HUDSON ADVISOR SERVICES, INC.

OUR VIEW OF THE MARKET

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We take note of the somewhat cheeky comment that the S&P 500 no longer represents the stock market. Indeed, the Magnificent Seven -- the big technology names – claimed two-thirds of the S&P 500's total return for the first half of the year. Nvidia alone claimed one-third of the gain. The investor fascination with artificial intelligence is powerful and will persist into the foreseeable future.

But we like the recent ***Barron's Magazine*** article which basically said: Hold on! The future of the stock market may not belong to these big seven guys. Past decades had market champions: railroads, automobiles, chemicals, communications. Investment history always moves on and the champions of the moment are displaced. We are excited about artificial intelligence and have client monies in the Magnificent Seven. But we believe in broad diversification as the core of investment strategy.

At Hudson Advisors, we are positive on the stock market for the second half of the year. We are amused that it is difficult to find a bearish analyst right now. Market veteran Ed Yardeni called this the time of "a slow-motion melt-up." The conditions for continued market gains are evident. The outlook for corporate earnings is strong despite uncertainties about the economy and inflation. The benefits of AI will soon spread to other sectors of the economy. Many companies are undervalued, and we will look for client opportunities that have been brewing under the surface in other pockets of the market.

MARKET TRENDS

The accompanying chart summarizes stock and bond market trends in the first half of 2024. The stock market was steadily positive even though concentrated in the leading technology stocks. The S&P 500 had 31 record closes in the first half. The bond market was more unsettled.

Equity Market: Investors in 2024 have seemed less concerned about the outlook for the economy, inflation, and interest rates. The big driver has been eagerness to own a piece of the AI charged future. This eagerness pushed the S&P 500 steadily higher. But it is important to note that 200 companies, or 40 percent of the index, are more than 10 percent below their highest level for the year. Investor enthusiasm is indeed very concentrated.

The S&P 500 was ahead 4.3% for the second quarter and 15.3% for the year-to-date. Demonstrating the strength of technology, the Nasdaq Composite was ahead 8.5% for the quarter and 18.6% for the year. In contrast, the Dow Jones Industrial Average was down 1.3% for the quarter and ahead 4.8% for the year. The laggard was the Russell 2000 index of small business stocks with a setback of 3.3 % for the quarter and a gain of only 1.7% for the year. Neither the Dow nor the Russell were able to capture the technology enthusiasm.

Fixed Income Market: The bond market was more uncertain than the stock market. Traditional concerns about the economy were more prevalent. The yield on the benchmark 10-year Treasury note (which moves inversely to prices) ended June at 4.34%. It was 4.19% at the end of Match and 3.88% at the end of December. It fluctuated in the trading range of 4.0% to 4.5% for much of the quarter.

MAJOR MARKET INDEXES

	1Q24 Return	YTD Return
Dow Jones Industrial Average TR	-1.27	4.79
S&P 500 Index TR	4.28	15.29
Russell 2000 Index TR	-3.28	1.73
NASDAQ Composite TR	8.47	18.57
EAFE Index NR	-0.42	5.34
Bloomberg Aggregate Bond Treasury TR	0.10	-0.86

Source: Morningstar® as of June 30, 2024

THE OUTLOOK

The Economy: From the broadest perspective, the U.S. economic rebound from the pandemic era has been successful. We have experienced a healthy labor market, resilient household demand, and strong business investment. Yes, inflation is a problem, and it spurred tight monetary policy from the Federal Reserve Board. But higher interest rates did not cause the much- predicted recession. Instead, we achieved the goal of "soft landing" in which inflation is subsiding – albeit still not tamed – and GDP is expected to grow about 1% in full-year 2024.

The recent Congressional testimony of Fed Chairman Powell is revealing. The Fed is determined to achieve its dual mandates of full employment and price stability. It is done raising interest rates and will begin to lower rates once evidence of reduced inflation is more established. The U.S. economy is the best globally, Powell said. In response, the S&P 500 topped the record level of 5,600 as traders bet on Fed rates cuts this year.

The Market: Here is the important economic news for the stock market. Even though GDP growth will be lower than the past two years, corporate earnings are increasing. S&P 500 earnings grew 6% in the first quarter from a year ago. Consensus now sees earnings growing 11.4% in full-year 2024 and 14.2% in 2025. Most significant, 80 percent of the companies in the S&P 500 are expected to report improved earnings. At Hudson Advisors, we take these forecasts as support for our strategy to stay broadly diversified and not just focused on technology.

We do observe that stocks are richly priced right now. The S&P 500 is trading at 21 times its projected earnings in the next 12 months. The 10-year average is about 18 times. Richly priced stocks are sensitive to unexpected events. The market could be set back by the return of higher inflation, all the uncertainties of this quite unusual US election year, all the issues surrounding federal deficits and national debt, or the unsettled situations internationally. Our cautionary alerts are always turned on at Hudson Advisors.

OUR STRATEGIES

Asset Allocation: Most clients should stick to portfolio strategies previously identified. For new clients, we recommend a 60% allocation to equities to be phased in over a 12- to -18- month period. The other 40% of assets will be short to intermediate term bonds, cash, and alternative investments.

Preferred Equities: As always, despite market conditions, we look for long-term equity opportunities. Our focus is on companies that can weather both the short-term period and flourish in a longer time frame. We want fundamentally sound companies with reasonable valuations and that pay dividends. In that context, similar to last quarter, we are looking at these sectors with special interest:

HEALTH CARE: This sector lagged in 2023 but has comeback potential with its continuous evolution and response to global health needs.

CONSUMER DISCRETIONARY: Affluent shoppers have made the discretionary category a consistent good performer.

INDUSTRIALS: Federal government investment in infrastructure should work in favor of basic materials and construction companies. The need for military supplies is also an advantage.

FINANCIALS: The balance sheets of regional and super-regional banks should be strong in the current economic and interest rate environment.

ENERGY: The cash performance of oil companies will be good as refineries work at full capacity.

PREFERRED STOCKS: We like the set schedule of dividends and tax advantages in this category and have several companies we recommend.

Other Assets: Our aversion to long-term bonds remains. But we explore various maturities through laddered investments with a mix of U.S. Government, municipal, and high- quality corporate bonds. We also like the current opportunities in money market funds.

Also, for some clients, we look at alternative investments through Broadly Syndicated Loan vehicles and Collateralized Loan Obligations which can provide investors with greater security through collateral, yields, and a hedge against inflation through floating rate structures.

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