**UBS Financial Services, Inc.**
Private Wealth Management
One Post Office Sq., Floor 35
Boston, MA 02109

**Sullivan Martin Partners**

William J. Sullivan
Managing Director-Wealth Management
Private Wealth Advisor

Sarah M. Sullivan
Senior Vice President-Wealth Management
Private Wealth Advisor

Trammel A. Martin
Managing Director-Wealth Management
Private Wealth Advisor

www.ubs.com

May 10, 2024

**"Fair is Foul and Foul is Fair" – The Three Witches**

We're not quoting a confused meteorologist. Rather, we're recalling the ominous warning to the man who would be king in Shakespeare's Macbeth. The bard started his play using one of his favorite literary devices, alliteration. Sister Mary Dioniysis would be very pleased to see that a long-ago student of hers remembered one of the many literary devices that she repeatedly schooled us on. Fond memories of the saintly lady.

The environment that we find ourselves in today has dissolved into a multitude of contrary opinions, oftentimes expressed violently or condescendingly. Great places of learning have tolerated divisive forces on their campuses. Political leadership would appear to seek a one party system that strives to eliminate competitive, alternative candidates by utilizing the power of the public agencies they control (e.g. the DOJ). But despite all the "foul" there is a solid underlying reserve of "fair" existent, which strongly desires a change in the political winds. We'll see!

Regardless, as investors, we must always manage through choppy, sometimes paradoxical, investment waters. One must appreciate that often a "foul" current environment contains the wellspring of future opportunity, just as a "fair" may deserve closer scrutiny, to discern appropriate valuations. Not a new concept, but there are many conditions today which can cloud our vision.

Political demonstrations on campuses, often with paid non-student agitators, can threaten college life and graduation ceremonies, some of which have been cancelled. It's not a healthy development for our country or our citizens. The ill will between many groups has created a hostile environment. It's sad when so many of those (mostly young) involved in these protests don't often seem to have their facts straight. There are often biases or prejudices that may not

always be supportable by logic or fact. One of our dear friends said it is generally a small percentage of fellow citizens that get involved in these social demonstrations, "so just turn your TV off." Wow, that's a solution?

Paul Donovan, our erudite, well regarded UBS International Economist, added this cheery little note to a recent communication, "Polarization, prejudicial politics and economic nationalization all seem set to increase."

Characteristically, financial markets have found their way to deal with the strife that permeates the media these days, largely by focusing on what really drives markets: the economy, interest rates, expected earnings and valuation levels. Of course, earnings are a byproduct of strong management, entrepreneurial spirit and talent. Many analysts have predicted recessions for the last two years, and thus far they have lost their bet.

We have always had great respect for the capable people who run many of our leading companies. They surely don't like to see the divisiveness affecting our political system. Nor do they support blatant acts of racism in our society or support those who seek to denigrate our democratic nation for personal gain. There have been too many examples of people or organizations using their power for personal benefit, while hurting others. There are many things we need to do, dear clients and friends. We need to support those who are willing and able to utilize their leadership skills to make a difference in the quest to bring mutual respect and integrity back to governance for the benefit of all.

While there are many distractions, markets have been able to see beyond them. As we write, companies have generally reported earnings that have exceeded expectations, and according to David Lefkowitz, CIO and Head of US equities, forward looking statements have had a much a more optimistic tone of late.

The end of 1Q was a pleasant surprise to many investors, particularly those who have had concerns about valuations levels at year end.

| | 1Q 2024 (%) | YTD 2024 (%) |
|---|---|---|
| Dow Jones Industrials | 6.14 | 6.14 |
| Standard & Poor's 500 | 10.56 | 10.56 |
| NASDAQ Composite | 9.31 | 9.31 |
| Russell 2000 | 5.18 | 5.18 |
| Russell MidCap | 8.60 | 8.60 |
| Russell 1000 Growth | 11.41 | 11.41 |
| Russell 1000 Value | 8.99 | 8.99 |
| Barclays Capital Govt./Corp. Bond | -0.72 | -0.72 |

Source:Morningstar

When you take a look at the above chart, note the S&P 500 produced a return of 10.56%, not significantly different from the fourth quarter number (11.69%). The broader Russell 2000 index which contains large, medium and smaller capitalization issues, advanced more modestly, as risk takers focused more on large cap names.

