HUDSON ADVISOR SERVICES, INC.

OUR VIEW OF THE MARKET

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Readers will note on the right that we are writing our 100th edition of this quarterly market commentary. For 25 years we have analyzed major events: the dot com bubble of 2000, the financial crisis of 2008, the confusion of the Covid pandemic years. Offering our prognostications has not always been easy.

Thus, right now, we appreciate that our outlook for the stock market turns out to be substantially correct. Three months ago, we were perturbed that stock market growth was too concentrated in the big technology names and investor fascination with artificial intelligence. We predicted and hoped for an expansion of the market rally into other sectors and companies.

Market performance in the third quarter strongly fulfilled our expectations. The rally broadened with most sectors of the S&P 500 outperforming technology – led by utilities, industrials, and financials. Value stocks beat growth stocks. Small-cap stocks emerged from their doldrums to race past big-cap names.

The stage for the broader and, hopefully, more sustainable rally was set by the economic news. Inflation has subsided enough for the Federal Reserve to begin with its much-anticipated move to reduce interest rates. The likelihood of recession seems remote, and the so-called "soft landing" has been achieved. Given this economic picture, most stock analysts are highly bullish for the remainder of 2024 and the first half of 2025.

We share this optimistic viewpoint at Hudson Advisors. As our clients know, however, we always are on alert for events that could derail the market. We have deep concern that a wider Middle East war will cause a spike in oil prices. Fortunately, for now, we seem to have averted the dock worker strike with its potential impact on supply chains. And, of course, there are always uncertainties in a Presidential election cycle. We will strive to manage client portfolios through any negative or turbulent circumstances.

MARKET TRENDS

The accompanying chart summarizes stock and bond market trends in the third quarter and year-to-date of 2024. The good news on inflation, interest rate cuts, and continued economic growth spurred both higher stock and bond prices.

Equity Market: Investors were actually jumpy and uncertain in the early part of the quarter. But the decision by the Federal Reserve to cut interest rates by 50 basis points set off a powerful September rally with breadth across the market. We saw the best first 9 -month performances since 1997.

The S&P 500 was ahead 5.89% for the quarter and 22.08% for the year-to-date. Significantly, growth in the quarter was spread among all sectors with only energy being negative. Eight sectors outperformed technology. Some of the skepticism about technology was seen in the Nasdaq Composite which was ahead just 2.76% for the quarter and 21.84% for the year.

In contrast, the Dow Jones Industrial Average was up 8.72% for the quarter and ahead 13.93% for the year. The Russell 2000 index of small business stocks was the market leader with a gain of 9.27% for the quarter and 11.17% for the year. Small-cap stocks do well where there is confidence in the broader economy.

Fixed Income Market: The bond market was also happy with the Federal Reserve's actions. The yield on the benchmark 10-year Treasury note, which falls when prices rise, dropped to 3.798% on September 30 from 4.342% at the end of June. This snapped a two-quarter streak of rising yields.

MAJOR MARKET INDEXES

	3Q24 Return	YTD Return
Dow Jones Industrial Average TR	8.72	13.93
S&P 500 Index TR	5.89	22.08
Russell 2000 Index TR	9.27	11.17
NASDAQ Composite TR	2.76	21.84
EAFE Index NR	7.26	12.99
Bloomberg Aggregate Bond Treasury TR	4.74	3.84

Source: Morningstar® as of September 30, 2024

THE OUTLOOK

The Economy: The market has been buoyed by two pieces of economic news in the last month. First, the Federal Open Market Committee voted to cut the federal funds rate by 50 basis points to 4.75%-5.00%. The pace of future rate cuts will be determined by trends with inflation and the labor market. However, most analysts expect the fed funds rate to be at about 3.00% by the end of the year 2025. The major indicator on the Federal Reserve radar is inflation which has trended steadily downward to about 2.5% annually now. The Fed still maintains its goal of reaching the target rate of 2.0% and will manage its policies towards that objective.

Second, the labor market demonstrated major strength when the September jobs report showed a gain of 254,00 jobs and the unemployment rate fell to 4.1%. Job growth in the preceding few months had been anemic – causing some concern about the onset of recession. But September was the strongest month since March with widespread gains in leisure and hospitality, construction, retail, and health care.

Real U.S. GDP is expected to rise 2.8% year-over-year in 2024. Most economists expected that GDP growth to slow in 2025 – but the strong jobs report has left a question mark on these forecasts. Productivity is robust. Household and corporate balance sheets are healthy overall. Retail sales are still strong. Talk of potential recession has faded.

The Market: Given this positive economic picture, the average corporate earnings growth among S&P 500 companies is forecast to be 10% in full-year 2024. It will be the fastest rate of year-over-year earnings expansion since 2021. These strong earnings contribute greatly to the bullish outlook for the stock market. That said, some major companies have reported disappointing earnings. At this stage in the bull market, investors need to distinguish between winners and losers. We have this focus at Hudson Advisors.

On a trailing basis, the S&P 500 is trading at a P/E ratio of 24.77. That is well above its long-term average of about 19 – but close to its five-year average of 24.46. So, we have been living with richly priced stocks for several years now. Our major concern at Hudson Advisors is that rich stocks can collapse quickly in the face of "black swan" events. Thus, we are continuously vigilant for geo-political situations that can disrupt the market.

OUR STRATEGIES

As**set 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 has ever-evolving potential with its continuous evolution and response to global health needs.

UTILITIES: We like the focus in this sector on the upgrade of power management systems and transmission networks.

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 along with electrical components and equipment.

FINANCIALS: We like large and diversified financial companies – especially those with investment banking arms.

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 still 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.

We are delighted to introduce Mike McGee, CTFA, who joined Hudson Advisors in September 2024 as our new Managing Director and Private Wealth Advisor. Mike is a highly accomplished professional with over three decades of experience in wealth management. His career includes leadership roles at notable financial institutions such as Wilmington Trust, Wachovia, PNC, and most recently, Morgan Stanley. Mike's expertise in managing complex client portfolios and delivering personalized financial solutions has earned him a reputation as a trusted advisor. Beyond his professional achievements, Mike is deeply committed to community service, actively serving on local boards like the United Way, VNA Hospice, VNA Foundation, and Children's Home Society. We are excited to have Mike on our team and look forward to the invaluable contributions he will bring to our clients and community.

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