



# A&I Wealth Management

2024 Q3 Market Update

Karl Frank CFP®



# A&I Wealth Management

Market Update

Economic Update

Outlook from iMGP, AthenaInvest and  
Capital Group

Second Opinion Service *free!*



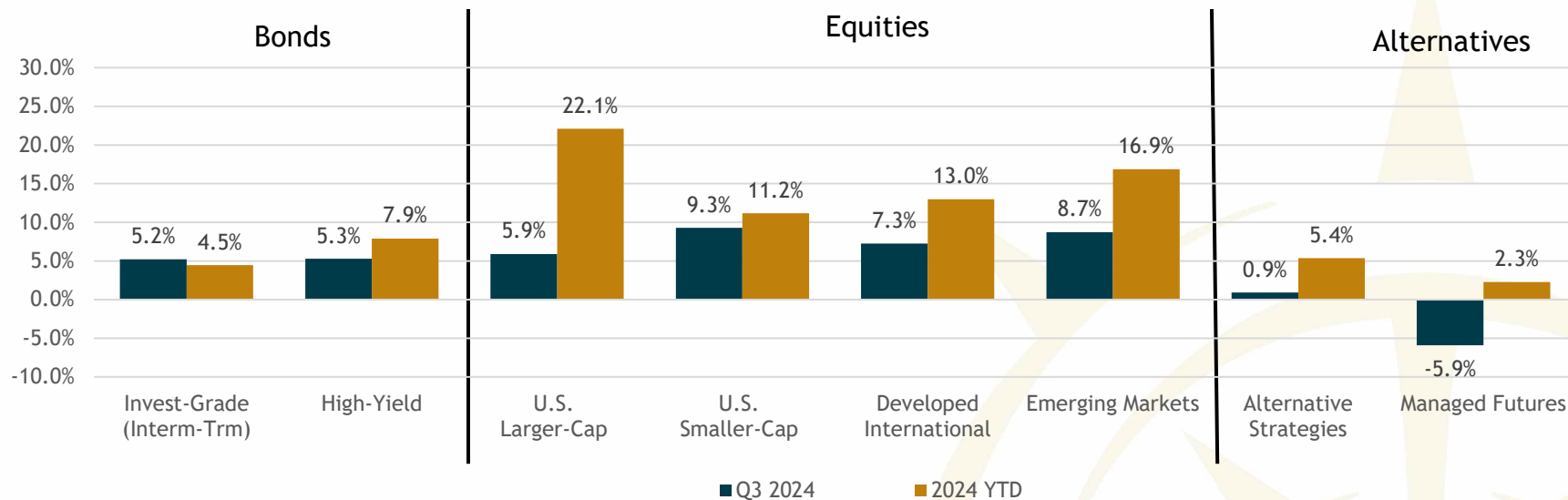
# Wall of Worry

US election, inflation, markets, economy, war, Ukraine, China, Israel, affordable healthcare, retirement, our kids...



