



Andrew Krosnowski



Krosnowski & Scott LLC

Investment & Retirement Planning Specialists



Melissa Scott Paine

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“THE HEAT IS ON”



From January to July, the stock market, led by the technology stock sector, had a really nice rally. Over the past few weeks, there has been a sell-off in technology stocks and a sector rotation rally in mid and small-cap companies as value-oriented financial, utility, International, and real estate stocks. After a substantial run-up in technology stock prices, it appears that the sector may be taking a breather in the near term. Many of the “Magnificent Seven” technology companies have committed to spending large amounts of capital to build out their artificial intelligence systems. Wall Street is uncertain both if and when the payoff from these investments will be realized. We believe that it makes good sense to have exposure to these companies since they are the most profitable in the world. But we also encourage clients to be diversified to protect them in the event that the AI hype does not meet expectations.

Recently released employment, manufacturing, and construction data from June indicate that the economy is growing more slowly. During the week of August 5th, the Fed Rate-Cut Odds were 100% for a quarter-point interest rate reduction and around 70% for a half-point rate reduction in September. For all of 2024, markets now see 69% odds of 1.25 percentage points in rate cuts, which would lower the Fed’s key rate to a range of 4% to 4.25%. **Silver Lining-** Typically when the FED lowers interest rates, the stock market rallies. This is because lower interest rates enable companies to reduce their borrowing costs when financing their businesses and it can increase their profits which tends to be good for the stock market. We are now in the third quarter of the year, this can be a slower more volatile time of the year historically in the financial markets. It would not surprise us if the stock market were to trade back and forth over the next few months.



Overall, the positive economic trends that we have been experiencing since the Fall of last year (a growing economy, healthy corporate earnings growth, and the pending economic boost from political campaign spending) continue to be intact. For this reason, we believe that the stock market is likely to move up and down and gradually higher between now and the end of the year.



In the July 1, 2024 edition of the *Bottom Line*, Economist Allen Sinai believes resilient US economic growth, strong consumer spending, and low unemployment can fuel the current bull market in stocks for the rest of this year and for much of 2025.

DR. ALLEN SINAI'S FORECAST THROUGH YEAR-END 2024

Dr. Sinai thinks the economy will continue to show vigor despite all the uncertainties.

Investors were betting on a “soft landing” in 2024—in which high interest rates slow the economy and cool down inflation.

Surprising good news: The US economy isn't about to land at all. Despite the highest short-term interest rates in two decades. One

reason the economy is in solid shape is vigorous consumer spending. Baby boomers are spending on service industries such as health care, air transportation, hotels, and leisure.



Another reason is the red-hot labor market. The unemployment rate has remained below 4% for the longest stretch since the 1960s. A surge in immigration has increased the labor force, jobs, and persons working, at a time when service industries desperately need workers to meet demand, and they are willing to pay them a higher minimum wage and increased compensation.

Finally, data shows robust capital spending by businesses on what I call “Big T”—technology that has led to a boom in worker productivity. The most obvious example is artificial intelligence systems that instantly synthesize information and automate tasks in many industries. But Big T is also high-speed video conferencing that allows employees to work seamlessly from anywhere, save money, move money, and spend.

What this means for investors: I think stocks can continue to rise as economic growth boosts corporate profits and helps companies overcome the drag of higher interest rates. A 3%-to-3.5% inflation rate may turn out to be a sweet spot for company earnings. High prices mean higher sales revenues for businesses, especially those that are getting more productivity out of workers, lowering their costs and boosting profit margins. While most of the stock market's 2023 gains



were concentrated in a few stocks dubbed the “Magnificent Seven.” I expect the rally to broaden to the rest of the market, which is still moderately priced.

I expect market volatility to increase as the economy and labor market weaken next year and when the Federal Reserve starts to initiate rate cuts. If the Fed can pull off a soft landing, the bull market could continue into 2026.

KEY ECONOMIC MEASURES



Here’s what I expect...

GDP: I am forecasting full-year GDP growth of 2.5% in 2024 and 1.5% in 2025. Consumer spending will rise 2.7% by the end of 2024 and could be solidly still rising by 2% to 2.5% in 2025.

Unemployment: The red-hot job market will start to soften this year with the unemployment rate rising to 4.3% by the end of 2024 and 4.7% by the end of 2025.

