UNITED™
ASSET STRATEGIES, INC.
Planning for a Lifetime®

Quarterly Letter August 2024

Comments as of 7.31.2024

Dear clients and friends,

EXECUTIVE SUMMARY

Much has been made about the narrow returns of this bull market, and that continued in the 2nd quarter. The Magnificent 7, large-cap growth stocks introduced in our October 2023 letter, have led the market higher in this uncertain environment owing to their quality attributes. They now make up +30% of the S&P 500 and generated a strong 16% return in the 2nd quarter, contributing to 5% of the 4% index return. **Exhibit 1** shows the more muted returns for the typical stock and total bond market. Just two of eleven sectors and 25% of constituents beat the market. If a portfolio manager prioritized diversification and did not own the Mag 7 at their market weight, odds are that the stocks held in their place did not do as well. As such, we understand that just 29% of managers outperformed in the 2nd quarter.

While we have fared better than most in this environment, it is important to focus on the goal and note that narrow breadth has not hindered our clients' long-term financial plans. The Mag 7 has seen outsized returns, but the rest of the market has also done well. **Exhibit 2** shows that returns since 2023 are in-line with historical levels, suggesting that stocks and bonds continue to provide plenty of opportunities that meet our clients' target rate of return. Looking forward, mean reversion from elevated concentration bodes well for our more diversified portfolios. This fall, we are watching the Fed's September meeting for potential rate cuts and the November election for policy implications. We will monitor the progress of each, but the early response to recent developments has been improved breadth in July.

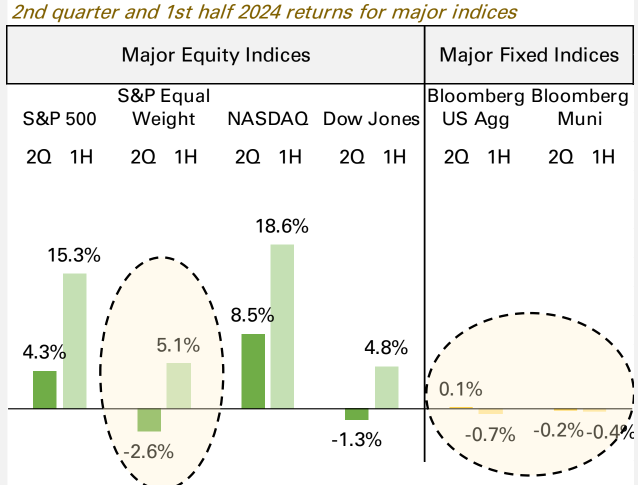
The election also has implications for your financial plan. After touching on taxes in April, in this letter we address the election's implications for Social Security funding. Reach out to your advisor to discuss how this impacts you.

At United, we continue to grow. To support that growth and better assist our clients, during the 2nd quarter we added a new member to our Client Experience Team (CET). Please join us in welcoming Jacob Gius!

Respectfully submitted by the Professional Staff at United Asset Strategies.

Exhibit 1: Returns concentrated in a few stocks, with the typical stock & bond market negative in 2Q

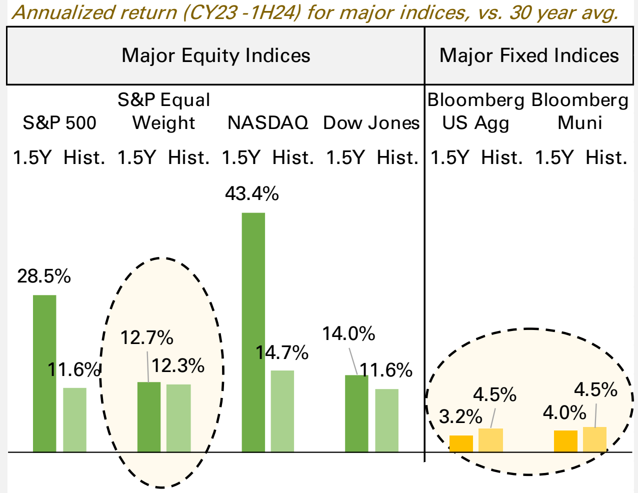
2nd quarter and 1st half 2024 returns for major indices



Source: United Asset Strategies, Bloomberg

Exhibit 2: Despite narrow, returns for the typical stock and bond market in-line with long-run avgs.

