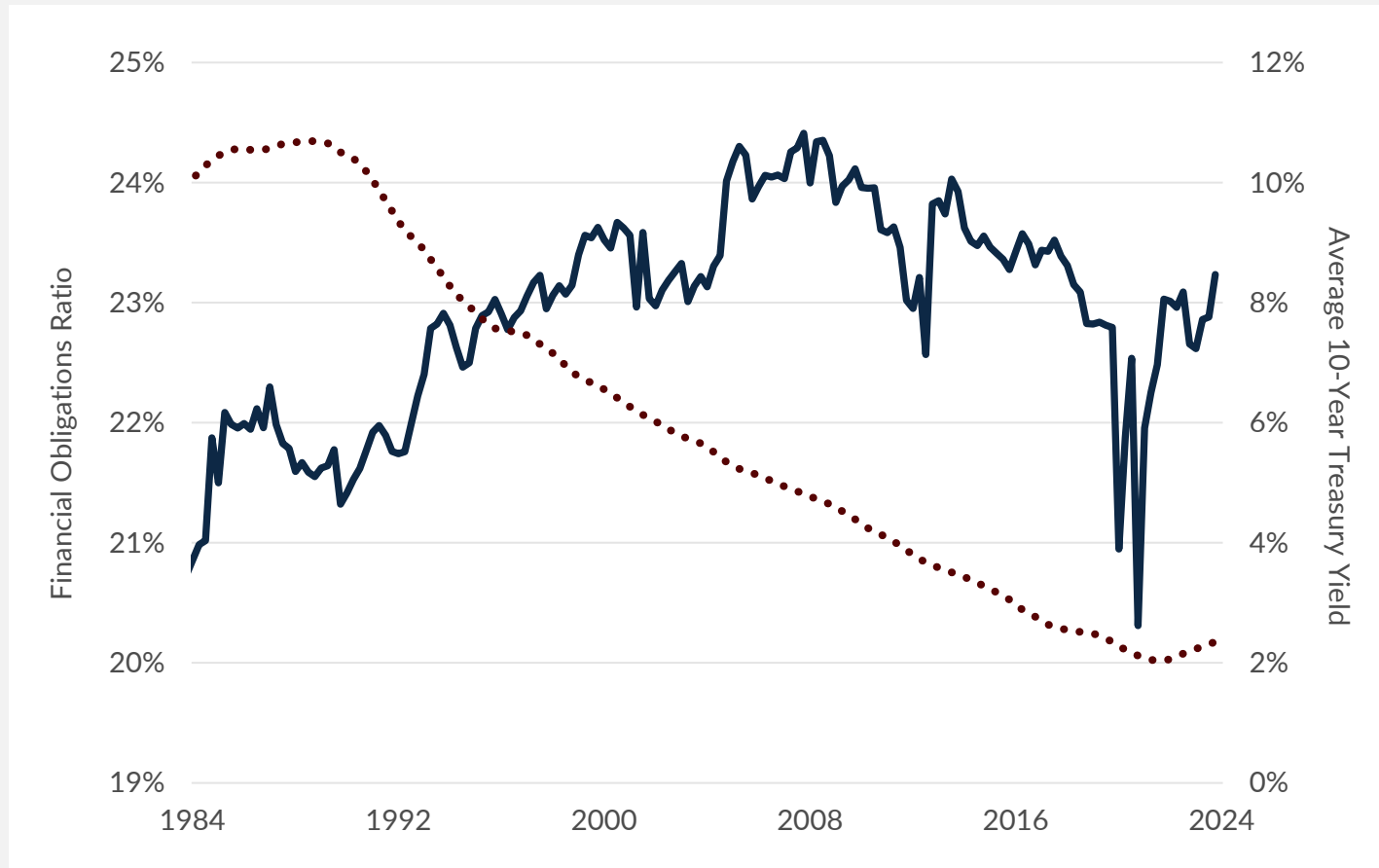
# What is Core Inflation?

Contributions to U.S. CPI Year-Over-Year



- Inflation in food, energy, and core goods has mostly evaporated.
- Inflation in services is rising, driven by housing and insurance.
- Tight monetary policy hasn't significantly impacted consumer appetite for services.

# The Economy Adapts to Higher Rates

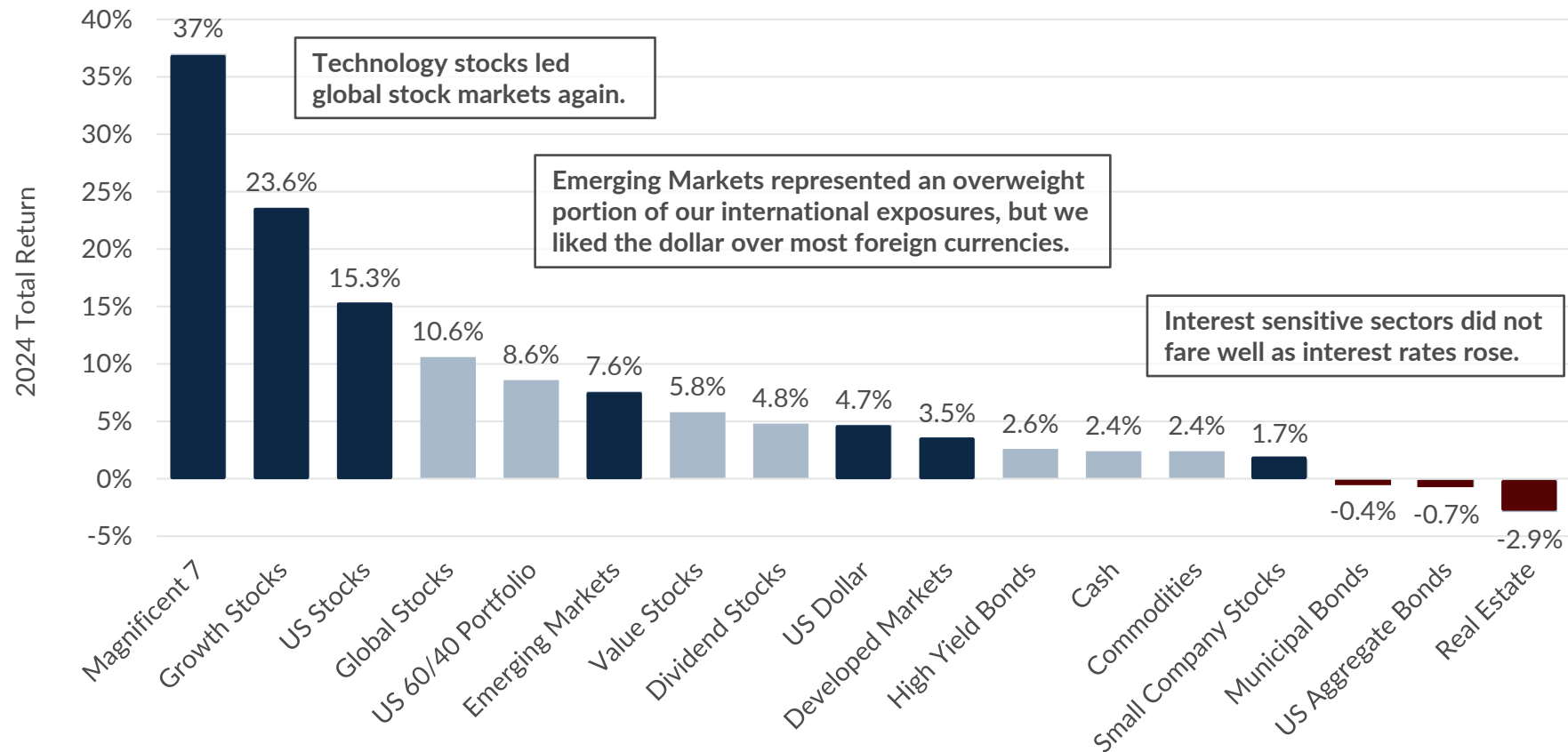


- Financial Obligations Ratio
- ... Trailing 10-year Average 10-Year Treasury Yield

