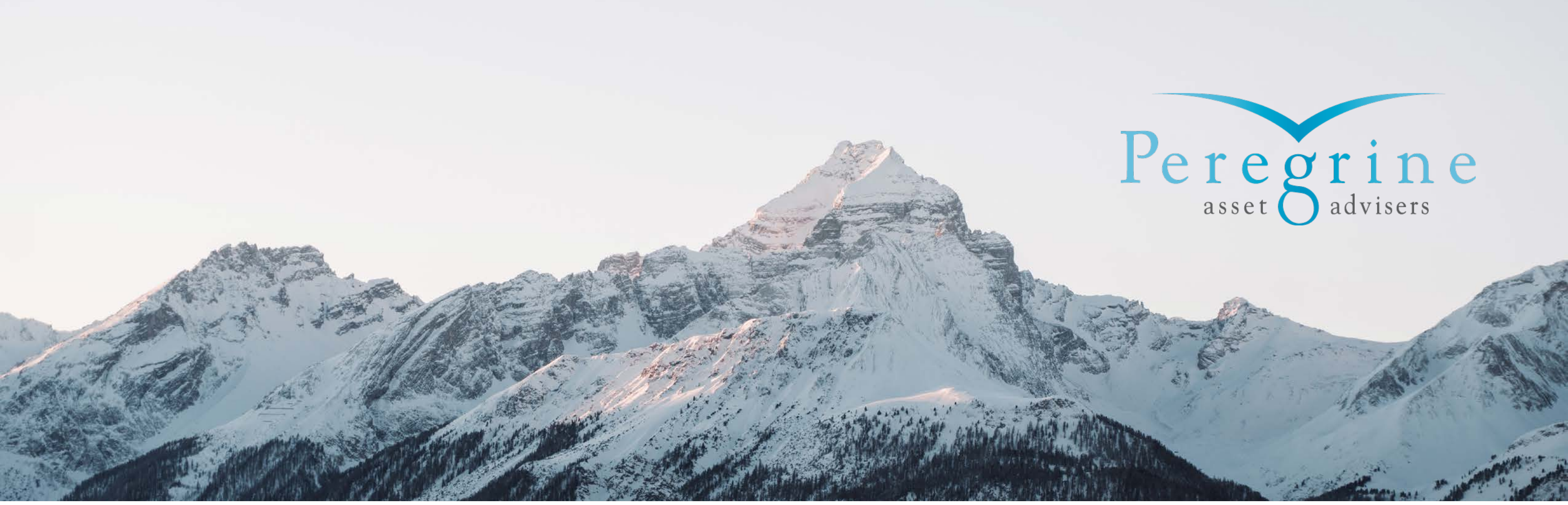

3RD QUARTER 2024 MARKET OVERVIEW

WARNING SIGNALS FOR STOCKS

It was a roller coaster quarter. In early July, it began in hearty fashion. The market advanced smartly in the first two weeks, led by a rotation into small cap companies. Then, it dropped nearly 10% over the ensuing three weeks; so much, that nearly all of the gain for the second quarter was wiped out. After that, the market rebounded and climbed throughout the rest of August. Then, the early days of September brought another 4% drop, before rebounding again. The rest of September remained generally favorable. By the end of the month, the market finally eclipsed its July high point. The S&P 500 ended September with a 2% gain for the month and notched a solid 5% advance, for the third quarter.

All of this volatility was due to fears of a pending recession and weakness in the labor market. Although the condition of the economy is currently debatable, the price action for equities signals a warning for the months ahead. The market is now ripe for selling pressure. This is a period where any excuse could be fabricated to explain an overdue correction. It doesn’t have to be a war or a national election.

The market has now advanced four quarters in a row, this most recent one coming amidst substantial volatility. This means that a preponderance of good news has now been factored in and there is increasing room for disappointment.

In September, the Fed finally announced the long awaited shift in monetary policy by cutting the overnight lending rate by 0.50%. Many felt it was overdue. Going forward, high hopes rest on the Fed effectively navigating policy with respect to inflation and the job market.

So, what could go wrong? Maybe nothing, except right now, stocks appear priced for perfection. We can’t help but ask, what would be the catalyst to drive stocks higher after gaining 20% for 2024?

Experience dictates that we should heed the warning from the summer pullbacks and prepare for further bouts of weakness in the fall months. Negative economic factors certainly exist. Enthusiasm for AI and weight loss drugs that earlier were supportive for the broad market, appear to be played out, for now. It is recognizable that stocks are resistant to making gains on good news and appear increasingly susceptible to sharp declines at the slightest perceived disappointment.

Investors ought to be content to maintain their gains in 2024 and to see what opportunities arise from the next pullback.

INDUSTRIALS

Our recent Market Overviews reveal our favorable bias towards the stocks of industrial and manufacturing companies. Back in 2009, when Barack Obama was first inducted, the term "shovel ready" was a political carrot term, coined to represent spending on infrastructure, in order to rescue a failing economy. Generally, investing in this theme produced poor results. Over time though, infrastructure spending continued to be a priority, and now, we may be on the precipice in which high investment returns can be realized.

Infrastructure companies are now taking center stage as attractive investments. Companies that build roads and bridges, update power generation and transmission, install temperature control and cooling, and provide water management solutions, often secure massive backlogs that eclipse single year sales. The stocks of these companies are typically valued on a forecasted profit margin for the established backlog. For example, a two year road project for $200 million may have an estimated 10% gross profit margin for the contractor. However, if the contractor can procure lower costs or pass along price increases, the profit margin can actually be higher than estimated. This means earnings estimates are underestimated by analysts. If these expanded margins are durable, the stocks in these industrial companies might be in for a nice ride.

As we pointed out in earlier quarters, many of these companies can also be prime beneficiaries of adopting AI and technology to gain further efficiencies.

PEREGRINE STRATEGY

The Fed will likely continue to reduce interest rates in the upcoming months. This means we have to bid adieu to 5% rate for cash balances. It might warrant positioning client accounts in longer term Treasuries in order to protect against a further decline in interest rates.

Turning to equities, we constantly seek niche companies where prospects are underestimated. Any stock that outperforms can be central to the return on an investment account. Nvidia has been one of the top performing stocks in the S&P 500 for 2024, for example. Plainly said, we look to find a stock, like Nvidia, to invest in.

It is noteworthy that many troubled and beleaguered companies, whose stocks are pejoratively called "zombie stocks", have been staging impressive rebounds. Maybe investors are more favorably disposed towards undervalued turnaround stories, than in the past. Starbucks, Nike, Bristol Meyers, and Wynn Resorts are examples of stocks that have made sharp recovery moves, lately. Fedex stock substantially recovered following a brutal earnings report. Most recently, Humana stock fell 35% after the large insurer reported troubles in their Medicare network. Maybe this is an overreaction and it might be a buying opportunity for that stock.

Overall, though, for the fourth quarter, our priority will be to protect our 2024 gains from a decline in the stock market.

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