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The major equity markets reached record highs during the second quarter of 2024. The Dow Jones Industrial Average finished at mid-year with gain of 3.8%, resting at 39,118.86. The S&P 500 Index increased 14.5%, ending the quarter at 5,460.48. Over the past six months, the NASDAQ advanced 18.1%, closing at 17,732.60. The Russell 2000 small cap index, continued to struggle, reaching the mid-year point with an increase of only 1.0%. The index closed at 2,047.69.

Higher interest rates impact smaller companies, as they are borrowing money directly from lenders whose fees reflect market rates. Large corporations can often self finance, taking money from their own balance sheets or accessing lines of credit at much lower cost. Rates will not remain high forever and small cap stocks have historically rebounded. Diversification is protection against the unknown and small corporations in the United States remain the incubators of growth. Amazon, Apple, Dell, Intel and Meta had beginnings with a brilliant idea and only a handful of employees. The great physicist Albert Einstein said it best, "Imagination is more important than knowledge." We continue to use both small growth and value funds to gain access to the capital markets.

Inflation remains a serious issue. Everyone is a consumer and the cost of everything, especially groceries, are skyrocketing. The Nobel Laureate economist Milton Friedman commented, "Inflation is above all a monetary phenomenon." Combined with the \$3 trillion in capital injected into the economy by the Federal Reserve in 2020 and three large spending bills passed in Washington, higher prices are the result. As the national debt reaches \$35 trillion, lenders will demand more money due to the inflation risk posed to their capital, further pressuring rates to rise. Long term rates are controlled by the market, not the Federal Reserve.

The expectations for interest rate cuts by the Fed are delayed. Housing starts remain impacted by higher rates. Homeowners with 30-year mortgages at 3% are unwilling to purchase a larger home with a mortgage at 7%. In commercial real estate an interesting situation is developing. As commercial loans are maturing and needing to be refinanced, many tenants and owners are encountering much higher costs. Further, post Covid occupancy, especially in cities, is much less than it was in 2019. Many employees now work from home and this severely hampers the ability for companies to pay rent on leases they no longer need.

Overseas, the war between Russia and Ukraine continues. In the middle East, Israel and Hamas continue to fight in the southern end of the Gaza Strip, with Israel fearing a second front against Hezbollah.

Kind regards,

David R. Breuhan

The reference to any stock, bond or mutual fund does not amount to a recommendation to buy or sell. Source for data is *The Wall Street Journal*.