## These “High” Rates Are Not Hindering The Economy

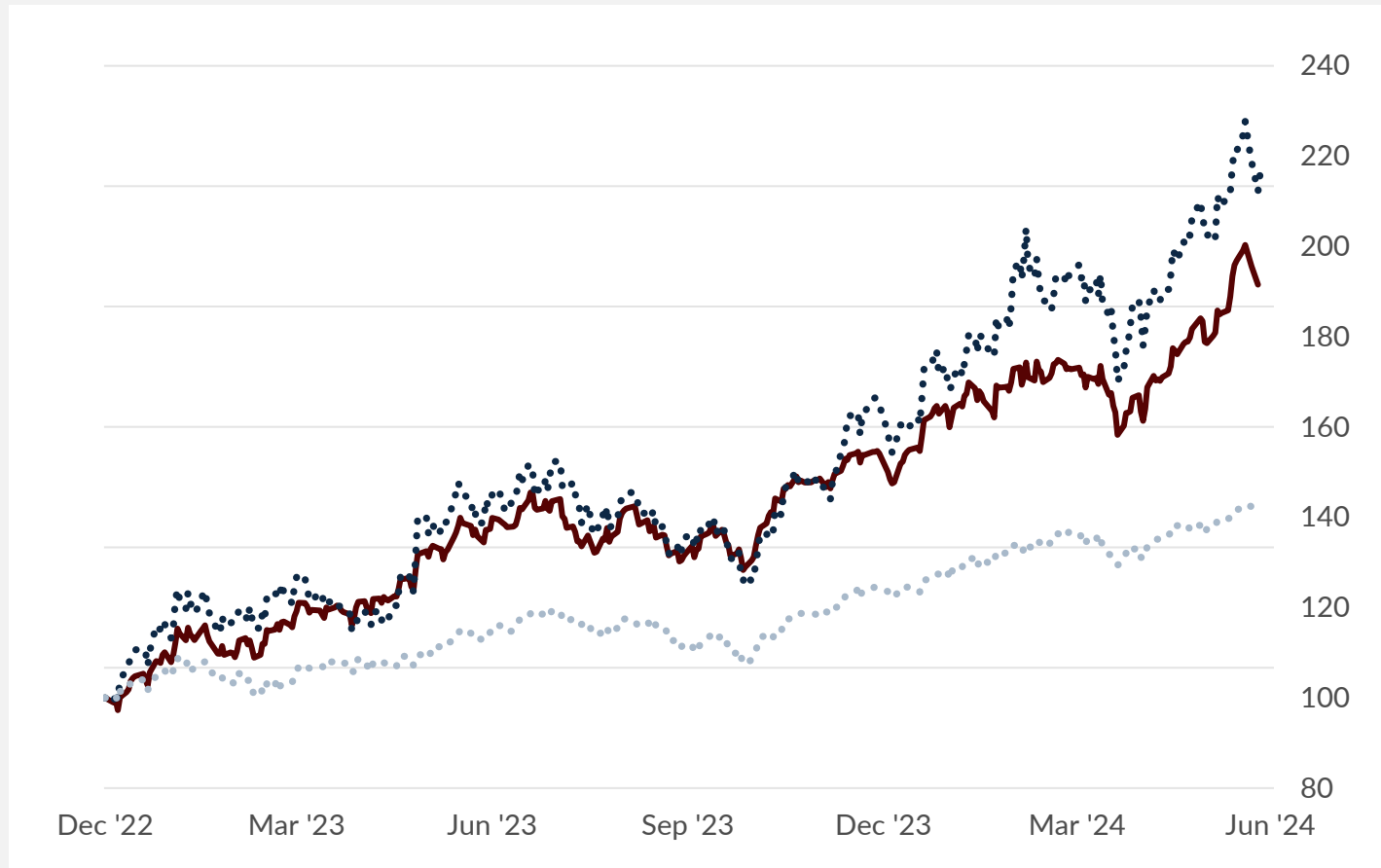
- Businesses and homeowners finance long-term, not short-term.
- Interest-sensitive obligations (mortgage, rent, utilities, energy, debt service) as a percentage of disposable income have stayed consistent for the past 25 years.

# 2024 Financial Markets So Far...





# Tech Stocks Led Markets Higher, Again

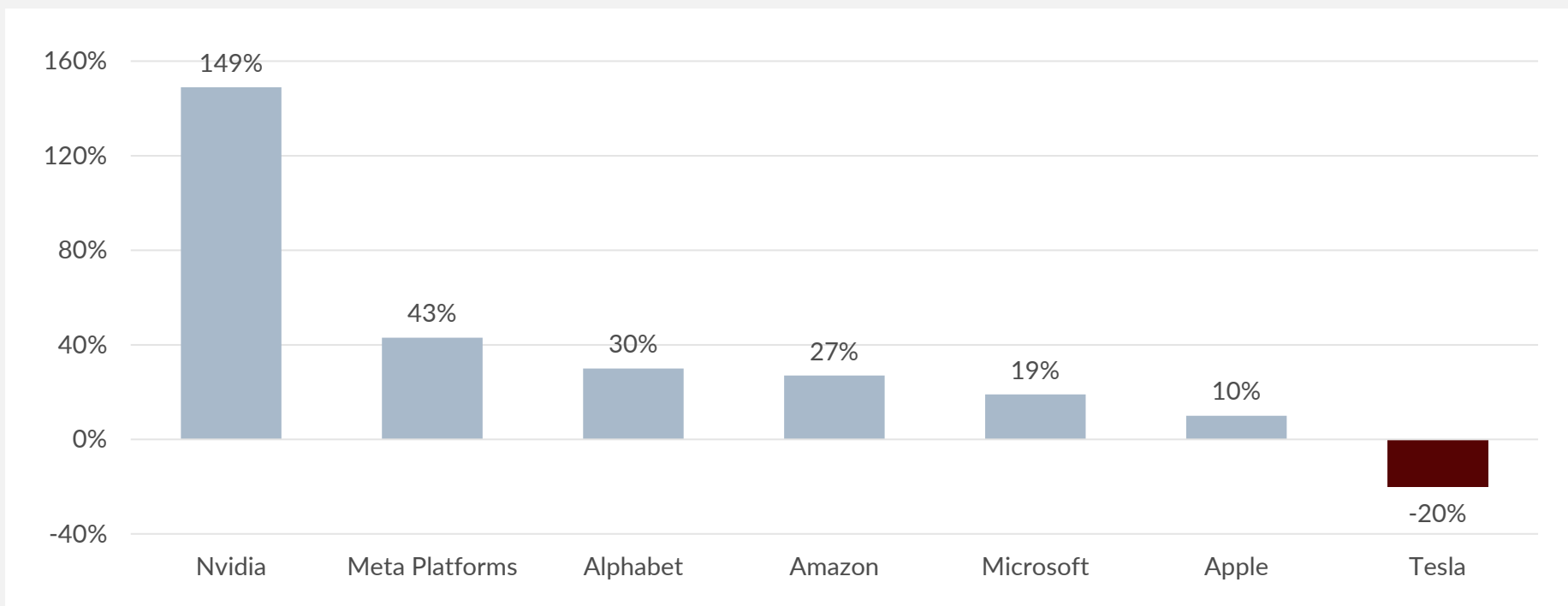


- MSCI USA IT Index
- Philadelphia Stock Exchange Semiconductor Index
- S&P 500 Index

