

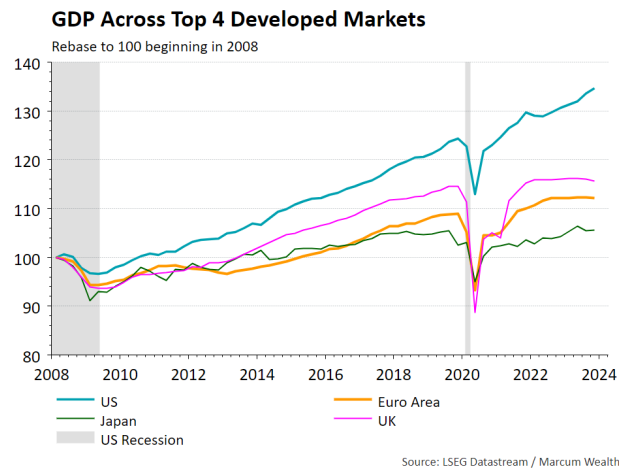
## Strategy Newsletter – 2<sup>nd</sup> Quarter 2024

- The economy continues chugging along while inflation remains above target.
- Stocks post double-digit returns for second straight quarter.
- The interest rate cutting cycle keeps getting pushed further away.
- The housing market's lack of supply is a challenge.

### Economy

The end of the second quarter will mark 180 months since the end of the Great Recession in June 2009. Since then, assuming we avoid a decline this quarter, the US economy has been in recession for a total of 2 months. The base rate assumption should be growth as the resilience of the dynamic US economy shows through time and again.

The US easily beat out the other four largest developed market economies in the last 15 years. More innovative industries, better structures, and policies all contributed.



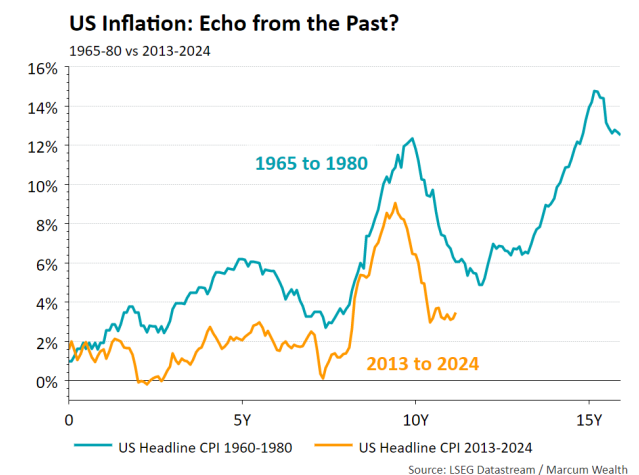
We had many signs of a potential downturn in the last two years. The yield curve inverted, inflation shot higher, and interest rates rose sharply. The debate among economists was a hard landing (recession), a soft landing (just a slowdown), or no landing (trend growth).

Inflation remains stubbornly high at the start of 2024. The good news is that wages are growing faster than inflation, which means consumers have the purchasing power to overcome inflation above the Fed's target of 2%.

This contrasts with the inflation from 2021 to 2022 when consumers felt the squeeze of inflation at 9%. Still, it certainly does not feel better today for most Americans at the grocery store or the gas pump.

The hope is that we are not at a 'higher resting heart rate' for inflation as KKR describes, but the evidence points that way.

Rather than the low inflation from the 2010s, 3% inflation may be the new normal. This occurred in the 1970s, albeit at a higher 'resting' level. Inflation spiked higher then declined, flattening out for several years before resuming a leg higher.

