Hamilton-Bates
Market Update

May 30, 2024

Pause to Refresh Continues

P.O. BOX 98 Mertztown, PA 19539 877.768.4247 www.hbir.com

The stock market continues its bullish march higher, but after a calm and steady run up early in the year, its starting to encounter some turbulence. In April stocks saw their first 5% correction since last Fall, then mounted a rally in early May. But the move hasn't been even, and the market has clearly become bifurcated. Some sectors (like semiconductors) continue to move up while others (like transports and cyclicals) are pulling back.

Seasonally and historically the stock market should recover from early summer stumbles, and in election years the stock market generally moves higher into July/August.

Economy, Earnings, and Interest Rates
The economy has clearly 'downshifted' from the hyper growth rates coming out of covid and the massive stimulus unleashed in response. 4Q 2023 GDP came in at 3.2%, while Q1 2024 is looking like 1.3%. That is quite a decline in growth, and inflation has remained sticky—leading to some fears of stagflation. That is when you have really slow growth but inflation remains relatively high. Its really premature to consider stagflation as a problem just yet.

Growth has moderated, but the job market has remained strong. The three month average is nearly 300,000 jobs along with 39 months of growth. Wages have moderated with wage growth coming down to 4% from a peak of 6% in 2022. In our view as long as jobs are plentiful and Americans are employed—we will spend. We continue to think the labor market and jobs are the lynchpin to watch. For now things are fine.

The Fed has so far been unable to cut rates as it has intended to do in 2024, as inflation has remained stubbornly high. However, the financial markets have adjusted to 'higher for longer' on interest rates, and the Fed has taken further rate hikes off the table. This means the next move if there is one will be a cut by the Fed. In this environment, with earnings still solid and jobs plenty– its tough to get too bearish.

Inflation—Friend? Foe? Or Frenemy?
Inflation has pretty negative connotations, and in the long-run its really never good. On the positive side inflation is now better than it was, but still higher than we'd like. Even a low inflation rate will slowly but surely devalue your savings and raise the price of essential goods and services.

In the short term, however, inflation can definitely *feel* good, at least if you are on the right side of it. Asset price inflation, which often happens during inflationary booms such as we have now, makes investors and homeowners smile. Let's face it we like when our stocks and real estate go up. So inflation can hurt us with rising costs of day to day living, but help those who are fortunate to have assets in stocks and real estate. To us that makes inflation a 'Frenemy' - a relatively new term used to describe someone or something you have a 'love/hate' type of relationship with. Sometimes inflation helps, but most times its just a burden.

Inflation is so highly individualized—a big problem for some, a non-event to others, or even beneficial if you own lots of stocks and real estate—that this greatly complicates the discussion. Long-term inflation is bad for pretty much everyone, which is why policymakers need to keep it under control. With 3-4 year inflation rates of 20-25%, the current administration is battling the negative aspect of the massive covid spending. While it has moderated, that doesn't mean costs are coming down—they are simply staying at elevated levels and this is hurting a majority of folks right now.

Stock Market and Investment Outlook
The trend remains bullish for stocks, and we continue to like stocks as a long-term inflation hedge. We will look to add to dividend paying stocks and funds on any further pullback in May/June. With interest rates on the long-end staying high, we continue to hold shorter maturities and even cash in the fixed income sector. We can also get short-term debt and floating rate bonds with yields of 5-7% and no duration risk. Even cash now pays 5%. **The market's up trend remains intact, but the gains are coming more grudgingly, and unevenly. However we still see further upside in the summer months.**

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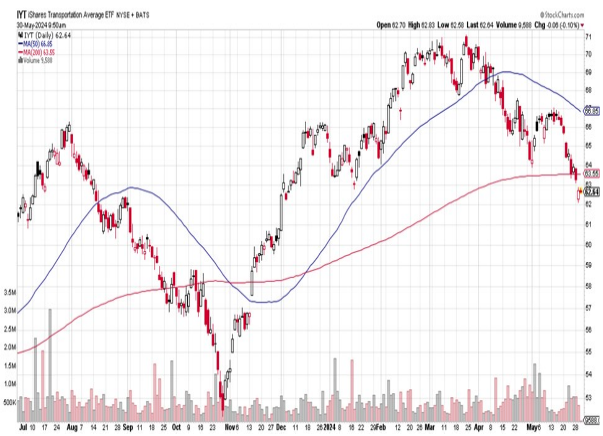
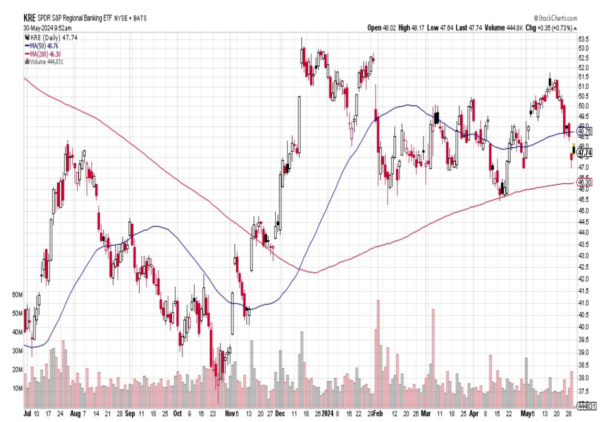
Market Charts: S&P 500—Bull Market Still Intact—But Key Sectors Flashing Warnings





S&P 500 Chart (Above Left)
The seemingly perfect up and to the right trend that started the year (noted by the arrow) has morphed into a more choppy but still higher move since mid-April. Since then the S&P has been in a box (noted above) with both down and upward action that has left us just about where we were back in April. We could see this trend continuing for another few weeks, but seasonal and historical trends suggest higher prices for the months ahead. Especially since we haven't seen any weakening in the all-important labor market data.

Transportation and Regional Banking Sectors (Above Right Charts)
While the broad market as noted by the S&P 500 is near its highs, some sectors are struggling and reflect the bi-furcated market we have noted. Regional banks (top right) and transportation stocks (the bottom of the two smaller charts) are two areas that have not participated. If these two sectors continue to weaken, it would warn of slowing economic conditions in the months ahead.