Annualized return (CY23 -1H24) for major indices, vs. 30 year avg.



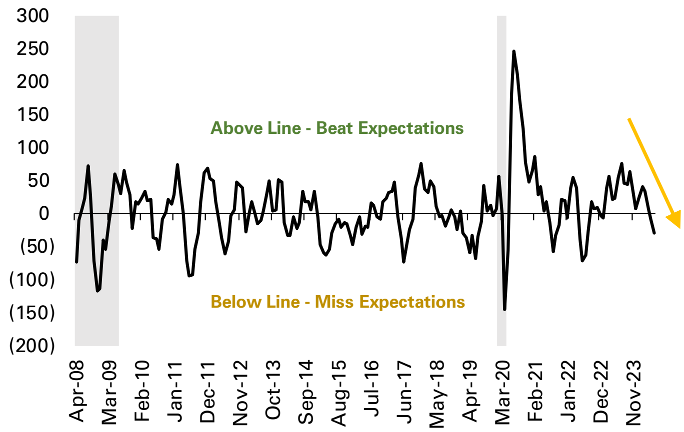
Source: United Asset Strategies, Bloomberg

Mixed Macro Signals. The GDPNow Index from the Federal Reserve Bank of Atlanta uses thirteen data points to estimate quarterly GDP growth, and now forecasts 2.7% for the second quarter. This healthy growth reflects a strong US consumer sector, and a manufacturing sector rebound from fiscal spending. Still, macro data remains volatile and is moderating, with the second quarter GDPNow growth estimate fluctuating between 1.7% and 4.5% in recent months. Further, growth is expected to slow due to labor-market issues and weakness in rate-sensitive sectors, with third quarter GDP growth projected at just 1%.

To provide a sense of the mixed signals that we are receiving, as highlighted in **Exhibits 3 and 4,** through June, trailing economic data has missed expectations (Citi Economic Surprise Index), despite leading indicators improving and no longer being in recessionary territory (Leading Economic Index). A combination of slowing growth and moderating inflation would provide a "goldilocks" path for the Federal Reserve to cut rates. Still, the range of potential outcomes remains wide. As we will highlight in a later exhibit, the probability of a recession in the next twelve months has declined but is still above average.

Exhibit 3: Economic data has moderated recently, missing consensus expectations as a result...

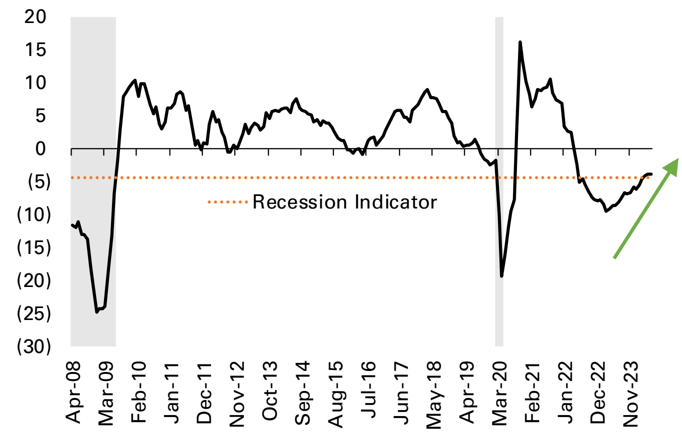
Citi Economic Surprise Index



Source: United Asset Strategies, Bloomberg

Exhibit 4: ... But leading economic data has improved, and no longer suggests a recession is imminent.