Inflation levels have generally fallen since the latter part of 2023. The Fed had been expected to cut rates three times this year which boosted market enthusiasm, but recently it has gone to a slow simmer as Fed Chair Powell made clear, over the past week, that he does not believe the Fed will be reducing rates as much as market expectations desired. This is mostly because inflation seems to be somewhat sticky at present levels (around 4%). Remember, a lot of the inflation comes from the service sector (health care, leisure, travel, etc).

The hoped for cut in rates helped fuel the recent rally in growth stocks. The Russell 1000 Growth Index produced 11.41% as compared to Russell 1000 Value Index which lagged growth stocks by returning 8.99%.

The Russell 2000's 5.18% paled compared to the 14.03% return in 4Q, due to fears of potentially slower growth and continued restrictive monetary policies, which tend to raise liquidity issues for smaller companies, making it more difficult to raise capital. But small companies can put on great returns under the right circumstances. Treasury 10 year notes got up close to the 5% yield level in the first quarter which also drew capital away from smaller companies.

Growth companies have continued to outperform value companies in the first quarter. Capital will likely flow to the latter sector when confidence improves in the economic outlook and frankly, when and if there is more clarity regarding future leadership, which is blurred enough to see if the three witches in Macbeth would consider lending us a crystal ball.

The US balance sheet is bulging at the seams with record debt as is the Fed's own debt heavy position, following years of low interest rates and quantitative easing operations (i.e. large purchases of government and corporate bond to inject liquidity into the financial system). That was all fine, at the time, but currently the Fed's bonds are worth a lot less, given that rates are now much higher, thanks to the Fed's sharp increase in rates (up 5% in 2022). We've seen many articles in the financial press about their balance sheet. We believe the capital position (according to a BankRate article late last fall) is somewhere around $42 billion compared to the roughly $1.6 trillion dollar mark-to-market loss on the bonds purchased a few years back. They can't really sell them in the market place aggressively, as the sales could significantly impact near term interest rates levels and generate more substantial losses. Of course, we are different than the Fed. We don't have access to "unlimited" dollars or a printing press, unless you are looking for a free trip to the Gray Bar Inn, compliments of Uncle Sam. Good luck!

Despite all the recent craziness on college campuses and, as some would say, the "trumped up" (sorry) charges against a certain candidate for president, consumers are still in solid financial shape and corporate CEOs are navigating through the miasma successfully and profitably.

We spoke with one of our favorite strategists (David Lefkowitz) just today. He has increased his earnings estimates for the S&P500. Specifically, he has raised earnings for 2024 and 2025 to $245 and $260 for this year and next year, respectively. A year or so ago many, concerned about a recession, lowered their earnings estimates with assistance from many cautious CEOs. Those estimates have since improved. The economy is broadening out and earnings prospects are going higher.

David Lefkowitz sees the S&P 500 trading at 5200 or slightly above which is not significantly different than current levels.

Inflation levels are under 4% (certainly better than the 9% a year ago). We believe a trading range could develop for the S&P 500 at 19x -22x earnings. If so, you could see (using $260 for 2025) a range of 4900 to 5702 over the next year, as a rough guess.

The ISM manufacturing number has recently improved. It is approaching 50 (49.2% in April) in the index. It has been stuck down around 46 – 47 for many months. If the ISM data does come in at 50, it would be a level that is generally viewed as pulling us out of a recessionary trough. It's not a given yet, but it is improving. And as mentioned earlier, corporate managements are seeing business levels turning higher. There are noted exceptions, of course.

The automobile industry is going through a tough sales environment where total unit sales are expected to be below 16 million units. A couple of years back that number approached 17 ½ to 18 million units. Recall that part of the slowdown started back a couple of years ago during the Covid period, when supply shortages made it very difficult to produce and deliver fully completed automobiles.

