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**The Three Bears Would Be Happy To Help**

“It’s not too hot, it’s not too cold, it’s just about right.” We’re referring to financial market conditions, not porridge temperatures. David Lefkowitz, a senior market strategist here at UBS (one of our favorites) told us today that he continues to see conditions as conducive to improving equity trends (ie higher market levels ahead).

We have been passing along to you, dear clients and friends, all of David’s prognostications for many years and have shared them in our belief that David is and has been one of the best strategists on the Street. As a thorough man of his convictions, he is not someone who changes his mind with every change in the wind. It’s an important attribute in any strategist who seeks to help clients build wealth on a secular, long term basis.

He pointed out today that we are now about two years into the current rally in the stock market, yet there remains an environment which can drive equity prices higher. Specifically, David forecasts S&P 500 earnings of \$250 for this year and \$265-\$270 for 2025. He’s still published at \$270 for next year but concedes that the number could be somewhat less. Based on the forecast he sees the S&P 500 trading near 6000 in 2024 (year-end) and 6500+ in 2025. Bear in mind that the S&P500 is trading currently at 5729 (close on November 1, 2024). Should the S&P 500 achieve \$265-\$270 in 2025 and trade at 6500, the market could return north of 13% next year. We always point out that the models which develop future targets are intended to provide an approximation of potential trading levels. Somewhat like economics, this is always an exercise to determine the relative value which may be achieved in 2025. David also added that real GDP may continue to grow at a rate higher than 2%. You’ll note that the preliminary estimate, out last week, for the third quarter of 2024 was +2.8% real GDP growth. While these numbers are usually restated, they nevertheless are instructive of current conditions.

The rate of inflation has fallen from a high of 9.1% in June of 2022 to around 4% this year (for the CPI). The Fed's favorite benchmark, as we've pointed out countless times, is the Personal Consumption Expenditures index (PCE), which slowed in the most recent release for September. Prices rose 2.1% for the year ended September, which was down from 2.3% in August, according to the Commerce Department. What seems to be happening is the rate of inflation is continuing to soften. That's good news for us and the Fed. It suggests that the Fed is more likely to lower rates further if inflation continues its current track. Let's hope so.

The overall picture, at present, suggests, and David Lefkowitz would concur, that lower inflation and continued moderate growth are likely to continue for some time.

The chart below is a picture of the major indices through the end of September.

	<u>3Q 2024 (%)</u>	<u>YTD 2024 (%)</u>
Dow Jones Industrials	8.72	13.93
Standard & Poor's 500	5.89	22.08
NASDAQ Composite	2.76	21.84
Russell 2000	9.27	11.17
Russell MidCap	9.21	14.63
Russell 1000 Growth	3.19	24.55
Russell 1000 Value	9.43	16.68
Barclays Capital Govt./Corp. Bond	5.10	4.39
Barclays Capital 5 Year Municipal Bond	3.04	2.23

Source:Morningstar

Equity markets continued to broaden out. Large Cap Growth advanced further on a YTD basis, up 24.55% versus 20.7% in June. But Value, the longtime laggard, has really started to play catch up. Large Cap Value had been up 6.62% through June but by the end of the third quarter it was up 16.68% YTD, more than 1000 basis points!

While growth continues to take the lead, value has started to generate attractive returns. We have been talking about value being a notable laggard, but have also pointed out that the underperformance of the value index is overdue. Note that MidCap stocks have begun to perform well into the third quarter. They were only ahead 4.96% in June and now stand at 14.63% YTD. The Russell 2000 has also improved as more strategists have added Small Cap stocks to their buy lists. In the third quarter the heretofore lumbering Industrials have improved as well, advancing from a YTD return of 4.84% in June to 13.93% YTD through September.

While certain sectors have begun to show outperformance, the overall observation is that the equity market is beginning to show a broadening of leadership, which, in our view, is a big positive for the overall market. In a sense, the latter is confirming David's improving outlook and expectation that this bull market has further to go.

Note also that the two bond market indices have seen their YTD numbers transition into the positive column, which is largely related to the expectation that the Fed may continue to cut rates.

While the markets are likely to suffer some volatility through the upcoming election, our belief is that we could still see a decent Santa Claus rally by year end. There is still a lot of money on the sidelines that could find its way into the markets. Over the intermediate term we expect to see fairly clear sailing over the remainder of this year, notwithstanding election related volatility.

We should say the generally positive bias in the market, at least subliminally, is based on the expectation that Mr. Trump will win the election. It is recognized that for some of our friends and clients, a Trump victory is not their preference. We understand the feeling, but as investors, having a leader who understands business, supports initiatives that encourage capital spending, and demonstrates strong negotiation skills is desirable. Getting caught up purely on personality, and not on what someone may achieve, is missing the point.

After listening to both candidates over the past few months, we see strong cognitive skills, business experience and face to face strength in negotiating. Immigration issues need to be solved. We need to allow people to immigrate but seeing things like gangs coming from the streets of South America to the US is a non-starter. We truly need to have better procedures (and at least enforce those which exist). Stuffing our hotels in NYC is not a great solution. We'll get off the tirade for now.

Investors continue to need to maintain their balanced portfolios. Those investors that have been heavily weighted towards growth need to make sure they are protected. When growth stocks start to correct, they can change in a very short time frame. We all need to have some anchors to windward to protect capital against declining market conditions, should they occur.

The AI revolution is upon us big time and will continue. It will also bring periods of disorder to the markets as expectations get ahead of realities. We will be working with our clients to assure that portfolios are keeping up with their risk budgets.

We thank you, as always, for the trust you place in us and assure you that this team will always endeavor to protect and enhance your capital in keeping with your goals and objectives.

As we enter the holiday season ahead, we wish you good health, happiness and many "happy returns." It may be bumpy ahead but stay the course, remembering the old Greek proverb, "No wind is favorable if you do not know to which port you are sailing."

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