LaFleur & Godfrey
PRIVATE WEALTH MANAGEMENT

Summer 2024 Quarterly Commentary

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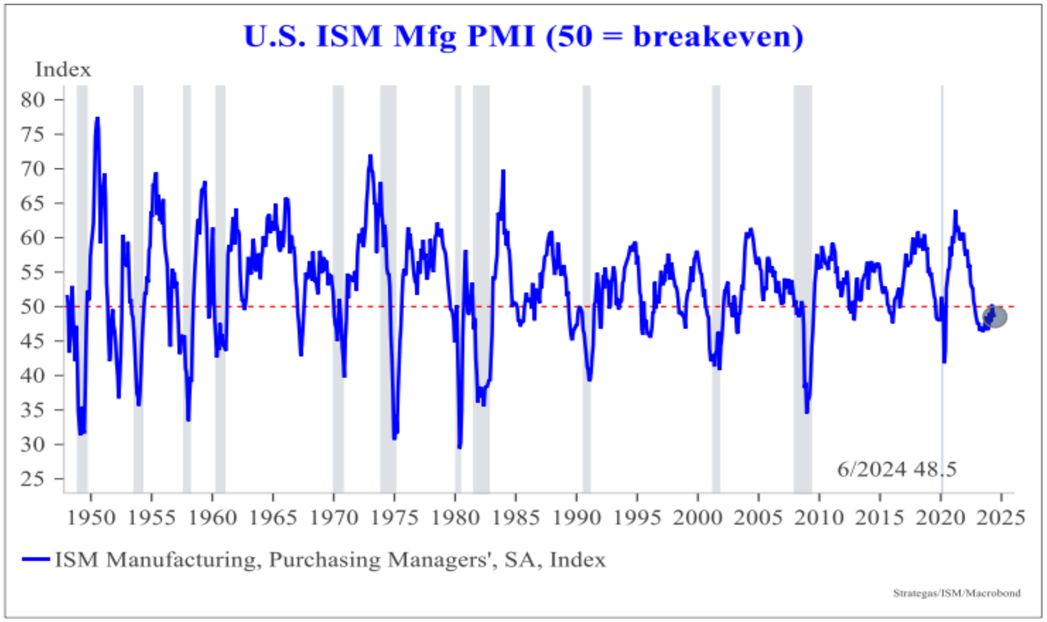
The Glass Half-Empty Economy

Economic Perspective:

In Michigan, summer is a time to get out of the house and enjoy the beautiful, warm weather. Trips to the beach and even vacations abroad are plentiful. Consumers are happy and therefore likely to spend quite a bit of their discretionary income. With brighter days ahead, one would expect the economic outlook to be optimistic. Unfortunately, we have recently seen several important economic data points rolling over – suggesting caution may be warranted. Several blue chip consumer brands reported lackluster Q1 earnings – especially Starbucks, Kohl's, McDonald's and Nike. Their respective management teams threw water on bullish economic forecasts with very conservative second half outlooks. This negatively compares to the improving, stronger-than-expected economic growth experienced last year. So, what gives?

Our investment team believes the lagged effect of higher rates is beginning to impact both consumers and businesses. In the first quarter, our economy grew at a below-trend 1.4% rate. The Atlanta Fed GDP Now model currently predicts second quarter economic growth at 1.5%. This is a sharp decline from the same model that predicted over 4% growth just six weeks ago! We see unemployment continuing to slowly grind higher. While not worrisome yet, payroll gains have softened for the past several months. This is likely to remain a headwind for consumer spending. Businesses (both services & manufacturing) are now in contraction territory (below 50) as measured by the ISM (Institute for Supply Management) indices. Please keep in mind that our economy is over 80 percent services-driven.