## Valuation Matters

- Analyze and evaluate each company on its own merits.
- Management and boards must be diligent and trustworthy.
- Success stories exist outside the technology sector, too.

# What Happened to the Magnificent 7?



Tesla seemed different to us. It was becoming just another car company, but with manufacturing problems, declining sales, rapidly decreasing resale value, shifting consumer preferences, and corporate governance issues.

# We Were Wrong to Worry About Politics



Government Spending



Budgets were passed without a shutdown.



Primary Season



Presidential primaries were over before they even began.



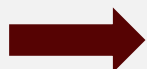
Trump Trials



Trials were postponed or didn't seem to matter much to voters.



Federal Reserve Timing



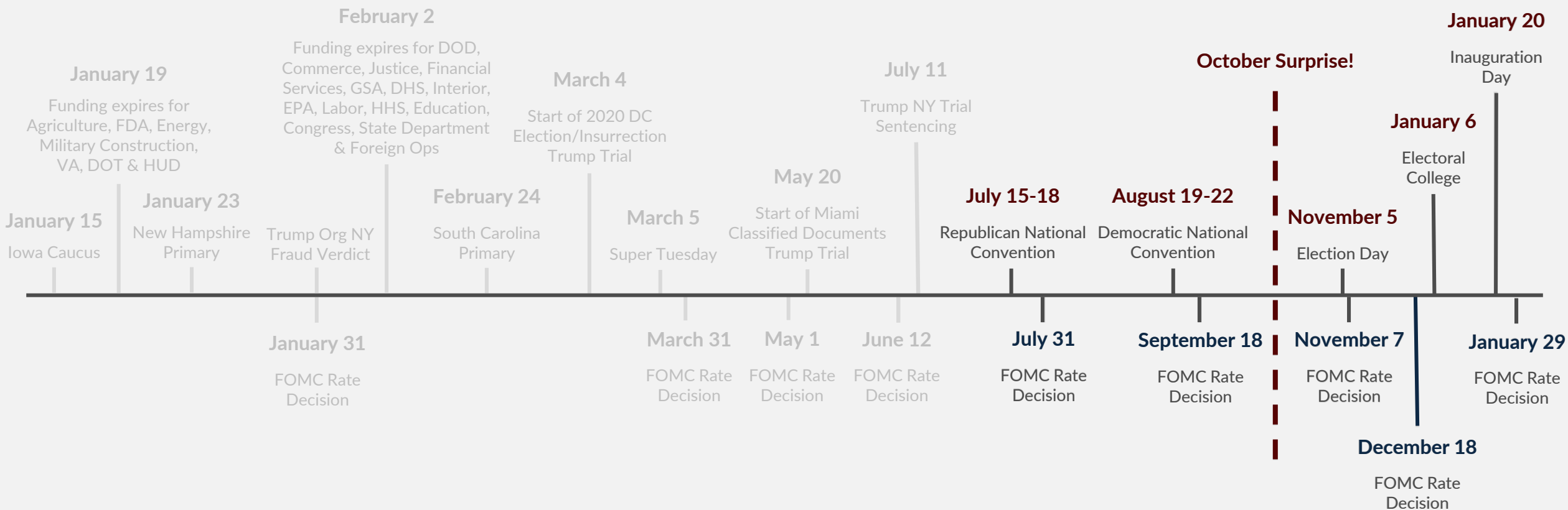
Reliance on data led to no action by the Fed.



## **The Election**

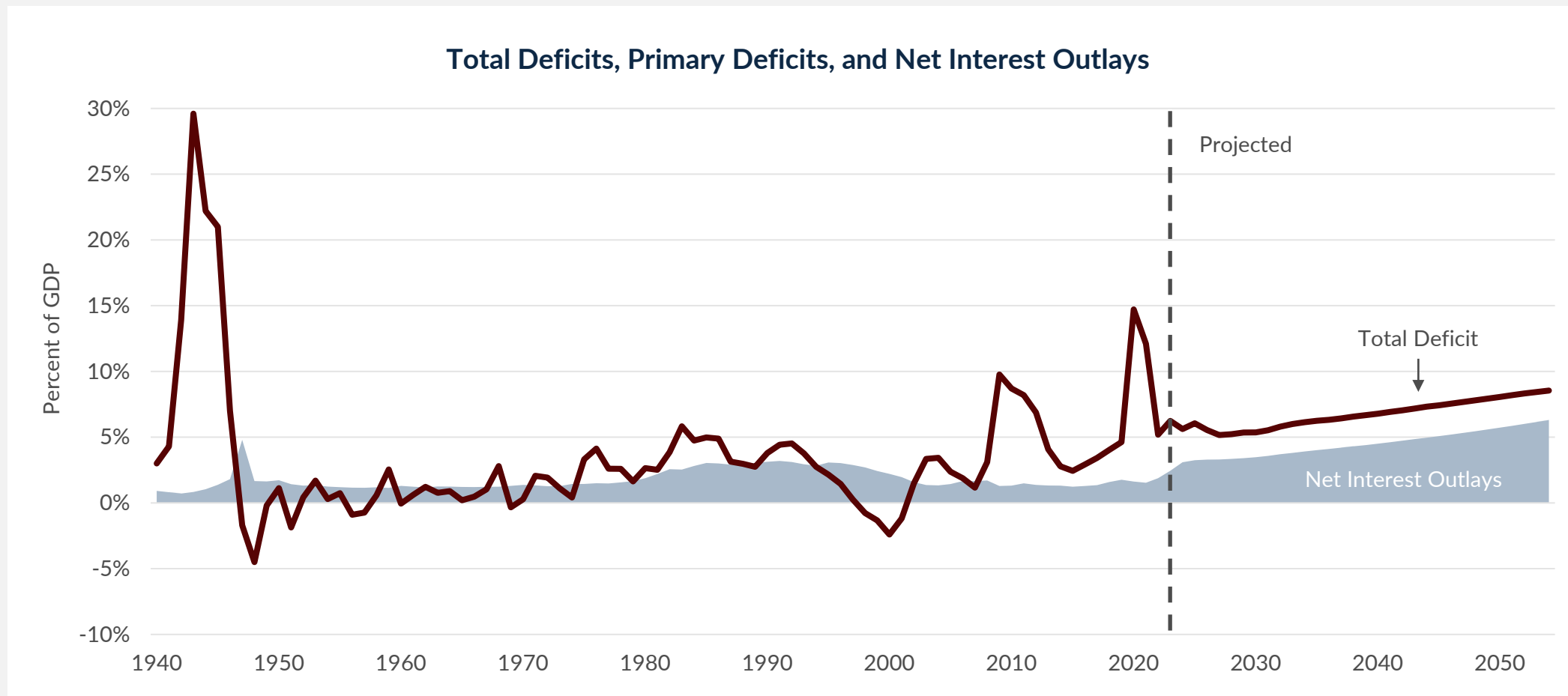
What issues should be important to investors?