Leading Economic Index, 6-Month Growth Rate Annualized



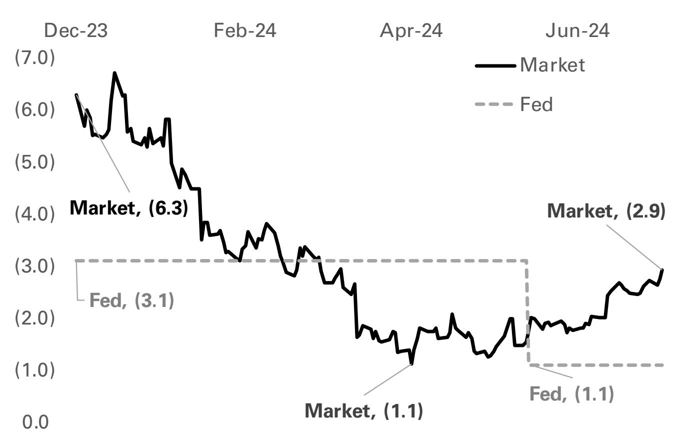
Source: United Asset Strategies, Bloomberg

Balanced Dual Mandate. In the second half of 2024, the Fed is expected to initiate the first of several future rate cuts. That said, expectations for the exact timing and pace of these cuts remain fluid due to volatile macro data.

As shown in **Exhibit 5**, a resilient economy and persistent inflation led the Fed to adjust its Summary of Economic Projections (SEP) in June, now predicting one rate cut in 2024, down from three to start the year. In a directionally similar but more significant move, market expectations shifted from six rate cuts initially to one by late April. With inflation cooling and employment weakening as of July, market rate-cut expectations are back up to nearly three for the year. The next Fed meeting is in September, with Chairman Powell's recent testimony suggesting a balanced approach to inflation and employment.

Exhibit 5: Data dependent fed and volatile macro backdrop have resulted in a highly uncertain interest rate outlook.

2024 Rate Cut Expectations

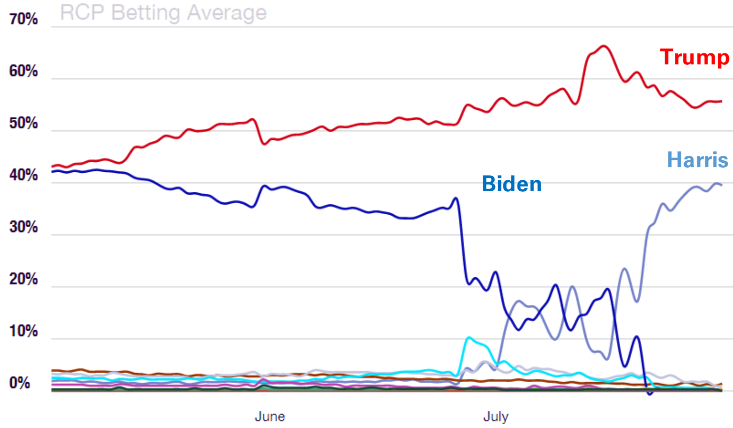


Source: United Asset Strategies, Bloomberg

Heightened Political Uncertainty. This election is shaping up to be one of the most unpredictable in US history, marked by a consequential debate, an assassination attempt on one candidate, and the withdrawal of another, all within weeks.

Exhibit 6 shows election betting odds for President Biden and former President Trump were even near 40% in May, but Biden's debate performance widened his deficit against Trump and boosted odds of other candidates, notably Vice President Harris. Following Biden's withdrawal and Harris endorsement in July, betting odds have narrowed to levels seen just prior to the debate, this time with Trump at 56% and Harris at 40%. While the House outlook is uncertain and likely tied to the Presidential outcome, the Senate provides more certainty given that all 8 of the toss-up races are Democratic seats and the GOP needs to win just two of those seats to gain the majority.

