GWM GREENE WEALTH MANAGEMENT

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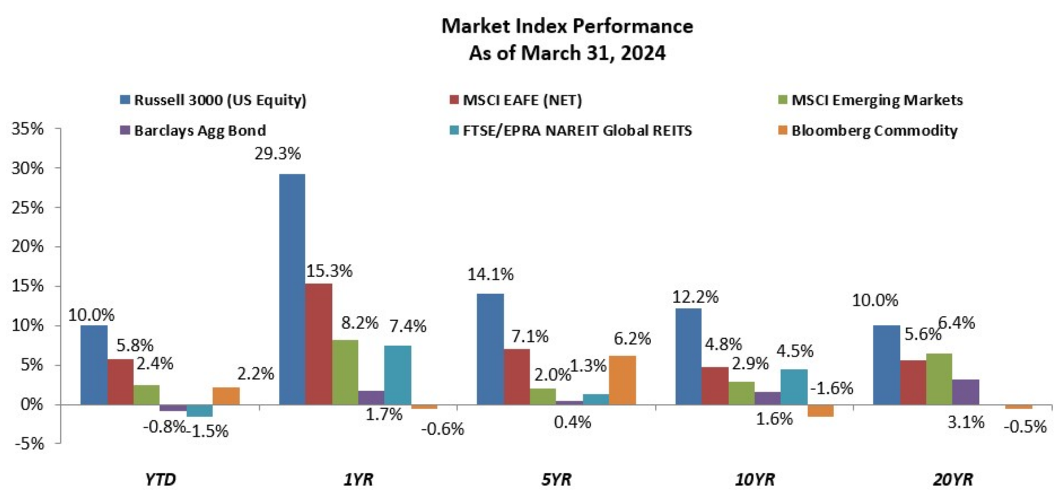
2Q 2024 - GWM Quarterly Letter

Market momentum persisted in the 1st quarter of 2024, building on positive market gains experienced throughout 2023. A likely stimulus for market gains in the back half of 2023 and into 2024 was primarily around optimism that the Fed was concluding aggressive interest rate hikes and a likelihood for rate reductions in 2024. This positive sentiment around rates was complemented by a positive economic backdrop supported by strong balance sheets (household + corporate), stable job growth and wages, and strong consumption trends from consumers. With inflation trending towards the Fed's long-term target of 2.5% and a seemingly stable economic backdrop, there is optimism that the United States will execute on a "soft-landing," instead of experiencing a recession.

However, not all is rosy in the world and the threat of exogenous factors impacting both the economy and markets is a realistic concern. The Fed has indicated that the last leg of the inflation fight is proving to be quite stubborn, with recent inflation readings leveling off above the 2.5% target and the potential for external factors to make for an arduous push to Fed targets. With solid footing below the economy, the Fed is more likely to slow play rate reductions – tempering rate optimism that supported recent market growth. Most recently, the threat of geopolitical conflict is elevated in light of the recent attacks between Israel and Iran – further fueling the Israel/Gaza conflict, and expanding the scope of geopolitical unrest from Russia/Ukraine – this is all without even considering US tensions with China, and further the way the China interacts with other world powers.

Assessing market returns year-to-date (YTD), the 1st quarter was the best for markets in the last 5 years. Building off a robust 2023, the Russell 3000 (US Stocks) was up 10.0%, MSCI EAFE (Developed Non-US Stocks) was up 5.8%, and investment-grade bonds were down slightly (0.8%) – as markets navigate the path of rates. Below is a snapshot of market returns across multiple asset classes and time periods:



Looking forward at the balance of 2024, financial conditions continue to revolve around the tug-of-war between a resilient economy and job market, against the path of Fed policy and a fiscal environment that would be expected to slow economic activity. All of this against a backdrop of exogenous factors sure to grab headlines and drive sentiment with the coming election season in the US and growing geopolitical tensions around the globe.

In the current market environment, there are several clearly identifiable headwinds and tailwinds we are tracking closely, while staying committed to philosophies rooted in long-term strategy:

Headwinds:

- Fed Policy (inflation battle) – Various Fed officials have indicated that the declining trend of inflation has stubbornly stalled above the 2.5% target. The current futures market has revised rate cuts expectations to a baseline of 2-3 cuts in late 2024, from 5-6 cuts over the course of the year previously expected – market growth associated with rate optimism has tempered.

- Geopolitical Conflict – Geopolitical risk has escalated with recent conflict between Israel and Iran. Risk has increased on growing tensions and the potential impact on market volatility – specifically regarding impact on oil prices (and further inflation). It is important to note that Geopolitical conflict impact on markets tends to be short-term in nature.

- US Election Season – While not historically a headwind, the current hostility and divisiveness of the US political landscape increases concern of heightened market volatility associated with the election cycle. History suggests that election cycles breed short-term volatility while being less impactful long-term – with market trends positive under both Democratic and Republican leadership.

Tailwinds:

- Economic Growth on Solid Footing – The economy expanded 2.5% on average in 2023, economists expect around 2.0% growth in 2024. The 2024 growth forecast is above previous estimates, largely driven by consumer demand.

- Consumer Demand is Resilient - Consumers have remained resilient in 2023 with healthy balance sheets. However, higher rates, decreased savings, rising credit card balances, and softening labor markets could slow spending – the benefit being reduced inflationary pressures.

- Labor Markets are Strong – The economy continues to experience healthy job creation and wage growth – however, pace is slowing. The current labor market is pacing far ahead of recessionary indicators.

Assessing the current economic environment should breed optimism given the relative strength of the underlying fundamentals but the impact of uncontrollable factors cannot be discounted. In a world where we have everything at our fingertips – that means we will certainly be inundated with provocative headlines around elections domestically and challenged in trying to speculate around the unpredictability of geopolitical conflict.

Our firm as well as investment partners that we rely on for expertise will continue to navigate what the evolving world around us means for our clients. With that in mind, we did want to share a couple of recent insights from firms we work with and respect to provide some additional depth to exploring potential impacts of exogenous factors:

Does conflict escalation in the Middle East change the investment outlook? (J.P. Morgan Investment Management)

Middle East Conflict and Markets

"Ultimately, investors should recognize that while geopolitical headlines have the ability to capture market attention, the shocks to sentiment are often short-lived." – Jack Manley, Global Market Strategist

Guide to Investing in an Election Year (Capital Group)

Guide to Investing in an Election Year

"…the bottom line is that investors should avoid market timing around politics. As is often the case with investing, the key is to put aside short-term noise and focus on long-term goals." – Capital Group

While there are no guarantees in investing, we believe that staying disciplined to long-term strategies at inflection points of uncertainty is prudent – as difficult as it might be. Our approach remains rooted in a long-term perspective and a commitment to prudent risk management. While market volatility can be unsettling, it also presents opportunities for those who remain focused on their financial goals. Our mission as your Advisor is to provide you with the confidence and clarity you need during times of uncertainty and to ensure your investments remain aligned with your vision for the future.

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