Inflation: As measured by the Consumer Price Index (including food and energy), I expect the inflation rate to hold steady and end the year at 3.2% in 2024, followed by a drop to 2.5% by the end of 2025.

OUTLOOK FOR STOCKS

I’m forecasting that the Dow Jones Industrial Average will rise to over 41,500 by year-end 2024, up 14% for the year. The S&P 500 could hit 5,600, an 18% gain. These advancements will be driven by a solid 10% rise in S&P 500 corporate profits for 2024 and 7% in 2025. From an historical perspective, stock valuations are moderately elevated with a forward price-to-earnings ratio (P/E) of about 20 versus the long-term average of 17—high but not out of line.

BEST STOCK SECTORS NOW...

HEALTH CARE.

More than four million Americans will turn 65 this year, and that surge will continue through 2027. Seniors are driving the need for everything from biopharmaceuticals to orthopedic hip and knee replacements.



CONSUMER DISCRETIONARY. Americans are spending most heavily on services such as restaurants, hotels, leisure, and travel.

TECHNOLOGY (BIG “T”). Signs of speculation in this sector abound. Investors must be mindful of valuations and stick with tech firms offering solid earnings and reasonable P/Es. But Big T is a big wave!

SECTORS TO AVOID NOW...

FINANCIALS. Many regional banks continue to have heavy exposure to underperforming commercial real estate.

HOUSING AND RELATED. High interest rates and tight bank lending standards continue to put pressure on the housing industry. I expect mortgage rates to rise near 8% by the end of 2024, which will put a damper on sales of residential homes.

The following is commentary from the Capital Group’s Mid-year Outlook: A resilient U.S. is counterbalancing weakness in Europe and China.



U.S. ECONOMY CONTINUES TO POWER GLOBAL GROWTH

Despite higher interest rates and elevated inflation, the International Monetary Fund is predicting the U.S. economy will expand this year at more than twice the rate of other major developed countries

to 2.7%, compared to 0.8% for Europe. Among emerging markets, India is a major beneficiary of these changing dynamics.

FED RATE PATH TO MIRROR INFLATION’S SLOW DESCENT – Elsewhere in the world, growth and inflation expectations are weaker than the U.S., and central banks are generally expected to cut interest rates more rapidly.

EARNINGS EXPECTED TO STRENGTHEN FURTHER IN 2024 AND BEYOND– Underlying conditions appear supportive of solid revenue growth and steady margins.

U.S. ELECTIONS: HOW THEY COULD IMPACT MARKETS – Republican sweep, or red wave, could benefit banks, health care providers, and oil and gas companies, primarily through deregulation, according to Capital Group’s Night Watch team, a group of economists, analysts, and portfolio managers who track such issues. A Democratic sweep, or blue wave, could provide a boost to renewable energy initiatives, industrial stimulus spending, and telecommunications projects through additional funding for nationwide broadband access.

ALL-TIME HIGHS CAN BE BULLISH FOR STOCK MARKETS – Stock markets have advanced more often than they’ve retreated.

AI OPPORTUNITY IS STACKING UP ACROSS TECH, ENERGY – Companies are jockeying for position at each layer: semiconductors, infrastructure, applications, and the AI models themselves. Because AI data centers require vast amounts of electricity, the build-out will drive demand for a range of energy sources, including nuclear.



MYTH: TECH COMPANIES DO NOT PAY DIVIDENDS – Tech companies accounted for 14.1% of total cash dividends paid by S&P 500 companies in 2023, making them the second largest contributor by sector in dollar terms. While dividend yields for many tech firms are modest, the dollar amounts are massive, and I expect continued strong earnings growth both this year and in 2025. For investors seeking current income, technology, aerospace, and energy companies have been introducing or creating dividends.



FED PAUSE OR PIVOT: BONDS OFFER OPTIONS TO DEAL WITH UNCERTAINTY – Preparing bond portfolios for a range of outcomes may be prudent this year, as high yields and a likely end to the Federal Reserve’s rate-hiking cycle are bringing investors back to fixed income. Treasury yields are likely to remain range-bound, given the robust economy and elevated deficit offset by the Fed’s bias to cut rates. Within rates, positioning for a steeper yield curve — a scenario where long-term Treasury yields increase more or fall less in relation to short-term yields — is a high conviction view of many members of the fixed income team. As the economy has chugged along and demand from investors has remained strong, the spread, or yield differential, between credit assets and U.S. Treasuries has narrowed significantly.