Exhibit 6: 2024 US election to be one of the least predictable in history, with odds shifting significantly in last few weeks.
Betting odds for Select Presidential Candidates



Source: United Asset Strategies, RealClearPolitics

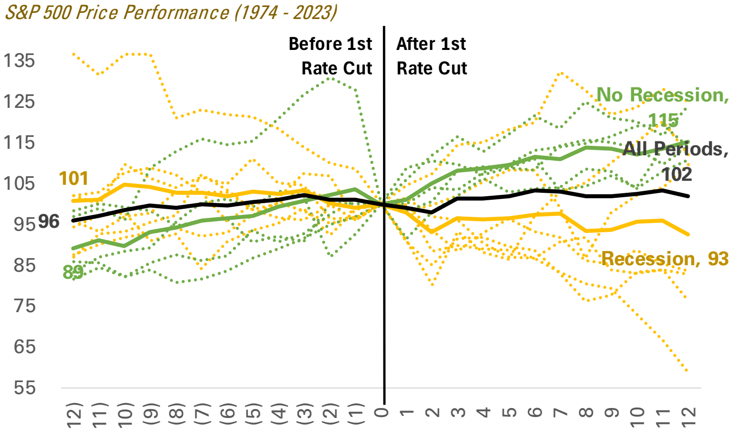
Market Commentary

Heading into the fall, our focus shifts to the Fed's September meeting, where the next rate cutting cycle is expected to begin, and the November elections, which could shape future policy.

For Fed Rate cuts, it is more the "why" than the "if" that matters. Markets expect the Federal Reserve to begin cutting rates in September. All else equal, lower rates boost equity valuations by increasing the present value of future earnings and reducing competition for investor dollars from bond yields. That said, it is why the Fed lowers rates, not just if it lowers rates, which impacts stock prices. For example, is the Fed lowering rates to accommodate a struggling economy and labor force, or is it doing so alongside moderating inflation to ensure that real rates do not become overly restrictive?

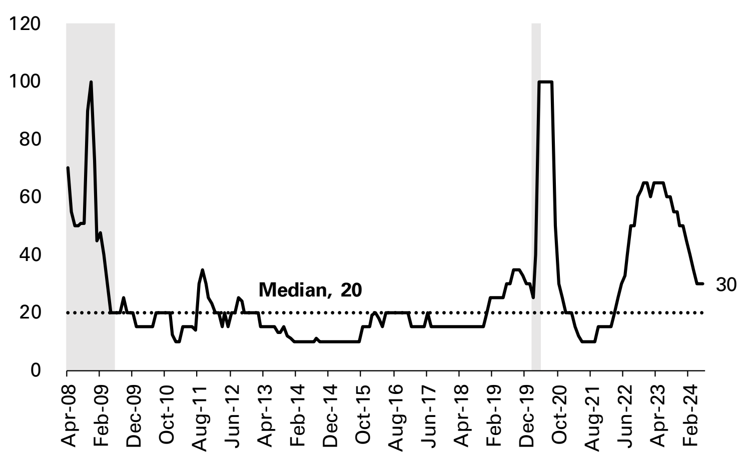
As highlighted in **Exhibit 7**, history suggests stocks are typically muted in the months surrounding the Fed's first rate cut. That said, performance is usually much stronger if the Fed cuts rates alongside a healthy economy and much weaker if it does so to address a recession. And as **Exhibit 8** indicates, while the recession risk has eased recently, it remains above historical levels through June. As such, we will continue to monitor economic data and manage client assets accordingly.