# Market Review

## 30 Sep 2024

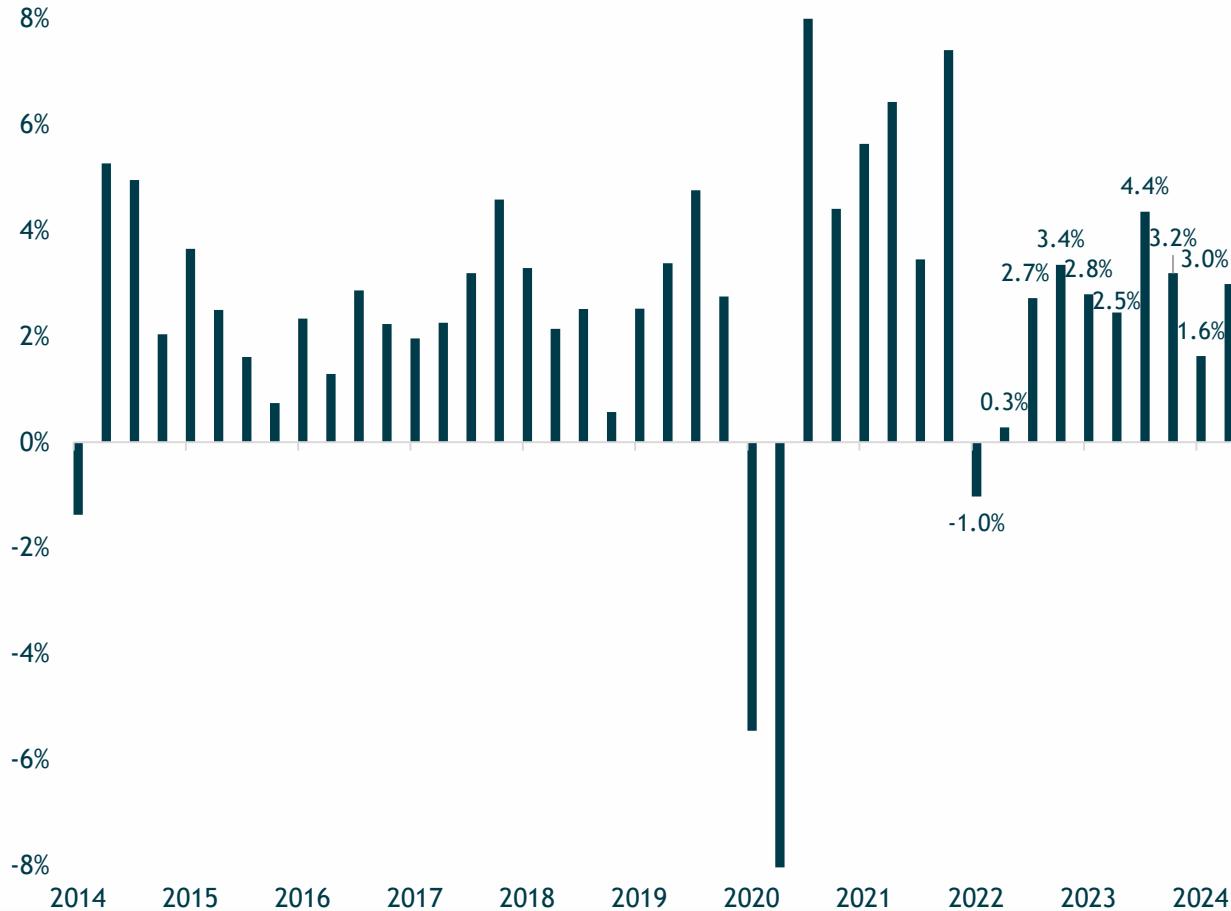


Performance reflects index returns as follows (left to right): Bloomberg US Aggregate, ICE BofA US High Yield, S&P 500, Russell 2000, MSCI EAFE, MSCI EM, Morningstar US Fund Multistrategy Index, SG Trend Index. Source: Morningstar Direct. Data as of 9/30/2024.

# iMGP Outlook

Asset Class	Outlook
U.S. Stocks	US stocks are likely to generate low- to mid-single-digit annual returns over the next five years. Within U.S. stocks there are opportunities in larger-cap value and smaller-cap stocks.
Developed International Stocks	European stocks' five-year return potential is better than US stocks, plus we expect an added boost from a depreciating US dollar.
Emerging-Market Stocks	Long-term return potential is attractive, but we believe shorter-term concerns around China will be a significant headwind and prevent a sustainable rally in EM stocks.
Investment-Grade Bonds	Core bond yields have risen materially, improving their risk/return profile and improving their role as ballast in a portfolio. We continue to see attractive opportunities outside of core bond sectors too.
Alternative Strategies	We own alternative strategies we believe improve the overall risk-adjusted return potential of our portfolios, with mid-single-digit return potential and different risk and return drivers than traditional stocks and bonds. These strategies are particularly valuable in a stagflationary environment when stocks and bonds face headwinds.