# Politics and Finance Timeline



**Political fireworks did not end on July 4th. We are focused on the Fed.**

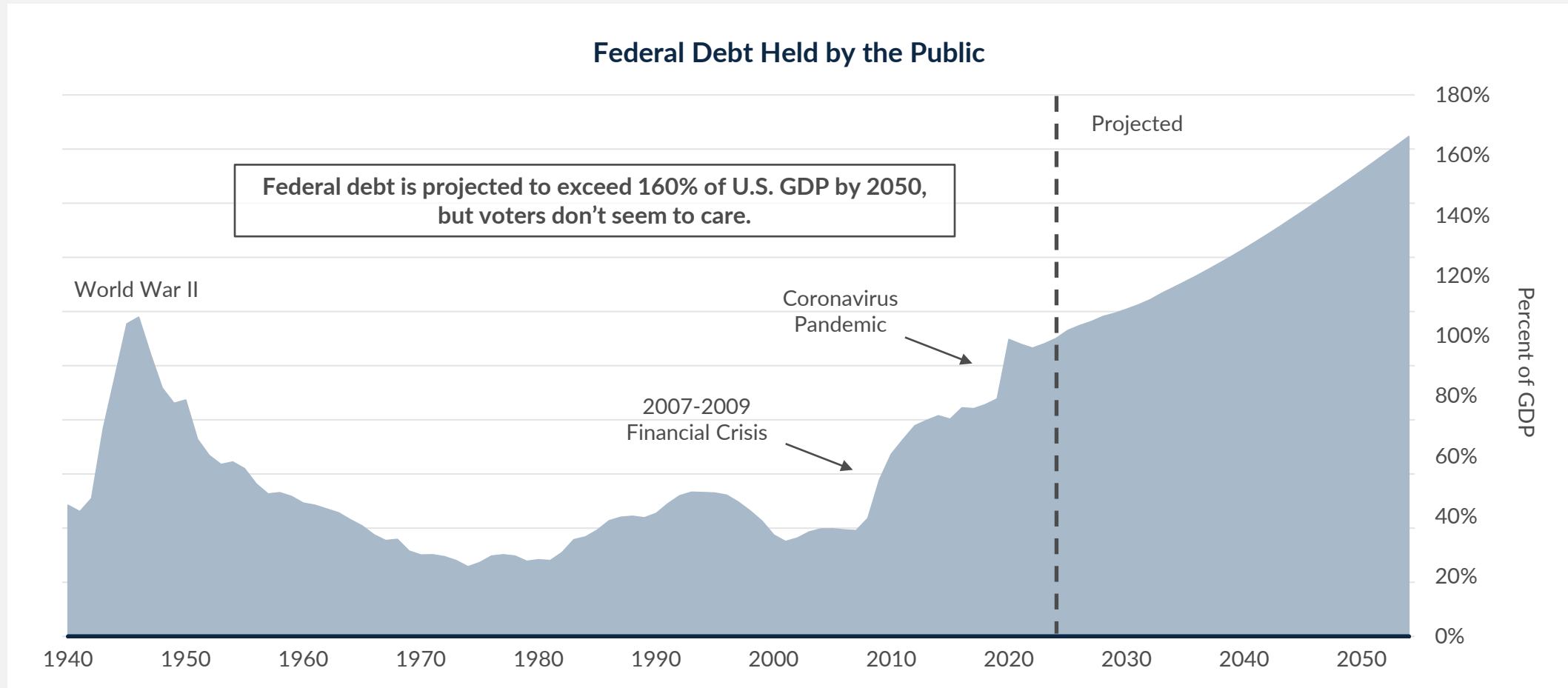
# Deficits Grow Larger Over Time...



Source: Congressional Budget Office report "The Long-Term Budget Outlook: 2024 to 2054", March 2024.