Exhibit 7: It is why (not if) the Fed cuts rates that matters, with strong returns outside recessions but negative returns during recession.
Base 100 (Month Prior to First Rate Cut), in recession and no recession scenarios
S&P 500 Price Performance (1974 - 2023)



Source: United Asset Strategies, Bloomberg

Exhibit 8: While expectations for a recession have subsided, probabilities one occurs over the next 12 months remains above
Consensus Expectations for a Recession over the next 12 months (% Probability)

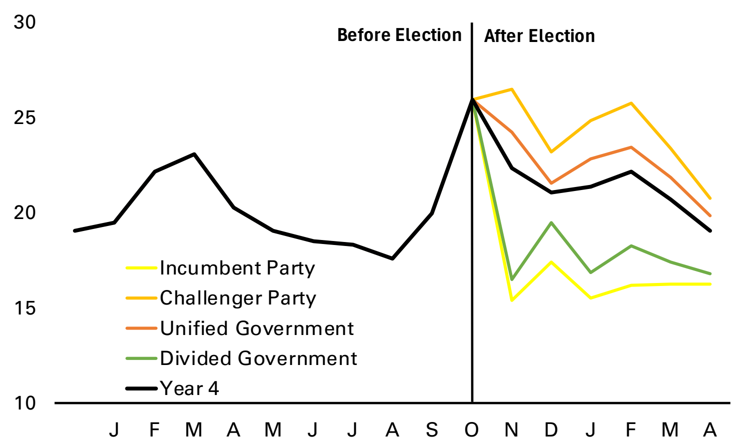


Source: United Asset Strategies, Bloomberg

For elections, it is more the "when", than the "who", that matters. Elevated uncertainty is common in an election year; we will monitor developments closely. Still, history would suggest avoiding significant changes to long-term allocations due to elections. While election results matter deeply to our country, they matter less to our markets in aggregate. Our January letter noted similar long-run returns across a wide range of administrations. We plan to stay committed to our clients' long-term allocation targets and to remain diversified across various potential outcomes. Once votes are tallied, we will reevaluate the need for tactical adjustments based on long-term policy implications.

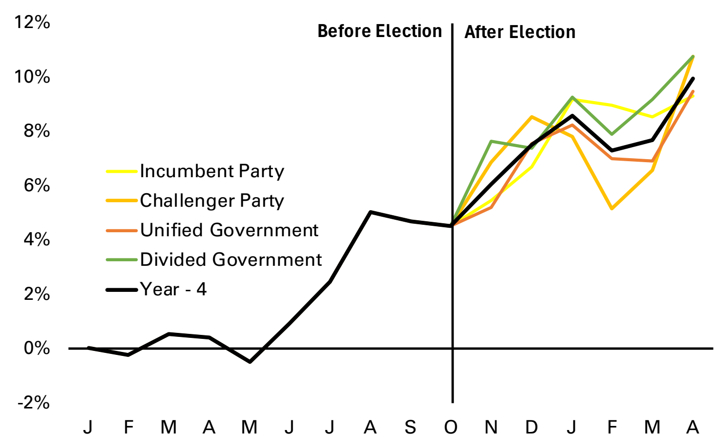
In an election year, history suggests that elevated uncertainty typically translates into volatility. In **Exhibit 9** we see that this is especially so in the weeks prior to the election. Post-election, volatility usually declines across a range of outcomes; this includes challenger-party presidential wins and unified government, scenarios that typically introduce more change. Into the election, stocks typically consolidate alongside that seasonally high volatility as investors weigh potential outcomes. Post-election, however, **Exhibit 10** shows similarly healthy returns irrespective of the result. History suggests it is a known outcome, not the specific outcome, that drives returns. And as noted in our January letter, the calendar year's returns typically rank second in the four-year election cycle.

Exhibit 9: Volatility seasonally increases into the election, but subsides once votes are tallied, irrespective of the result.
Volatility Index (VIX), 30 Day Implied Volatility (1992-2023)



Source: United Asset Strategies, Bloomberg

Exhibit 10: Further, despite the uncertainty history suggests similarly healthy 6-month performance for a wide range of election outcomes.
S&P 500 Price Performance (1928 - 2023)



Source: United Asset Strategies, Bloomberg

A sustained rotation or another head fake? For long-term investors, patience is the best strategy regarding elections. That is not to say that elections do not matter, however, as specific election outcomes can influence policy and drive winners and losers under the market's surface.

