September 2024 | Alexis Investment Partners, LLC | 925-457-5258

Alexis Investment Partners, LLC

Practical ✧ Tactical

August was awful – then wonderful… most indexes (and our portfolios) finished with good gains. The S&P500 index added +2.3% in August, despite an initial drop of -6%. The early pullback pushed leaders like small caps and technology into correction territory (falling -10% from recent highs). We continue to avoid small caps due to a large percentage that are not profitable.

Our tactical strategy attempts to capitalize on volatility. We tactically added to large cap growth and took a fresh position in REITs to take advantage of the August correction. Having increased equity exposure into the pullback, we rebalanced back to a neutral allocation (in line with benchmarks) by month end. These efforts helped boost our gains, yet our portfolios trailed benchmarks for the month. We are generally pleased with our year-to-date results and well positioned to manage near-term setbacks and benefit from potential continued gains.

We have spoken extensively regarding the **seasonally difficult period from mid-July through October in election years. September is especially challenging, and we expect continued volatility** – but as we have witnessed in July and August, periodic setbacks are often short lived.

Our models, indicators, and analysis suggest a Bull market in a correction / consolidation. Despite slower growth, earnings continue to come in better than forecast. Inflation is improving and the Fed has maintained its restrictive stance, but signaled it is ready to ease as labor conditions deteriorate. We believe **the Fed will reduce rates by 0.25% to 0.5% September 18** – the level being less important than any guidance they provide about a projected neutral rate. Comments regarding Fed confidence concerning inflation and economic growth may also impact markets.

We welcome any updates, questions or concerns. Open and frequent communication is our best defense against losses in volatile times.

What to Expect in Portfolios

Last month we wrote: "**Summer doldrums are here, and uncertainty is likely to be unsettling at times. We do not expect a severe (bear market) outcome, so our current plan is to add to favored positions on weakness.** We remain vigilant to trend changes and will continue to adapt as we work through turbulence and potential transitions."

September is reputed as a tough month and we expect continued volatility through the Fed announcement and likely the US election, but absent significant deterioration that threatens recession, we believe the lows for this correction were reached in August.

Pullbacks are likely to present buying opportunities. We will monitor and adapt to leadership changes but **want to avoid overreacting to short-term shifts that are a byproduct of volatility.** Near-term needs should be invested with an eye on liquidity to avoid getting caught off guard.

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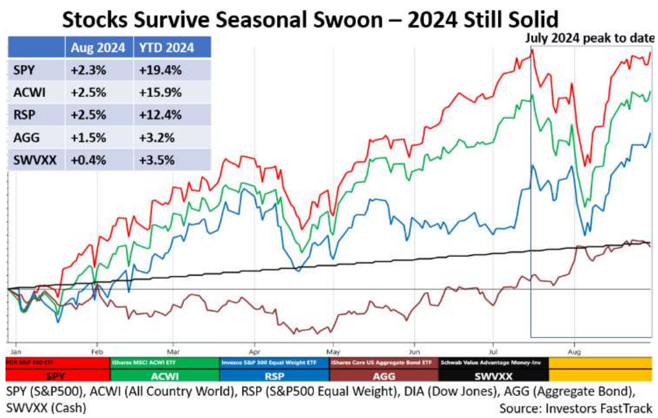
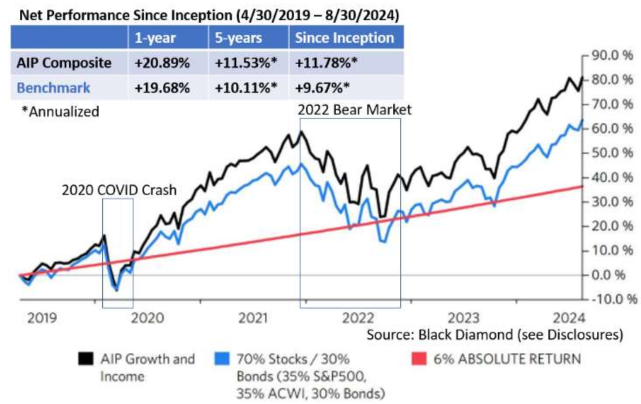
The last few months have been positive but volatile. Leadership broadened as the equal weight S&P500 outpaced the cap weighted index in both July and August. Global stocks also fared well, along with bonds, gold and REITs (gold and REITS not shown). We expect more volatility leading into the September 18 Fed meeting and likely through the US election.