HEALTHY FUNDAMENTALS SUPPORT CORPORATE BONDS – History suggests strong return potential given current starting yields for investment-grade and high-yield bonds. Steady consumer spending and economic growth translate to solid income potential for corporate investment-grade (BBB/Baa and above) and high-yield bonds in 2024. Bonds now offer the highest income potential in 23 years, which might explain why spreads remain so narrow.

DELAYED RATE CUTS MAY NOT BE SO BAD FOR MUNICIPAL BOND INVESTORS – For those in moderate to high-income tax brackets, the muni market offers compelling after-tax yields. Bonds supported by revenue-generating projects are often more attractive.

HEALTH & NUTRITION

Historic financial data indicates that it is very beneficial for retirees who are receiving income distributions to have a balanced investment portfolio. As we age it is also very important for us to try to maintain our physical balance.

The following is commentary from the UCLA Health Sciences online forum called “Ask the Doctors” by Elizabeth Ko, M.D. and Eve Glazier, M.D.

WHAT FACTORS IMPACT YOUR BALANCE?

Your sense of balance is actually quite complex, and the inner ear, as well as strength and flexibility, each play an important role.

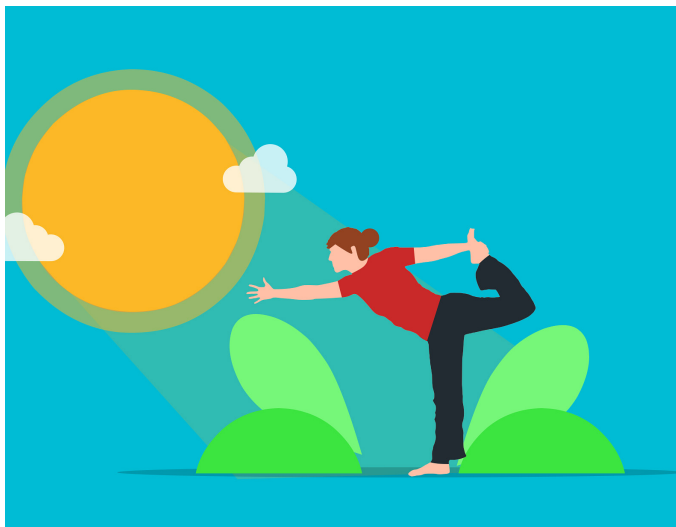
Balance begins with a nonstop stream of information gathered by several systems in the body. These are the eyes, which are part of the visual system, and which help you to orient yourself in space. The muscles, joints and tendons, which are part of the musculoskeletal system, contain special sensors that provide something known as proprioceptive input. Sometimes also referred to as kinesthesia, it’s the body’s ability to sense its own movement, actions and location. The inner ear contains something known as the vestibular system. About the size of a quarter, it’s an intricate structure made up of fluid-filled canals, sacs and cavities that are lined with fine hairs and



other specialized cells. It provides information about head position, spatial orientation and motion. All three of these systems are continually sending their findings to certain areas of the brain. This flood of data gets processed, and the result is the ability to stand, move and perform tasks, and remain balanced.

The other important components of balance are strength and flexibility. Both are required to keep the body upright and under control. Good balance relies on the muscles of the feet, legs, buttocks, abdominals and torso. And, yes, that's basically the entire body.

Resistance training and weightlifting will build strength and stamina, while practices such as yoga, tai chi, Pilates or targeted stretching exercises will help with flexibility. Simple things, such as standing on one foot for a period of time while watching TV or waiting in a line, always rising from a chair without an assist from your arms, practicing walking backward or walking heel-to-toe in a straight line all directly target balance.



We hope you and your family are enjoying the hot summer season and look forward to talking with you soon.

Sincerely,

Handwritten signatures of Andrew J. Krosnowski and Melissa Scott Paine.

Andrew J. Krosnowski, CWS®
Senior Financial Consultant
akrosnowski@1stallied.com

Melissa Scott Paine, CFP®
Financial Consultant
mscott@1stallied.com

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Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

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Andrew J. Krosnowski and Melissa Scott Paine
Krosnowski & Scott, LLC, Investment & Retirement Planning Specialists
123 Rowell Ct, Falls Church, VA 22046 | 1-888-901-8310 | 703-506-6886