As a recent example, the betting odds between Trump and the next closest Democratic candidate have widened. While the stock market (measured by S&P 500) was up 1% in July, odds of Trump's pro-growth and inflation policies have driven improved breadth under the surface, with the typical stock (measured by the S&P 500 Equal Weight Index) outperforming by 3%. We saw outperformance of value (+8% vs. growth) and small-cap stocks (+6% vs. large), low-quality businesses (+5% vs. quality) and cyclical sectors (+2% vs. defensive), a clear shift from the narrow market performance that we have seen recently. In fact, the Magnificent 7 were flat for the month of July. We discuss our outlook for breadth in the next section.

In the bond market, the yield curve has been inverted since mid-2022. In other words, longer term bonds (10-year) have yielded less than long-term bonds (2-year). That said, the yield curve began to steepen in mid-June, and that condition continued through July, influenced by growing odds of a Trump victory and the implications for a potentially new, more accommodative Fed, as well as added long-term Treasury supply to fund Chairman Powell's pro-growth agenda. Powell's term is set to expire in May 2026, with the possibility of a new Fed Chair something we will monitor in the new year. All said, the partial yield curve steepening was mostly influenced by growing expectations for near-term rate cuts and lower 2-year yields (-0.4% to 4.3%), with the 10-year stable (-0.1% to 4.1%) due to the offsetting impacts of growth and Treasury supply.

It is too early to make significant portfolio changes based on these factors. Betting odds continue to shift since Kamala Harris has become the presumptive Democratic nominee and will continue to change until the November election. As such, we will monitor developments and manage assets accordingly.

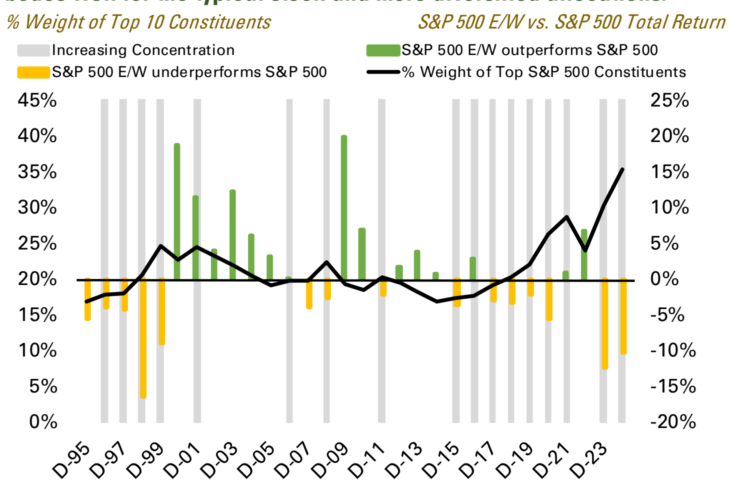
The upside to diversification. Risk management is often highlighted as the key benefit to diversification. Here, we present the upside opportunity that we see for diversification in the years ahead. Since 2023, two-thirds of bull market returns have come from the Magnificent 7, with the rest coming from the other 493 stocks. This has led to high market concentration, with the top 10 stocks now 35% of the S&P 500, surpassing the 25% peak of the early-2000s and the 30% peak of the mid-60s.

While we justified this concentration in our April letter, owing to the Mag 7's strong earnings growth and quality, trees do not grow to the sky. We maintain a healthy position in these stocks due to their strong fundamentals, but we hold less than the market dictates due to high valuations. As we detail next, over time, a more diversified allocation should benefit from a return to normalized market concentration and a more favorable mix of growth and valuation for the typical stock.

Exhibit 11 shows the weight of the top 10 constituents in the market (S&P 500) versus the alpha of the typical stock in the market (S&P 500 E/W) over 30 years. When concentration rises, breadth narrows, and the typical stock underperformed by 3-4% yearly. Conversely, when concentration decreases, breadth widens, and the typical stocks outperformed by 5-7%. With concentration at historic highs, we anticipate that declining concentration and improved breadth will benefit the typical stocks and our more diversified portfolios long-term.