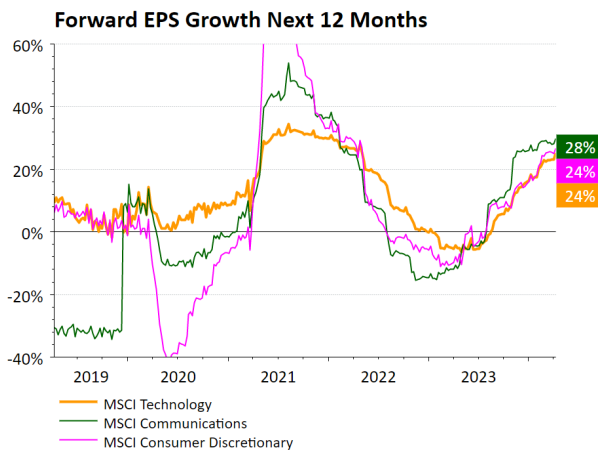


## Equity

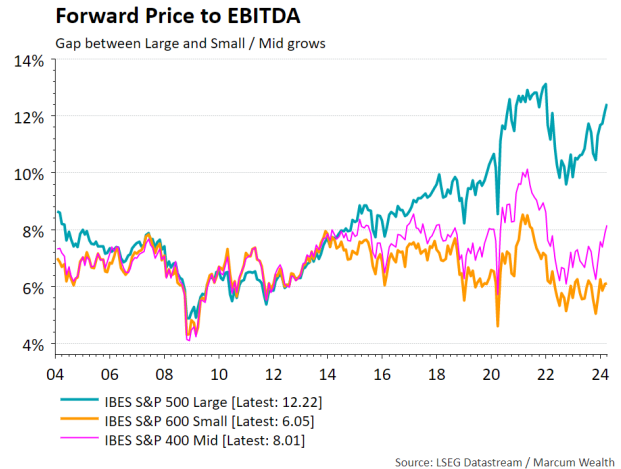
The S&P 500 Index posted its second consecutive quarter of double digit returns. Growth outpaced value across regions.

U.S. Equity		1Q 2024
<b>Large Cap Stock</b>		
S&P 500		10.6%
<b>Small &amp; Mid Cap Stock</b>		
S&P 400 Mid Cap		9.8%
S&P 600 Small Cap		2.4%
<b>All Cap Style Indices</b>		
S&P 1500 Value		7.6%
S&P 1500 Growth		12.7%
International Equity		1Q 2024
MSCI EAFE		5.9%
MSCI EAFE Value		4.7%
MSCI EAFE Growth		7.1%
MSCI Emerging Markets (EM)		2.4%
MSCI EM Value		1.4%
MSCI EM Growth		3.4%

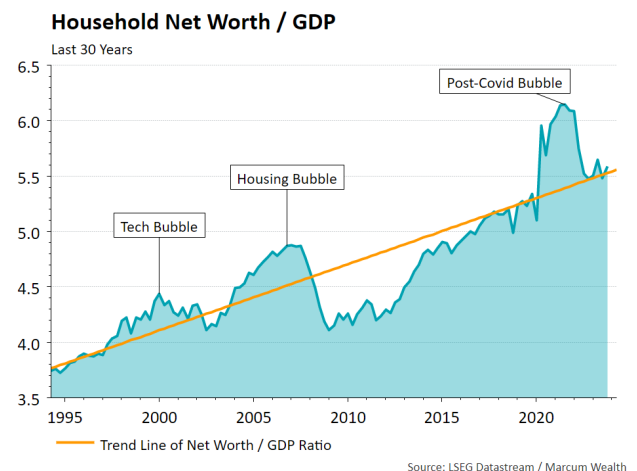
Earnings expectations climbed in the first quarter with three of the largest sectors expecting earnings growth of over 20%. This is evidence that it is not just higher valuations driving markets. Earnings, the key metric of business performance, are doing well as analysts continue moving estimates higher.



The multiples in the technology sector are back near the highs of the last decade. This has led large-cap companies to command a premium relative to both small and mid-caps. With more debt and less profitability, the discount for small / mid-caps may be deserved. Catalysts for a revaluation could be interest rates stabilizing or a profit acceleration.



In any given year, the average peak to trough decline in equity prices is 14%. The equity market has had three multi-year drawdowns in the last 30 years. Each instance began when household net worth compared to GDP was above the trendline by at least 10%. Today, we see this ratio near the trend line.