Many of our friends involved in the leisure and restaurant industry are pointing to volatile cycles that are difficult to manage and staff for. We've had more than one or two say something like " Boy we were packed last Friday with a line out the door, but this Friday night was dead." Things aren't 100% "normal," but business is improving. We dare say that's why the stock market has done well and has been holding its own.

What should you do here? We believe, as always, that you need to have those anchors to windward. Specifically, consider federally tax free municipal bonds which can offer a current yield around 4.5% tax free (federally). That doesn't sound exciting but for anyone in the highest federal tax bracket, the taxable equivalent yield is quite attractive and municipals might make sense.

If you earn over $578,126 (2024 IRS table) as a single taxpayer you're in the 37% tax bracket plus the 3.8% Obama surtax on top. Just consider you're in the 37% bracket and divide by the reciprocal (63%) to determine your taxable equivalent yield. Let's use the 4.5% we spoke about and divide by .63 which equals 7.14% (the taxable equivalent yield). What does that mean? If I owned a taxable corporate bond, this is the yield I would need to have to earn the same after tax yield. You would need 7.14% total yield which after paying federal tax is 4.5%. You can obtain high quality (i.e. AA or AAA rated munis) bonds that would be difficult to match on an after tax basis.

There are also taxable savings accounts that are fully liquid that pay around 4 1/2 %. US Treasury securities can offer security and comparable yields depending on maturity but they are also taxable. There are many other securities such as preferred stocks which offer competitive yields, but the details are very important to understand. If you have any questions about this, please let us know.

Having proper balance in your portfolio can prove to be a very important consideration especially in a difficult economic environment.

Among other, things, your portfolio should contain quality fixed income investments (of varying maturities), high quality equity securities, particularly that pay dividends, and quality growth companies, which may not pay dividends currently due to their objectives to grow. Your portfolio may contain other forms of fixed income alternatives, such as private debt, whole loans, etc. Alternative Investments and private placements or equity partnerships may also appeal depending on your financial situation and risk tolerances. We'll stop here as you're probably ready for a nap. But there are many things to consider for your portfolios.

Please do ask if we may help clarify any of these considerations as to their appropriateness for you or your family.

It's likely to be an interesting year. We hope the summer brings joy and peace to you and your loved ones!

We look forward to speaking soon – Cheers!

Private Wealth Management is a business unit within UBS Financial Services, Inc. UBS Financial Services is a subsidiary of UBS AG. Member SIPC.

Wealth management services in the United States are provided by UBS Financial Services, Inc., a registered broker/dealer offering securities, trading, brokerage and related products and services. As a firm providing wealth management services to clients in the U.S., we offer both investment advisory services and brokerage accounts. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that clients understand the ways in which we conduct business and that they carefully read the agreements and disclosures that we provide to them about the products or services we offer. For more information clients should speak with their Financial Advisor or visit our website at www.ubs.com/workingwithus.

Indexes are unmanaged. An investor cannot invest directly in an index. Past performance is no guarantee of future results.

Two sources of UBS proprietary research are available through UBS Financial Services Inc. Reports from the first source, UBS Wealth Management Research, are designed primarily for use by individual investors and are produced by UBS Wealth Management Americas (the UBS business group that includes, among others, UBS Financial Services Inc.) and UBS Wealth Management & Swiss Bank. The second source is UBS Investment Research, and its reports are produced by UBS Investment Bank, whose primary business focus is institutional investors. The two sources may have different opinions and recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor.

The value of investments in securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy.

Fixed income securities are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or credit worthiness, causes a bond's price to decline. For more detail on the risks associated with fixed income securities, please speak with a Financial Advisor.

The information contained herein has been obtained from sources believed to be reliable, but we cannot guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes a solicitation for the purchase or sale of any security.

Past performance is no guarantee of future results.

UBS Financial Services and its affiliates do not provide legal or tax advice. Clients should consult with their legal and tax advisors regarding their personal circumstances.