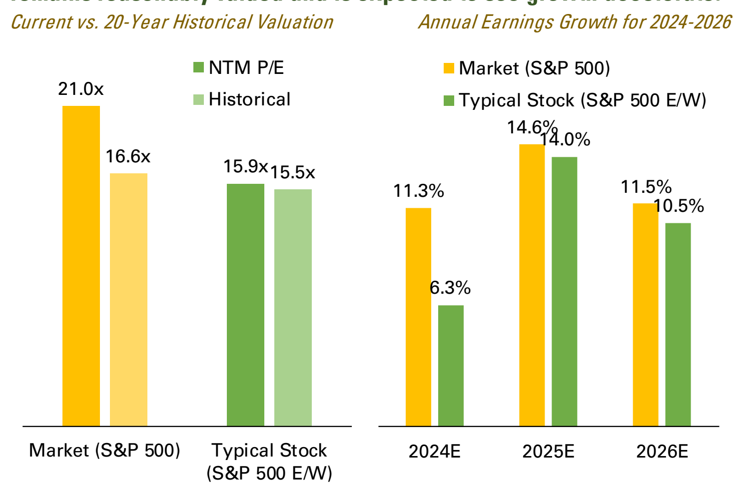
Exhibit 12 shows the market traded at 21 times (x) earnings as of June, higher than the 17x 20-year average due to premium multiples for the Mag 7. While the typical stock trades at a fair 16x. This valuation gap stems from diverging growth in 2024, with artificial intelligence boosting the Mag 7 while higher rates pressure the typical stock. Still, growth for the market and typical stocks are expected to converge by 2026, with Fed cuts alongside a healthy economy a potential catalysts.

Exhibit 11: Long-term, mean reversion from elevated concentration bodes well for the typical stock and more diversified allocations.



Source: United Asset Strategies, Bloomberg

Exhibit 12: While the market appears expensive, the typical stock remains reasonably valued and is expected to see growth accelerate.



Source: United Asset Strategies, Bloomberg

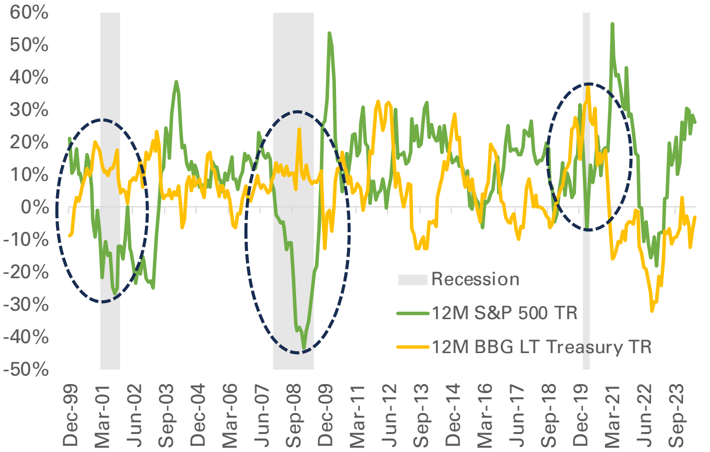
Quality bonds as a recessionary hedge. In isolation, history suggests that election outcomes and Fed rate cuts provide few clear signals on the direction of equity markets in the aggregate. As such, we see the economy as the primary driver from here. Although we are cautiously optimistic about stocks and recession risk has decreased, we caution that risk remains higher than usual. One way that we are managing macro risk in balanced accounts is through exposure to high quality, long-duration bonds.

As shown in **Exhibit 13** on the next page, these bonds historically hedge recessionary shocks, up substantially when equities are under pressure for macro reasons. Indeed, their high credit qualities make them less sensitive to economic weakness, while their long durations make them beneficiaries of accommodative Fed policy.