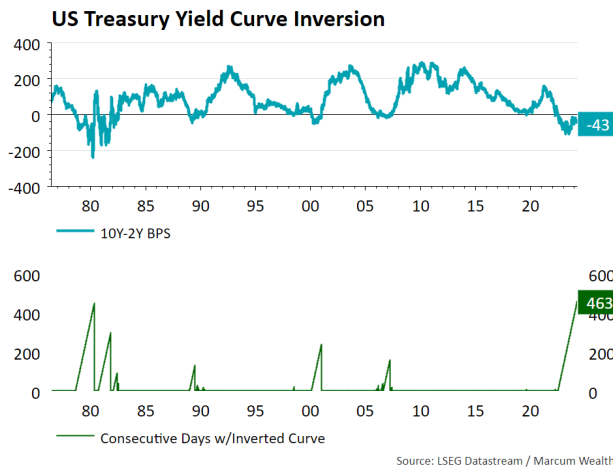
The Marcum Wealth Asset Allocation Frameworks are equal-weight equities relative to the strategic long-term targets.

## Fixed Income

Yields rose during the quarter, detracting from returns for the bond indices. The 10-year Treasury began the quarter at 3.87% and ended March at 4.21%.

Fixed Income	1Q 2024
Bloomberg U.S. Aggregate Bond	-0.8%
Bloomberg Corporate Inv. Grade	-0.4%
Bloomberg High Yield Bond	1.7%
Bloomberg Global ex. U.S. Treas.	-4.2%
Bloomberg Municipal Bond	-0.4%
Bloomberg TIPS	-0.1%

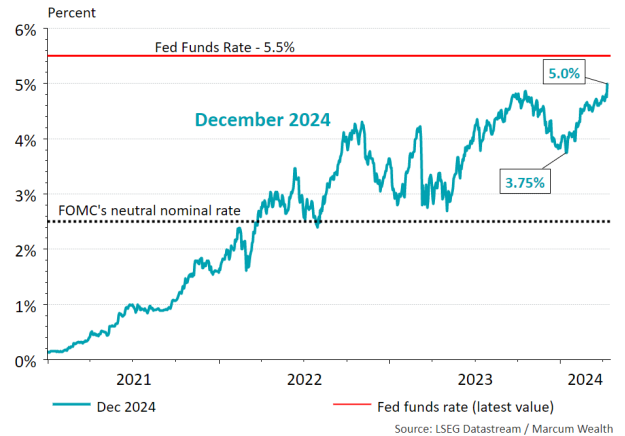
The 10-year yield has been below the 2-year yield for Treasuries for 463 straight days. This inversion lasted longer than the one from 1979 to 1980 when the curve was inverted for 449 consecutive days.



Lower interest rates driven by the Federal Reserve have historically been the catalyst for the yield curve to get back to a more normal shape. This usually occurs during an interest rate-cutting cycle, resulting in short-duration maturity bonds yielding less than long-term bonds.

The market came into the year expecting seven interest rate cuts in 2024. This would have moved the current Fed Funds Rate from 5.5% to 3.75%. With the higher inflation data in the first three months of the year, the market now expects just two interest rate cuts to 5.0%.

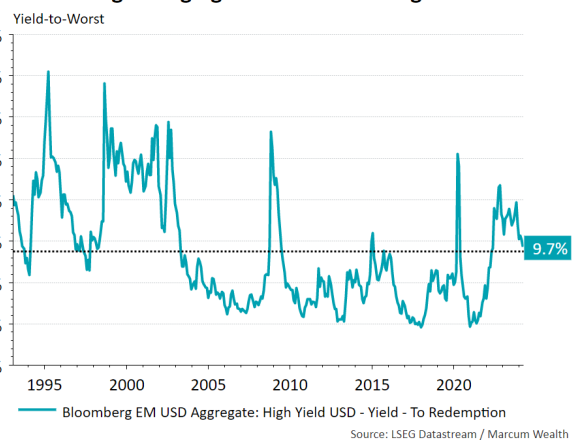
## Fed Funds Futures



High yield corporate bonds in the US performed well in the last few years. The compensation over Treasuries for these bonds is now below the long-term average. In contrast, emerging markets high-yield bonds look relatively attractive.

Yields sit just under double digits while investor sentiment generally soured on looking for yield abroad. This could be an attractive valuation opportunity in the quarters ahead.