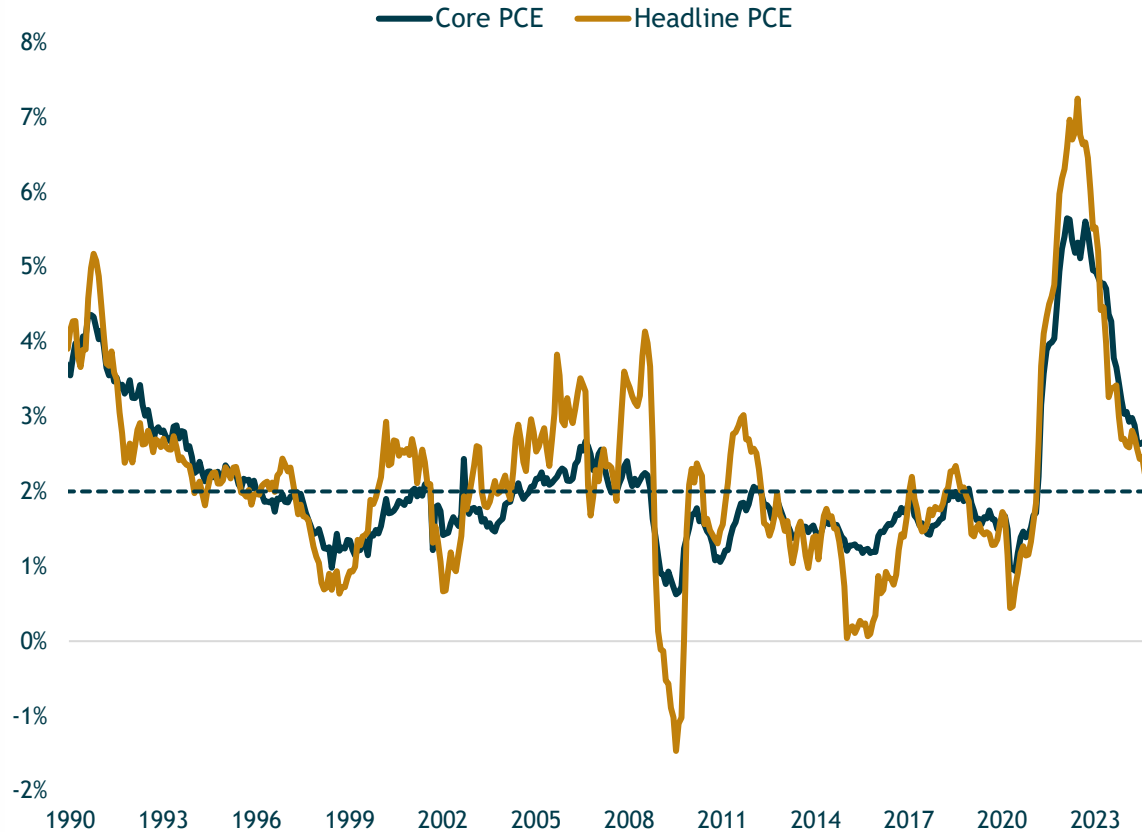
## U.S. Real GDP Growth



# US Economy Remains in Good Shape

Source: U.S. Bureau of Economic Analysis.  
Data as of 6/30/2024. Scale truncated at +/- 8% due to large pandemic-related values.

