LYNCH & Associates
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Dear Valued Client:

Returns for the major stock indexes in 2024 and the current bond and money market yields are as follows:

Index	2024 YTD
Dow Jones Industrial Average	12.31%
S&P 500	20.81%

Fixed Income Yields	1 year	2 year	5 year	10 year	30 year
Municipals	2.52%	2.39%	2.37%	2.63%	3.55%
US Treasuries	4.00%	3.63%	3.56%	3.78%	4.12%

Fidelity Government Cash Reserves Money Market Fund	4.74%
Fidelity Money Market Fund Class Premium	4.81%

The bull market continues to charge higher! The S&P 500 is having its 12th best year since 1928, up a remarkable 20% year to date. Every asset class is positive for the year, while every major index has increased by more than 10%. With three months left in the year, the market has already surpassed the year-end targets of seemingly every major brokerage house. The large U.S. growth stocks continue to drive the outperformance. The bond market is up modestly for the year and has rallied well from its July lows. Once again, the equity markets are rewarding long-term investors and surpassing expectations.

As we all know, we have recently endured a period of significant inflation. We understand the destruction caused by inflation: reduced purchasing power, erosion of savings, higher interest rates, and the uncertainties of trying to anticipate rising prices. As inflation began to soar in early 2021, we wrote about how stocks generally serve as a good hedge against inflation. We are pleased that equities have outperformed since then, as the total return from equities of over 50% has far outpaced inflation of roughly 20%. Like many of our clients, those with assets have benefited from rising asset prices. In contrast, those uninvested or without assets have disproportionately experienced the adverse effects.

The recent excessive inflation has had many contributing factors. The most significant factor was the enormous amount of money printed by central banks worldwide, most notably, the U.S. Federal Reserve Bank. Again, we highlight the incredible 40% increase in money supply from 2020 to 2022 to counter the narrative that interest rate policy serves as a panacea for controlling inflation. While interest rate policy certainly affects inflation, we must reconcile this concept with why there was only meager inflation for the 15 years when interest rates were near zero. Moreover, we remind ourselves that the Fed's policy only directly affects the Fed Funds rate (the rate that banks borrow from one another), also known as the shortest end of the yield curve. Hence, interest rate cuts have little effect on long-term interest rates, a concept that is too often misunderstood.

The Fed has recently started cutting interest rates, with more likely to follow. The expectations are for additional rate cuts up to 0.75% by year-end and continued cuts through 2025 and into 2026, suggesting rates could fall to as low as 2.80%. However, we know the market expectations and projections by the Fed Board members are often wrong.

So, how does this affect our decision making? For those with fixed-income holdings, our challenge is to what extent we "ladder" our bond portfolios when the most attractive rates are still on the short end of the curve, and laddering out too many years forward seems to have nominal advantages. For too many, the idea of locking in a 3% bond over ten years is wrought with pitfalls unless rates fall even further than expected, which we do not anticipate. We are mindful that the TINA (There Is No Alternative to equities) narrative may return. This fixed income conundrum is a problem and longer conversation, but again, we are becoming cautious about the prospects of bond maturities further than a couple of years.

The equity markets have been delivering results, but objectively, they are expensive based on valuations relative to earnings and sales over the last 25 years. This is not to say we are bearish, as markets can sustain higher valuations for many years. The most common defense of high valuations is that earnings will continue to surpass expectations and ultimately reconcile to normal levels. With the AI narrative gripping world economies, we remind ourselves to remain humble and keep the birds-eye view; hence, stay focused on the long term. For now, optimism abounds in equity markets, and while we remain with our value bias, we are not fighting the trends.

We encourage our clients to remain focused on their long-term investment goals. Our team is here to provide guidance and support as needed, and we remain committed to helping you achieve your investment objectives. We thank you for your continued confidence in LYNCH & Associates.

Sincerely,

Ryan T. Lynch, CFP® ChFC®
President