SPY (S&P500), ACWI (All Country World), RSP (S&P500 Equal Weight), DIA (Dow Jones), AGG (Aggregate Bond), SWVXX (Cash)
Source: Investors FastTrack

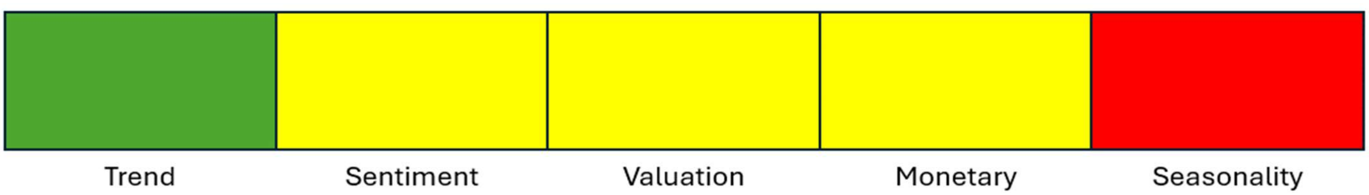
The chart below shows the net performance of our most popular composite since inception (120 accounts – see disclosures on page 4).
The last five+ years have included the COVID crash and 2022 bear market. **Our strategy and discipline led to greater participation in gains than declines, allowing us to add value through this volatile time.**



Source: Black Diamond (see Disclosures)

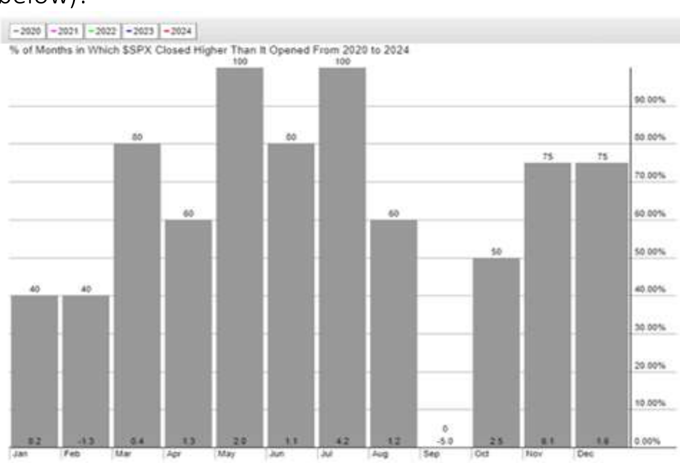
Insights and Commentary

Investing can be an emotional roller coaster leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants, (Don't Fight the Fed, Don't Fight the Trend, Follow Sentiment Except at Extremes) summarized in the chart below:



2024 is already a good year, but…

September has been particularly challenging lately – the **S&P500 lost in September in each of the last 5 years** (see below)!



Source: Stockcharts.com

It's difficult to call the market vulnerable when it keeps bouncing back from pullbacks and corrections to reach successive new highs. This is one case where it helps knowing that past performance is not predictive.

We have been fielding questions regarding why seasonal patterns exist – including a recent mention in Barron's. Being practical, we have opinions of "why" but see more value in recognizing "that" markets tend to follow seasonal patterns so we can factor those into our strategy and avoid overreacting to short-term phenomena.

Pullbacks and corrections happen in both bull and bear markets. In bull markets, they tend to be relatively shallow and short lived. Stocks faced significant pullbacks / corrections in each of the last 2-months, but investors remain resilient.