# ...and So Does the National Debt



# Sunset Provisions — Tax Policy is on the Ballot



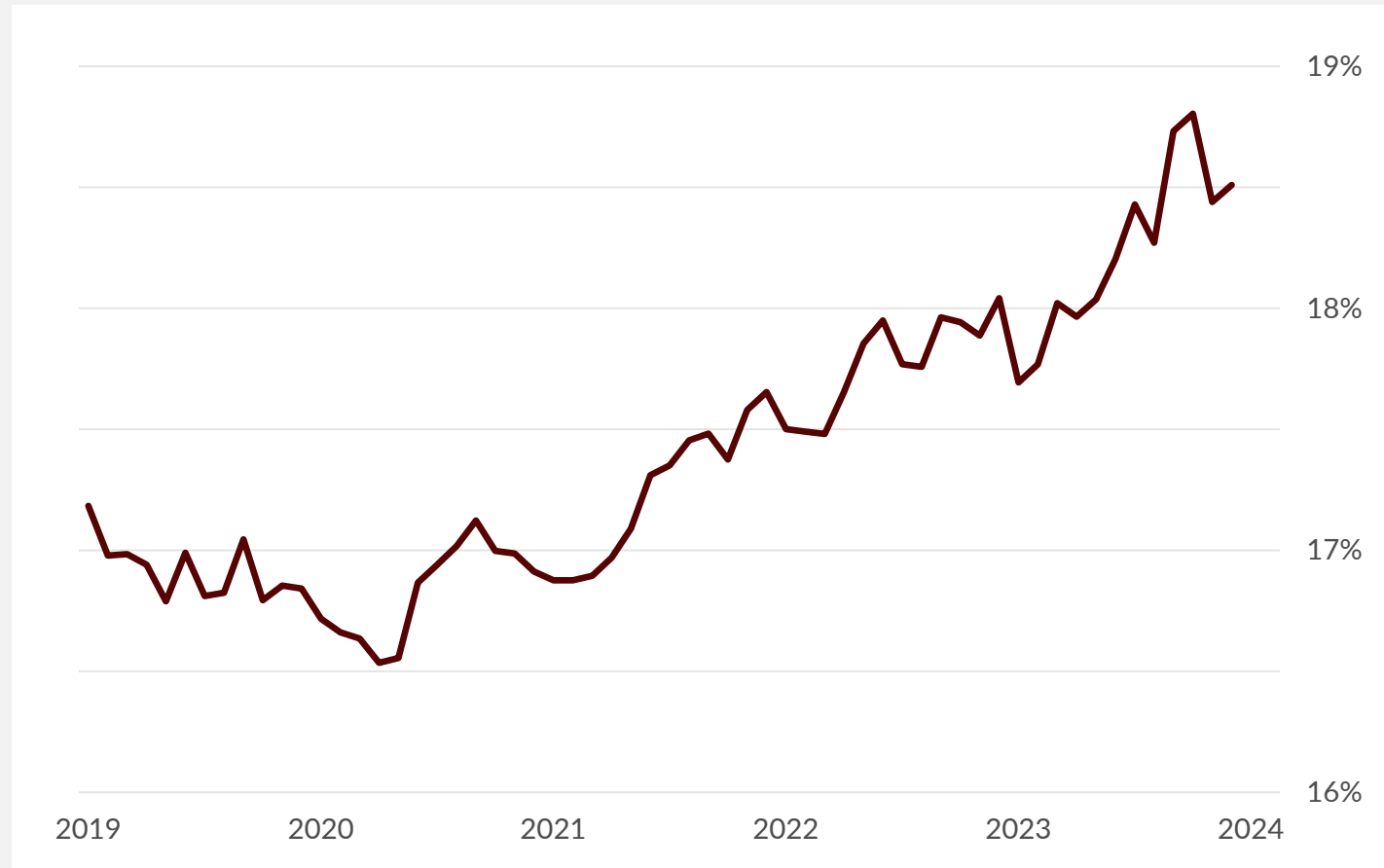
## Individual Income Tax Changes

- Marginal tax bracket rates will increase, affecting Roth conversions.
- Standard deduction will decrease, but SALT provisions will expire, impacting low-income earners and residents of high-tax states.
- Gift and estate tax changes will put estate planning in greater focus.

## Corporate Taxes

- Small businesses face a change to the Qualified Business Income Deduction.
- Corporate tax rate will remain unchanged at 21%.

# Immigration Impacts the Job Market

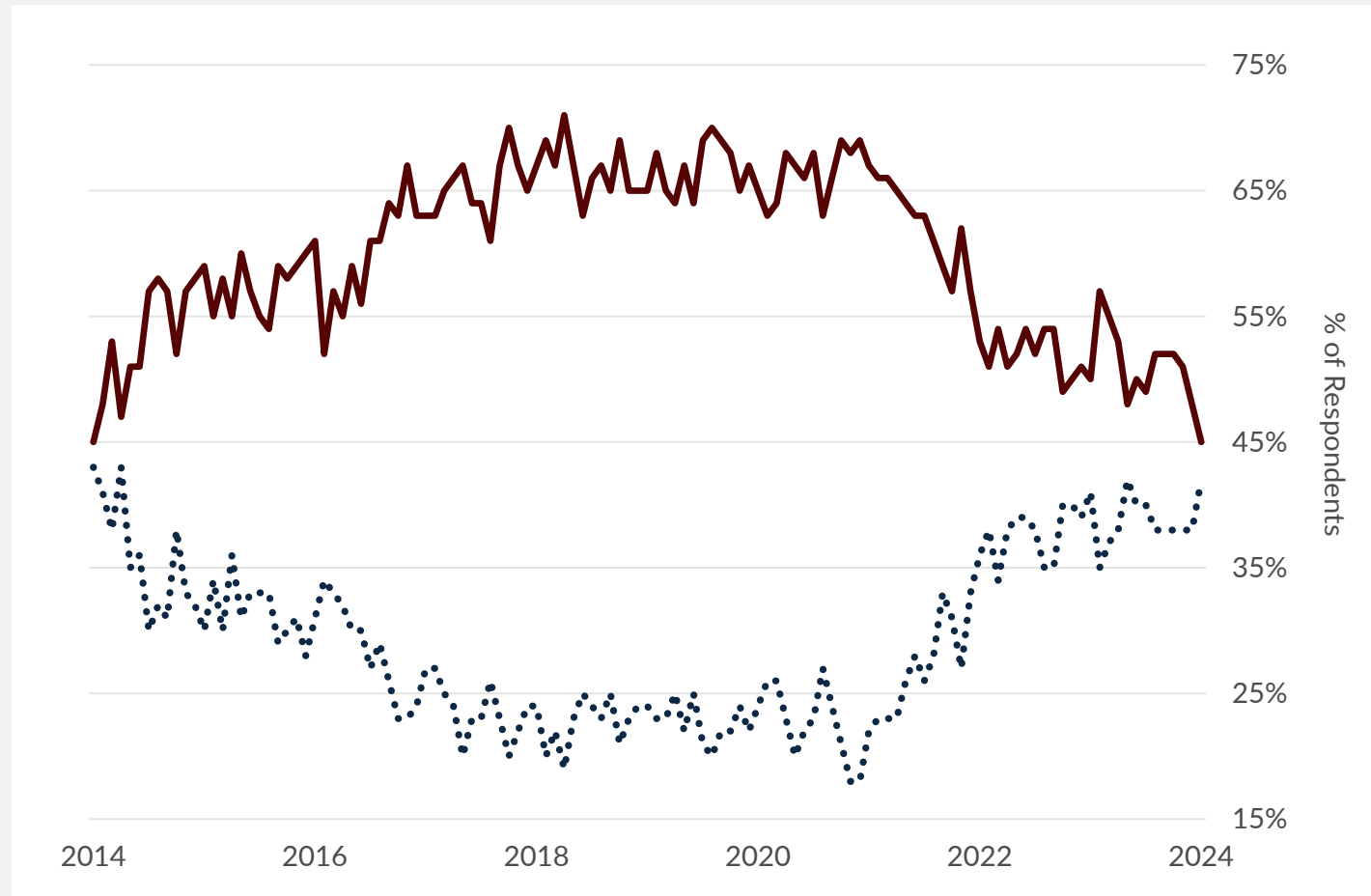


— Foreign Born Workers as a Percent of the Total Non-Institutional Labor Force

## Immigration is a Top Issue for Voters

- Foreigners are getting work permits, increasing their share of the workforce.
- Price Impacts: Food, fuel, government services, and hotel prices rising as post-Covid labor shortages ease.
- How will voters view this immigration?

# How Do You Feel?



- Better Off Than Five Years Ago
- Worse Off Than Five Years Ago

- Michigan Consumer Sentiment shows a clear drop in positivity.
- 2014 repeat? An unpopular Democrat incumbent led to a “red wave” with Republicans gaining seats in the House, Senate control, governorships, and state houses.

