MONTAG

Viewpoints

THIRD QUARTER 2024

"Fall is coming, Snickers. We must pumpkin spice everything."

MARKET OBSERVATIONS — *Chris Guinther, Senior Investment Strategist*

Through 9/30/24, returns for the various indices are as follows:

	Q3 2024		
S&P 500	**5.89%**	**IWM**	**9.25%**
DJIA	**8.70%**	**AGG**	**5.20%**
NASDAQ	**2.76%**		

U.S. economic momentum has remained strong through 9/30/24, supported by resilient consumer spending. There are few excesses in the cyclical sectors of the economy, the risk of some endogenous shock causing a recession seems low and our forecasts are that even moderate consumer spending should support trend-like growth into 2025. That said, with the U.S. election just over a month away, monetary policy at a critical turning point and geopolitical tensions still elevated, external risks to the current expansion remain. Investors need to account for these risks in their asset allocation.

After a bumpy start to the year, recent data have given the Federal Reserve greater confidence that inflation is on a steady path lower. While price gains in certain categories like shelter and auto insurance remain elevated, more broad real-time pricing data continue to point to easing price pressures ahead. We're convinced that the broader disinflationary tailwinds, such as easing wage pressures and fuller supply chains, suggest that inflation is on a sustainable path back to 2% like was the case in the 2010's.

With lower expected inflation, fewer Fed rate cuts are expected: During the June FOMC meeting, the U.S. Federal Reserve bumped up its inflation forecast and reduced its outlook for 2024 to one cut from three. Historically, asset prices rally during the period between the last hike and the first cut, then tend to follow a more uncertain path for stocks after the Fed cuts began. But so far this time, stocks and bonds have posted positive returns since the last Fed hike, with stock performance at the upper end of its historical range. This may be due to the Fed's new communication strategy whereby they 'advertise' moves well before they make them. While we study history and use it as a gauge to predict future market changes, the past 4 years have been anything but predictable. For this reason, we've learned to be careful with our investment confidence and ensure clients are well diversified.

Earnings: Investors continued their optimism for 2024 earnings, increasing expectations consistently through the third quarter. After contracting modestly in 2023, investors expect a double-digit rebound for corporate earnings growth in 2024 and beyond. Falling just a little from record-high levels, profit margins have stabilized. We expect margins to remain elevated, but the ability of companies to maintain pricing power will be key in 2025. We're in the camp that the economy, now driven significantly by technology and therefore being far less cyclical than in past decades, can probably sustain margins, cash flow and profits with less volatility going forward....and if so, valuations may remain at high levels relative to history. With that thesis, we still think it will pay to own equities

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here and into 2025, with at least average allocations relative to personal objectives and targets. Additionally, and positively, the resilient economic activity and earnings growth that is north of 10% now has extended to a broader cohort of stocks in Q3. The earnings growth, outside of the most dominant mega-cap companies that have been leading the U.S. stock market for several years, inflected positively in the quarter...which adds to our bullish stance.

We are into the home stretch of the U.S. election cycle with very competitive races for president and control of Congress. Fortunately, the democratic system of government in the U.S. which features checks and balances across the executive, legislative and judicial branches, makes it hard for any individual or political party to enact sweeping change. As a result, and over many decades, the impact of politics on U.S. markets has been limited. Fortunately for investors, markets have trended higher no matter which political party has held office. Diversified, 60/40 portfolios have delivered positive returns in most presidential-election years—something we expect is on track again in 2024.

Equities are not cheap. Corporate fundamentals are strong but that is well understood and generally 'priced-in' already....but risks of a recession appear below average so taking everything into account, we continue to recommend solid allocations to U.S. equities. Oh, and AI continues to stay on track as one of the most exciting and likely rewarding themes to be invested in....with no new indications in Q3 that growth there will not continue into 2025 and beyond. M

"…..over many decades, the impact of politics on U.S. markets has been limited… "

Chris Guinther is Senior Investment Strategist & Portfolio Manager

The Era of Big Government, By Ned Montag

In his 1996 State of the Union Address, President Bill Clinton declared that "the era of big government is over." This drew loud applause. Clinton reached this policy shift after the Democrats suffered a massive mid-term election loss in 1994, giving control of both houses of Congress to fiscally conservative Republicans. President Clinton made good on his words in his second term, maintaining spending that was more in line with tax receipts. The result? Federal spending as a percentage of economic activity (GDP) fell during all four years of his second term, and the federal government sustained budget surpluses from 1998 through 2000, the first surpluses in almost 30 years. The economy was humming.

Unfortunately, the budget discipline did not last. Under the weight of the Technology Bubble collapse in 2000, 9/11-related wars in Iraq and Afghanistan, a near collapse of the global financial system in 2008, and a worldwide pandemic that began in 2020, governments worldwide eagerly increased spending, without bothering to raise taxes to pay for it. Consequently, the federal government has run deficits every year in the new millennium, and federal debt has ballooned from $5.7 trillion when Clinton left office to a staggering $33 trillion at the end of 2023, an increase of 480%! The last two presidencies have been particularly undisciplined fiscally, although both Trump and Biden can legitimately blame outlays in response to COVID for much of the massive deficits incurred in recent years.