## Bloomberg Emerging Markets Index - High Yield



The Marcum Wealth Asset Allocation Frameworks hold fixed income at equal weight to the strategic targets.

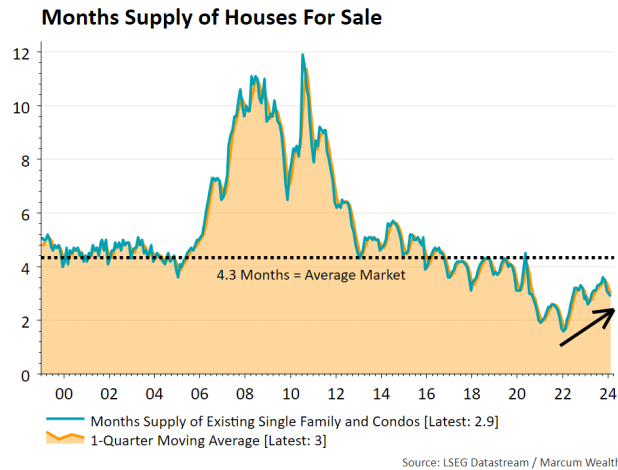
## Real Estate

REITs bounced with the fall in interest rates during the last quarter.

Real Estate	1Q 2024
Wilshire U.S. REIT	0.0%
Wilshire Int'l REIT	-1.4%

Housing markets have less demand at 7% mortgage rates as payments remain near the highest ever as a percent of income. The problem is that there is a lack of supply. Those households with locked in mortgage rates of 3% will not give them up.

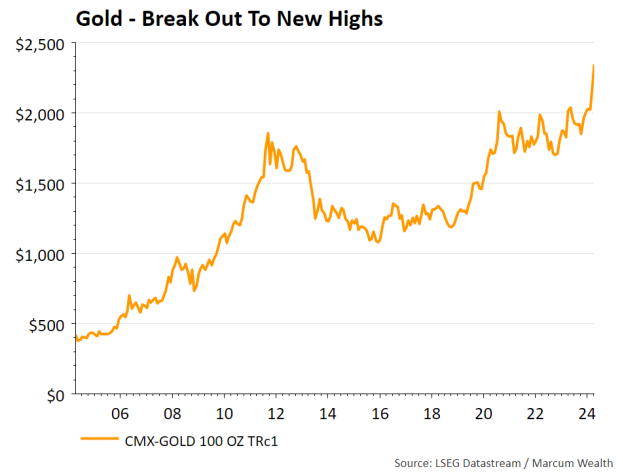
The supply picture improved from the lowest levels in early 2022, but still below average. This leaves homebuyers in a tough position. Delinquencies are at the lowest level in 45 years of data as well, so a decline in prices driven by forced sellers is unlikely.



The Marcum Wealth Asset Allocation Framework maintains equal weight exposure to REITs.

## Summary

With a variety of economic scenarios in the future, depending on what landing the US economy takes, investors are looking for alternative assets. The shiny yellow metal broke out to new all-time highs this past quarter. Gold nearly hit \$1,900 per ounce in 2011 and proceeded to go down and sideways over the next 9 years. Gold tends to do well with economic uncertainty. If unexpected inflation or deflation comes about, investors may continue to flock to gold as another portfolio option.



## Marcum Wealth Asset Allocation Frameworks

	Income	Conservative	Balanced	Moderate	Growth
Asset Class	Strategic	Strategic	Strategic	Strategic	Strategic
<b>Equity</b>	<b>20%</b>	<b>35%</b>	<b>50%</b>	<b>65%</b>	<b>80%</b>
U.S. Equity	12%	21%	30%	39%	48%
International Equity	6%	11%	15%	20%	24%
Emerging Markets Equity	2%	4%	5%	7%	8%
<b>Fixed Income</b>	<b>77%</b>	<b>62%</b>	<b>47%</b>	<b>32%</b>	<b>17%</b>
US Fixed Income	69%	56%	42%	29%	15%
Global Bonds	8%	6%	5%	3%	2%
<b>Real Estate / REITs</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>

The risk designations are relative only to the five Strategic Allocation targets and do not represent comparisons with any other investment or risk of the overall strategies.

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