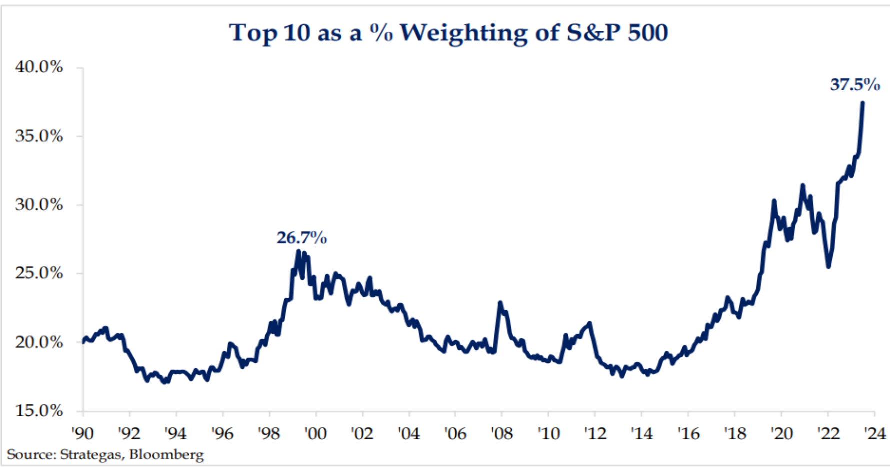


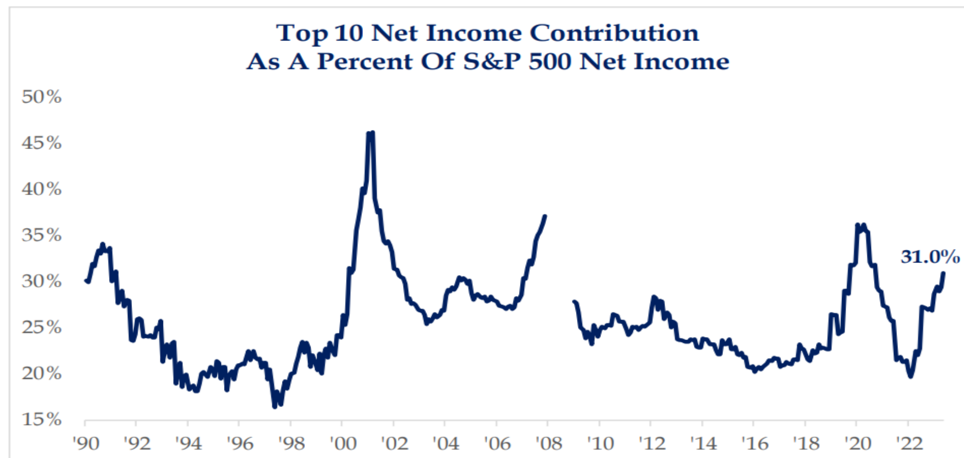
We will keep a careful eye to see if these soft economic data points become more problematic. The jury is still out.

Market Perspective:

After a very strong first quarter that produced double digit returns (S&P 500 Index), the second quarter experienced low to mid single digit returns for the broader market. The best returns over the last three months came from the technology, communication services and utility sectors – offset by weakness in the energy, industrials and materials sectors.

Interestingly, the stock market remains very narrow with respect to leadership. The top ten companies in the S&P 500 Index represent a whopping 37% of the total market capitalization of the index! FYI, the previous high was 26% during the Dot Com Bubble twenty five years ago. However, when looking deeper into the numbers, it may be well-deserved. Those same ten companies represent over 31% of total net income / profits of the index. Any way you slice it, high-quality growth names are likely here to stay. With that said, the investment team continues to see many other investment opportunities outside of the Top 10. In the coming months, we will focus our efforts on expanding the names in our equity portfolios to take advantage of the broad opportunity set.





Looking Ahead:

With the currently softer economic data raising eyebrows, it is likely that the Federal Open Market Committee will cut interest rates at the September meeting. This would follow the European Central Bank's lead – which cut interest rates by a quarter-point at its June 6th meeting. If inflation continues to rollover as Fed Chair Powell expects, the probability of our first rate cut since the pandemic becomes a near certainty. To many, this has been a long time coming. As a reminder, at the beginning of the year, expectations were for six rate cuts in 2024! Jerome Powell has remained steadfast in his commitment to not repeat the same mistakes of the past (the 1970s) - which experienced three spikes in inflation with prices and interest rates elevated for almost a decade. We view his slow-to-cut monetary stance as very prudent. Enjoy the summer!!