**We still don't know who will win the election!**

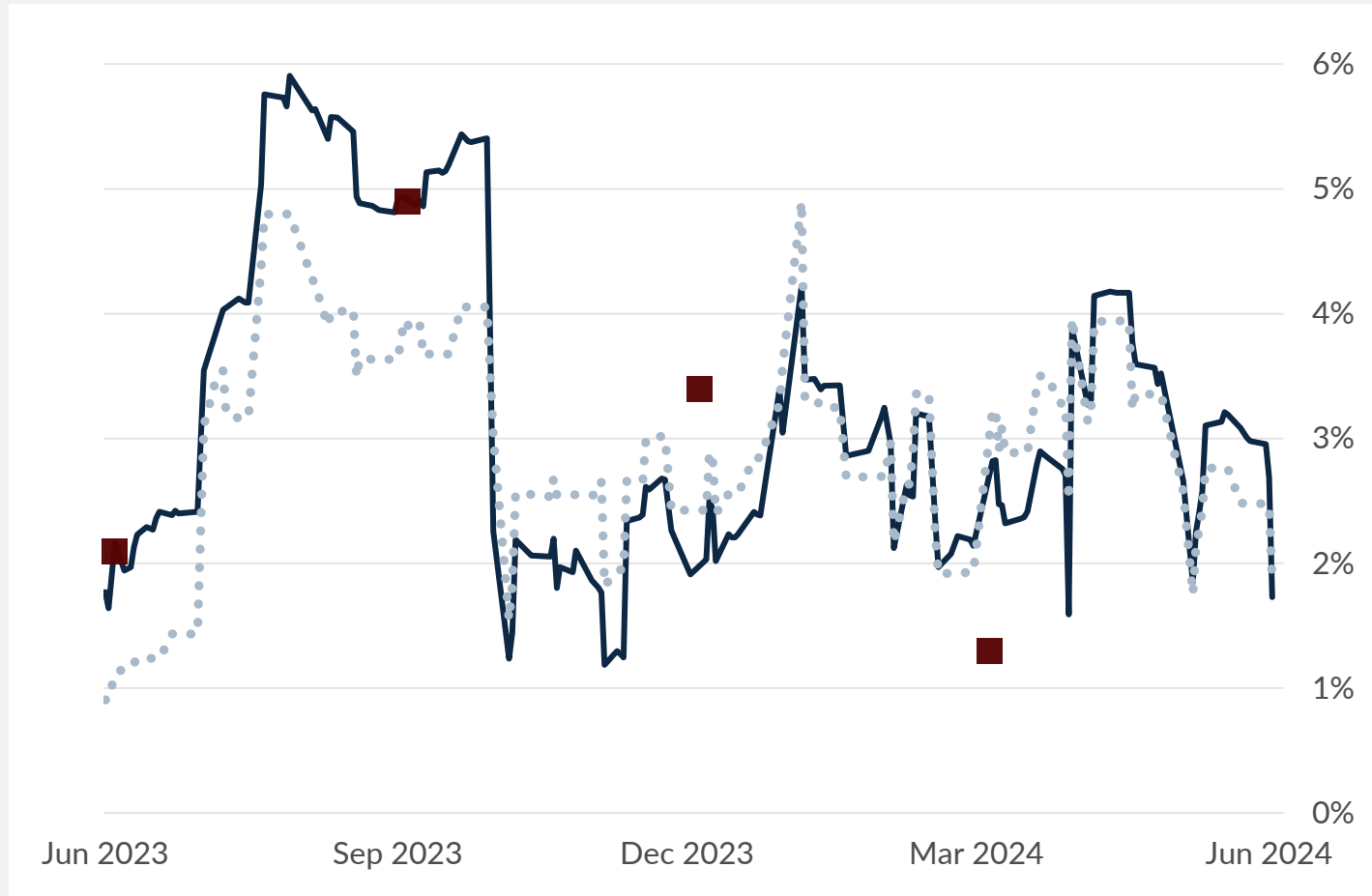


2024

# The Second Half

Our macro-outlook

# Growth and Inflation Continue to Slow



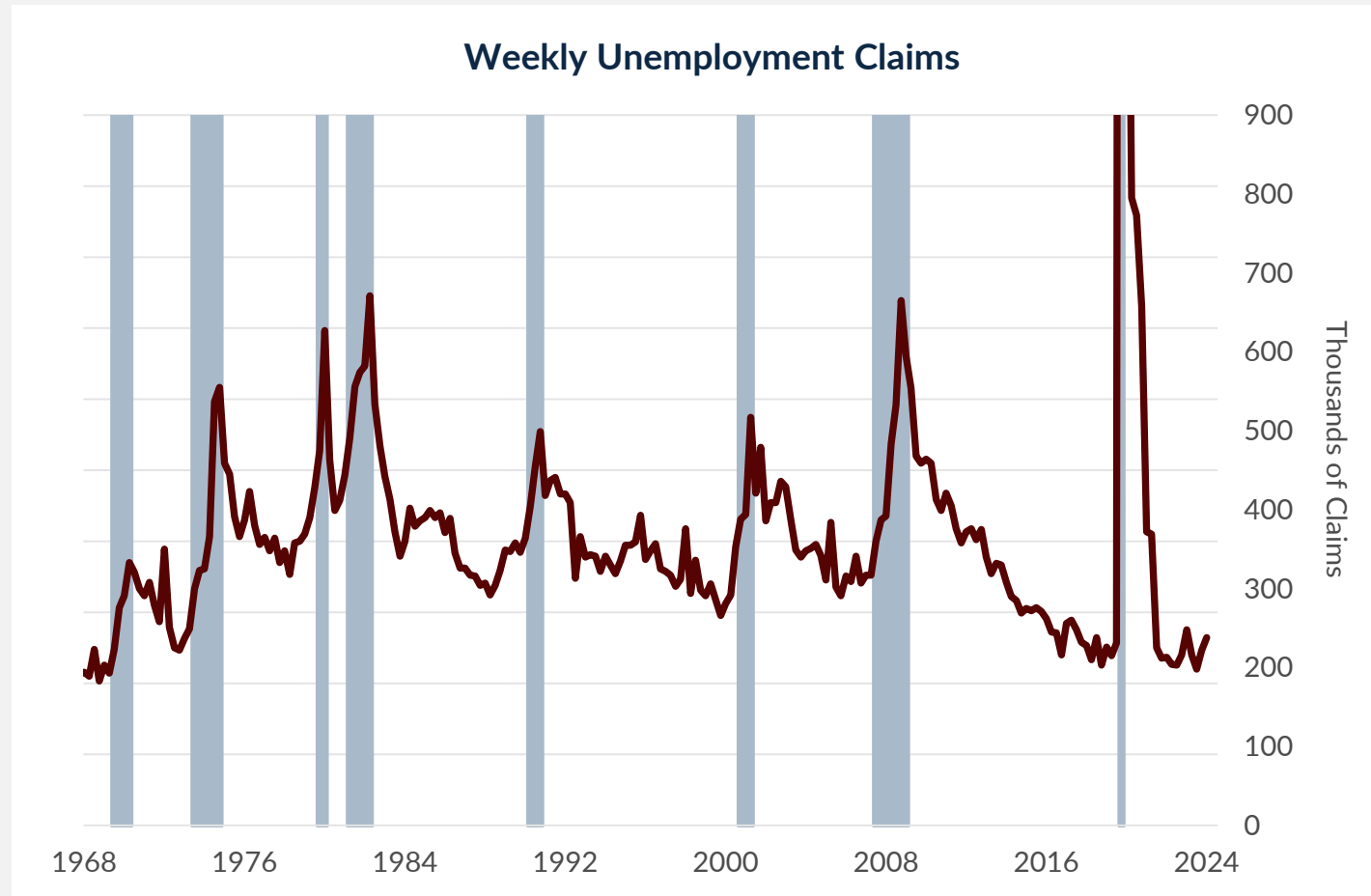
- Actual GDP Growth
- Atlanta Fed GDP Forecast
- ... Atlanta Fed Inflation Forecast

## Mission Accomplished?

- Incoming economic data continues to paint a positive picture.
- A “soft landing” or “goldilocks” scenario seems assured.
- All eyes on the labor market and the health of the U.S. consumer.