Generally speaking, governments can usually accumulate debt without serious consequences if the rate of debt accumulation is equal to or less than the sustainable rate of growth in the economy, and therefore the sustainable rate of growth of tax receipts. However, this equilibrium has not been met over the past 23 years. Since 2000, federal spending has grown at an average annual rate of 5.5%, but tax receipts have not kept up, growing only 3.5% per annum. With interest rates on Treasury debt

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DID YOU KNOW?

Pumpkin Spice has become a staple in fall foods & beverages. Which of the following spices are combined to make the blend?

A. Coriander

B. Cinnamon

C. Nutmeg

D. Cloves

E. Cardamon

F. Ginger

G. Allspice

(Answer on Page 4)

"Well, either you can deal with it, or it will deal with you... "

Ned Montag is CEO

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Era of Big Government *continued from page 2*

historically low for much of this period, there was little consequence for the lack of budget balance. However, since 2022, interest rates have been rising, and the cost of interest on the federal debt has risen from $535 billion in 2022 to $711 billion in 2023. It is projected to hit $870 billion this year. Political leaders are beginning to recognize that the interest cost of federal debt is becoming a real hindrance to funding other spending priorities. The debt bill appears to be coming due at last.

But the reckless level of deficit spending does not appear to worry the stock market, which continues to hit new highs. To understand why, we turn to a rather ingenious formula first conceived by economist Jerome Levy in 1909 and then refined by economist Michal Kalecki three decades later. The Kalecki Profit Equation was developed to show how the business sector's total profits are affected by the changing behaviors of businesses, governments, households and offshore trade. Without getting deep into the weeds, according to the Kalecki equation, government budget deficits, along with business investment and dividends paid to shareholders all act to increase business profits. Conversely, profits are reduced by behaviors such as saving money, and the purchase of foreign-sourced goods and services. It is through changes in these factors that aggregate business profits grow or shrink from year to year. While the logic of this equation is not intuitive to most observers, it is quite valid and an excellent way to monitor the broad trends that affect profitability.

According to the U.S. Bureau of Economic Analysis, since the year 2000, total U.S. corporate profits after tax have grown at an average annual rate of 8.4%. This number is interesting since it is close to the growth rate of federal debt of over the past 23 years, 7.9%.

It is also interesting that the Bureau of Economic Analysis estimates last year's aggregate profits at $3.1 trillion. In comparison, the budget deficit last year was a whopping $1.7 trillion, equal to 55% of total business profits.

Remember that as recently as the last Clinton term, federal government budget management created a net drag on corporate profits! We are absolutely NOT saying that the federal budget deficit increased business profits by $1.7 trillion last year, since some of that deficit spending undoubtedly went into "profit reducing behaviors" like saving or spending on foreign goods and services (Asian cars, trips to Europe, etc.). But we are quite confident that deficit spending has been inflating business profits, and probably stock prices, very significantly over the past several years.

We are now near the start of a new White House administration that has the opportunity to either restore more conservative budget practices or merely decide to let our outsized deficits ride. Greater fiscal conservation in our government would help manage our debt service issues but likely hurt business profits in the process. Deciding to "party on" will keep the economy humming for now, but greatly increase the likelihood of a fiscal crisis down the road. A wise and responsible leader will help us face these important matters and so let us seek the emergence of thoughtful leadership on this and many other topics. As I conclude, I am reminded of my father, who, when faced with such matters often would say: "Well, either you can deal with it, or it will deal with you."

Sources: https://fiscaldata.treasury.gov/americas-finance-guide/

http://www.bondeconomics.com/2018/06/primer-kalecki-profit-equation-part-i.html

Corporate Transparency Act

Clients with LLCs, partnerships, or any entity that has filed with the Secretary of State may be required to file a form with the Financial Crimes Enforcement Network of the US Department of the Treasury by the end of 2024.

If you have unique circumstances or additional questions it is advisable to check with the attorney who helped create the reporting entity.

WHO HAS TO REPORT

- Any entity that has filed with the Secretary of State
- There are 23 exemptions, however they are very limited. Many entities are required to file.

WHEN IS REPORTING DUE

- If the entity was formed before 1/1/24, you must report by 1/1/25.
- If the entity was formed after 1/1/24 reporting is due within 90 days of formation.
- If any information about the entity changes an updated report is due within 30 days of the claim.

ADDITIONAL INFORMATION

- There is no fee to fill out the initial report or for any updates to your information.
- This is not a public database. It is only for federal government usage.
- The report will collect legal name, addresses and dates of birth for beneficial owners.
- Copy of a driver's license or passport will be needed to upload in the report.

Website for reporting: https://fincen.gov/boi

Source: fincen.gov/boi

DID YOU KNOW? *(from page 3)*

ANSWER:

Pumpkin Spice is a blend consisting of Cinnamon, Cloves, Ginger and Nutmeg.

While many people are used to Pumpkin Spice in their foods & beverages, in 2024 companies are also marketing Pumpkin Spice:

- Dog Treats
- Deodorant
- Toothpicks
- Laundry Detergent
- And much, much more…

Answers are: B, C, D & F

Source: Facts.net

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