Early in the second quarter, we opportunistically added Treasury Inflation-Protected Securities (TIPS) and Mortgage-Backed Securities (MBS) when we considered their yields to be high, with these high-quality sectors attractively valued compared to other bonds. Meanwhile, we remain underweight in credit risk, as we felt that the tight spreads did not sufficiently compensate for the macro risk that many saw. That said, we are open to adding credit risk if a macro slowdown widens spreads and presents opportunities.

Exhibit 13: High quality, long-term bonds have historically provide are an effective recessionary hedge to stocks.

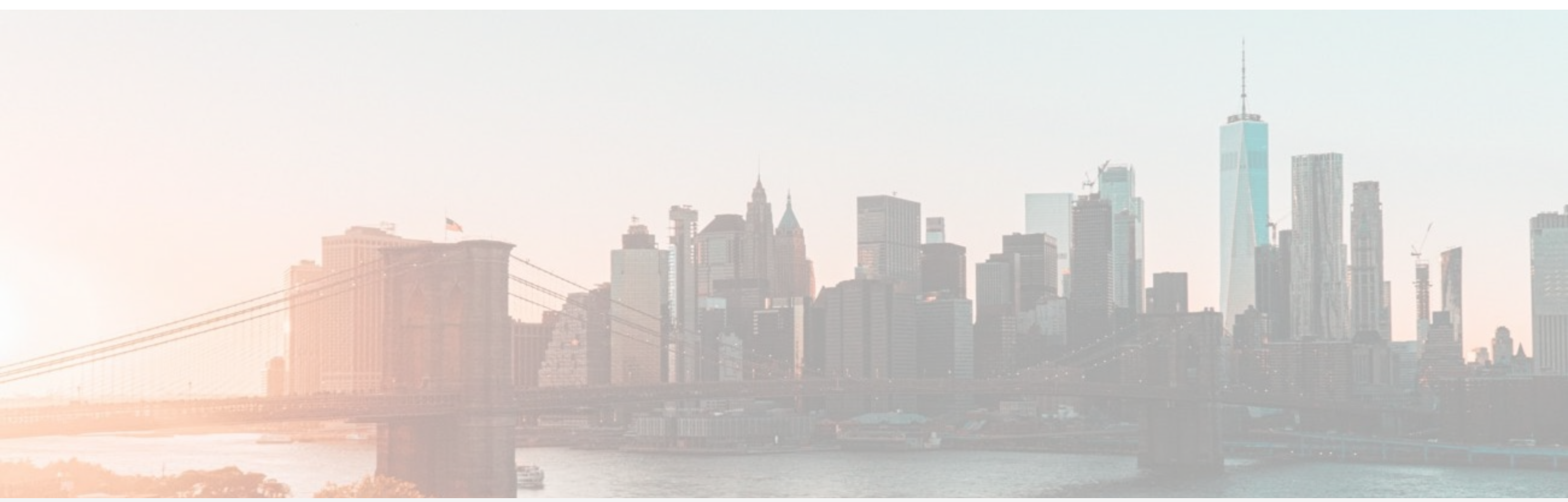
Y/Y Total Return for S&P 500 vs. Bloomberg US Treasury Index



Source: United Asset Strategies, Bloomberg

Future of Social Security. Many Americans rely on Social Security as a primary income source during retirement. As talks spread of Social Security's trust funds being depleted by 2035, the future of the program has become a political football. This commentary has led many recent retirees to claim Social Security early at age 62, nearly a 30% benefit cut from a retiree's full retirement age benefit. There are many possible solutions that Congress will consider in resolving the potential shortfall in Social Security trust funds. These options include an increase to the current payroll tax rate, raising the payroll tax wage cap, raising the full retirement age, and taxing other forms of income. The likely fix will be a combination of these.

Watch United's Latest Quarterly Video HERE



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