# Labor Market Coming into Balance



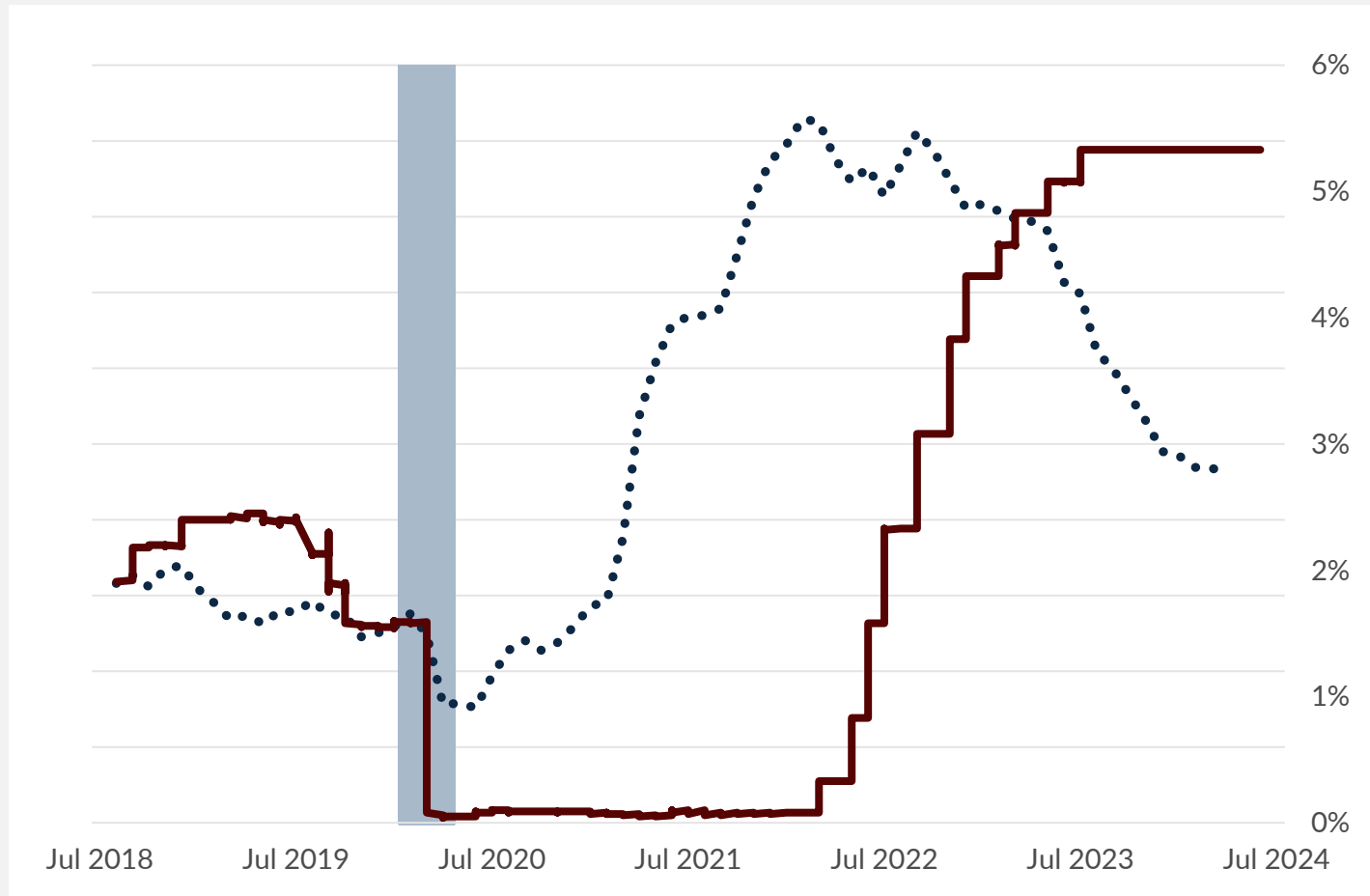
— U.S. Jobless Claims

— Recession

## The Unemployment Rate is 4.1%

- Despite ample job availability, the quits rate is decreasing.
- Unemployment duration and continuing claims are rising.
- Will we return to the pre-pandemic economy, or is current monetary policy too restrictive?

# We Expect Federal Reserve Priorities to Shift



- Effective Fed Funds Rate
- ... U.S. PCE Core Price Index Year-Over-Year

## Our Forecast

- The Fed has a “dual mandate” of stable prices and full employment.
- With evidence that inflation is slowing, the Fed will likely focus more on unemployment.
- Interest rate cuts are expected to start later this year.

# Choose Your Battles in Bonds



## We Prefer Portfolios With Minimal Interest Rate Risk

- The Fed will likely cut short-term interest rates this year and next, while the U.S. economy grows at a modest pace.
- We do not expect long-term rates to fall significantly.
- A short duration serves as insurance against the low-probability, high-cost risk that markets react negatively to such as government policies or large debts and deficits.

# U.S. Stocks for the Long Run

Value or growth for the second half?



## Our View

- Without a recession, rate cuts are likely to benefit U.S. stocks.
- AI has potential, but revenue and earnings must follow.
- Previously underweighted sectors may benefit from rate cuts.
- We won't trade based on the election, but relative value may suggest a rebalance.