Those of you who only look at stocks when you get this newsletter, your monthly statements or quarterly performance reports, possibly didn't even notice recent volatility. For others, sharp pullbacks can be jarring. **We see little evidence of serious market risk but continue to suggest keeping seatbelts fastened in anticipation of near-term turbulence.**

Year-to-date gains have already exceeded many analyst projections. Our models are cautiously optimistic – suggesting further upside - but we respect the temptation to lock in gains.

Update, Observations, Indicators and Outlook:

In terms of our Market Pulse (right), the Bull Market remains intact. Selling mid-July reached correction territory into early August before stocks staged a powerful recovery.

Much progress has been made but it is premature to call the correction / consolidation over. We take comfort recognizing that this correction is within the context of a bull market. Uncertainty abounds, but stocks remain resilient.

What might a soft-landing look like and how does that inform our market outlook and asset allocation decisions?

As the Fed finally shifts from restrictive policy to a more neutral posture, cash yields should drop closer to inflation plus 1%. This implies T-bill and money market yields between 3% and 4%.

Economic growth has slowed but not to the point of recession. Bond yields should offer a return of 1% - 2% over cash (to compensate for lending money for 5-10 years) plus 1% to 3% more for any credit risk. This "normal" yield curve implies a 10y treasury yield of roughly 5% with mortgage and corporate bonds yielding 6% to 8%.

We believe stock returns and valuations will depend heavily on productivity gains – from the adoption of AI as we recently witnessed with Walmart, innovation, M&A activity, workplace reshuffling…policy changes that increase costs or restrict productivity gains would make it difficult to justify high multiples for many stocks. Of course, changes that reduce costs and/or boost productivity (stoke innovation, promote more efficient workflows and supply chains…) could set the stage for continued gains.

A less stimulative environment may seem scary considering that fiscal and monetary stimulus have been a crutch for global economies and stock markets since 2008/9. We will be interested to see how things evolve and are prepared to adapt. We have plenty of tools available to tackle a broad range of possible near and long-term outcomes.

Gold can help manage policy mistakes and geopolitical risks. REITs give us access to hard assets ranging from offices and apartments to cell phone towers and warehouses. Stocks allow us to invest in innovation, services, retail outlets and the means of production. Bonds allow us to lend money and earn interest. Cash offers liquidity and a store of value we can use to fund future investments.

We opportunistically adapt portfolios based on your goals, updated insights, prudent risk management and long-term trends.

Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline). We can expect periodic pullbacks and corrections, but these should be relatively short and shallow – followed by resumption of the up-trend.

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks.

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3-6 months. The pullback that started mid-July was a correction for leaders and resumed early August. Stocks remain in an uptrend, but we can expect volatility to continue while the correction runs its course.

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18-24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from.

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery.

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Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor.

We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Although our focus is on financial planning and investments, we also have relationships and resources to help with life and LTC insurance and annuities.

Jason acts as a 3(38) Fiduciary Advisor to 401k plans and has been able to help several small business owners reduce costs, significantly improve their plans and offload some of their liability as plan sponsors while creating a better experience for employees.

Please call and/or email me personally for most of your account servicing needs and especially when you have questions or concerns.

Disclosures

This material is for informational purposes only. Statements of future expectations, estimates, projections, and other forward-looking statements are based on available information and Jason Browne's view as of the time of these statements. Accordingly, such statements are inherently speculative as they are based on assumptions that may involve known and unknown risks and uncertainties.

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Mutual funds and other securities may distribute taxable dividends and capital gains to investors. Taxes on such items can affect the returns realized from such investment income received from certain investments may be subject to the Alternative Minimum Tax (AMT). Please consult with your tax advisor before making any investment and consider the effect that taxes may have on returns.

Rebalancing assets in a portfolio can have tax consequences. Selling assets in a taxable account may result in a taxable gain. Alexis Investment Partners, LLC. is neither a law firm nor a certified public accounting firm and no portion of this newsletter should be construed as legal or accounting advice.

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