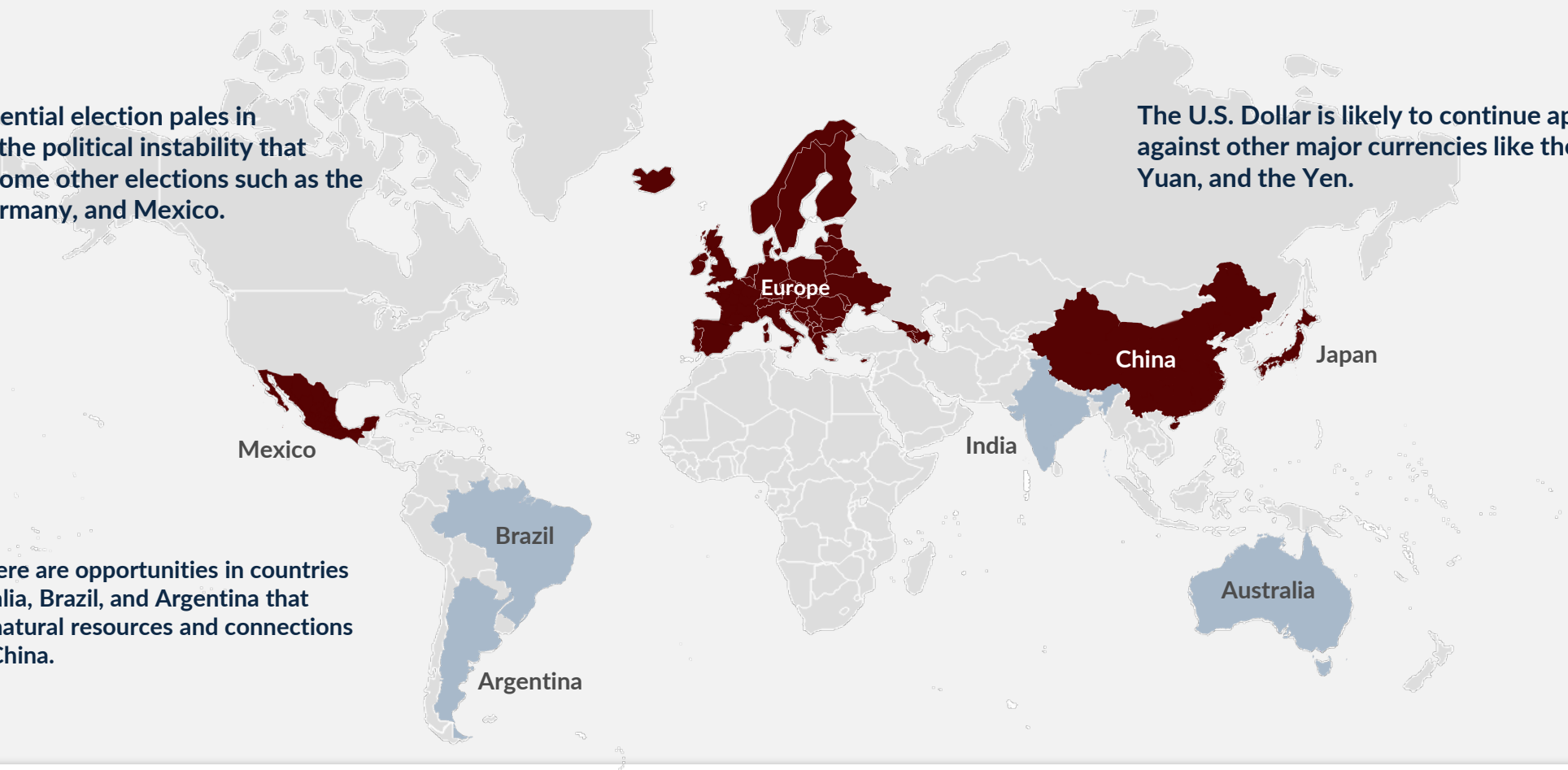
# Risk/Reward Around the Globe

U.S. stocks are still the envy of the global stock market. We believe this trend will continue.

The U.S. presidential election pales in comparison to the political instability that we've seen in some other elections such as the UK, France, Germany, and Mexico.

The U.S. Dollar is likely to continue appreciating against other major currencies like the Euro, Yuan, and the Yen.

We still think there are opportunities in countries like India, Australia, Brazil, and Argentina that have abundant natural resources and connections to the U.S. and China.

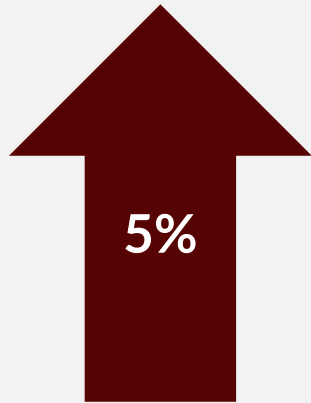




# 2024 Second Half Potential Return Scenarios

## Most Likely

75% Likelihood



70% Likelihood

### Slow Growth

- The Fed returns to traditional monetary policy while fiscal policy stays restrained. The economy grows at 2%, with inflation matching this rate.
- A balanced portfolio tends to perform well with rising company profits.
- Falling short-term U.S. interest rates could benefit some foreign currencies.



# 2024 Second Half Potential Return Scenarios

Less Likely



20% Likelihood

## Recession

- Monetary policy is too restrictive. Slow growth becomes a contraction.
- Stocks may react poorly, but sharp declines will be buying opportunities.
- A quick drop in interest rates may favor long-duration bonds, assuming low inflation.

# 2024 Second Half Potential Return Scenarios

Less Likely



**10%**

**Likelihood**

## Inflation Returns

- The Fed eases monetary policy prematurely.
- Fiscal expansion, higher wages, and geopolitical conflict.
- Price increases accelerate.

We've decided to replace this scenario...

# 2024 Second Half Potential Return Scenarios

Less Likely



**5%**  
**Likelihood**

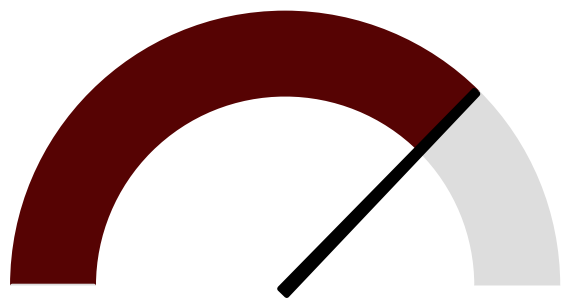
## Bond Vigilantes Return

- Concerns about government debt may trigger a sell-off in the bond market.
- Long-term interest rates move higher quickly, and stocks may sell off simultaneously.
- Inflation might be a result, but not the cause of this dangerous scenario.

# 2024 Second Half Potential Return Scenarios

Less Likely

Most Likely



● 75% Likelihood

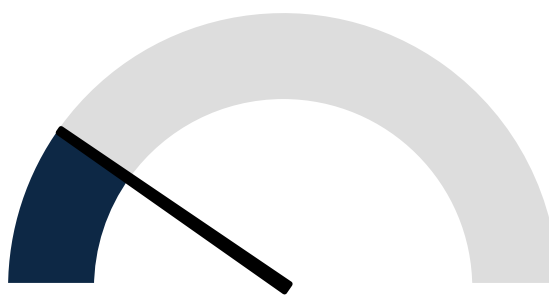
## SLOW GROWTH

A balanced portfolio tends to perform well with rising company profits.

Falling short-term U.S. interest rates could benefit some foreign currencies.

Less Likely

Most Likely



● 20% Likelihood

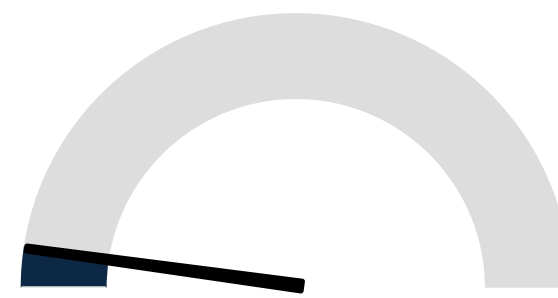
## RECESSION

Stocks may react poorly, but sharp declines will be buying opportunities.

A quick drop in rates may favor long-duration bonds, assuming low inflation.

Less Likely

Most Likely



● 5% Likelihood

## BOND VIGILANTES RETURN

Concerns about government debt may force long-term interest rates higher.

Inflation might be a result, not the cause of this dangerous scenario.

**Final Thoughts**

# Take the Gain

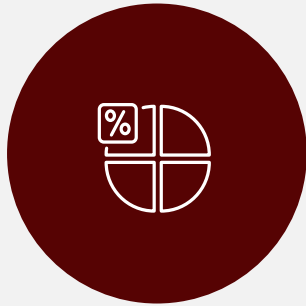
***“No one ever went broke by taking a profit.”***

- Attributed to Jesse Livermore

## **Sometimes we need to sell stocks...**

- Something has changed in our original thesis for buying.
- Other opportunities offer more attractive characteristics.
- Relative valuation suggests rebalancing.

# Tax Mitigation Strategies



Asset Location



Tax Loss Harvesting



Budgeting

Contact your advisor to discuss the best strategy for you.

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Even if they don't become clients, we're happy to provide insights and advice to boost their financial confidence.





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