## Inflation is Nearing 2% Target



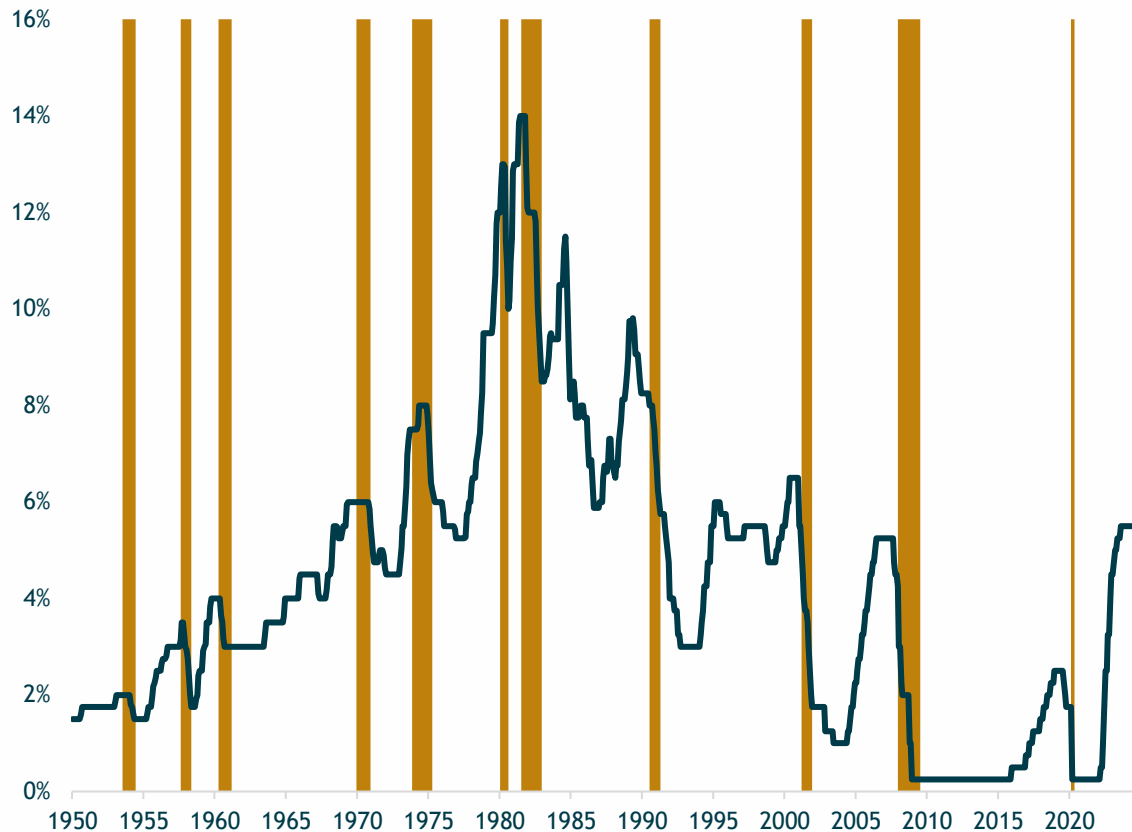
Inflation  
Continues to  
Moderate  
Towards the  
Fed's 2%  
Target

Source: U.S. Bureau of Economic Analysis.  
Data as of 8/31/2024.



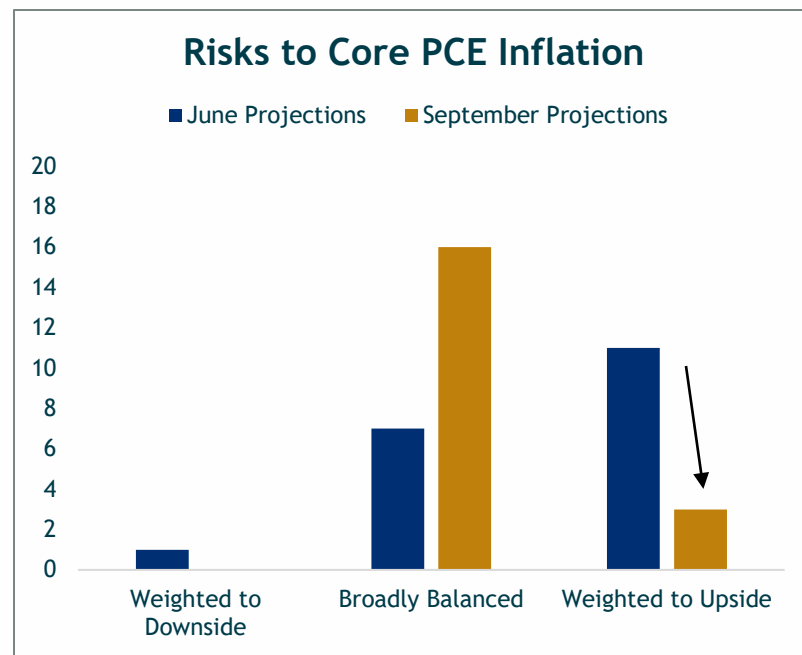
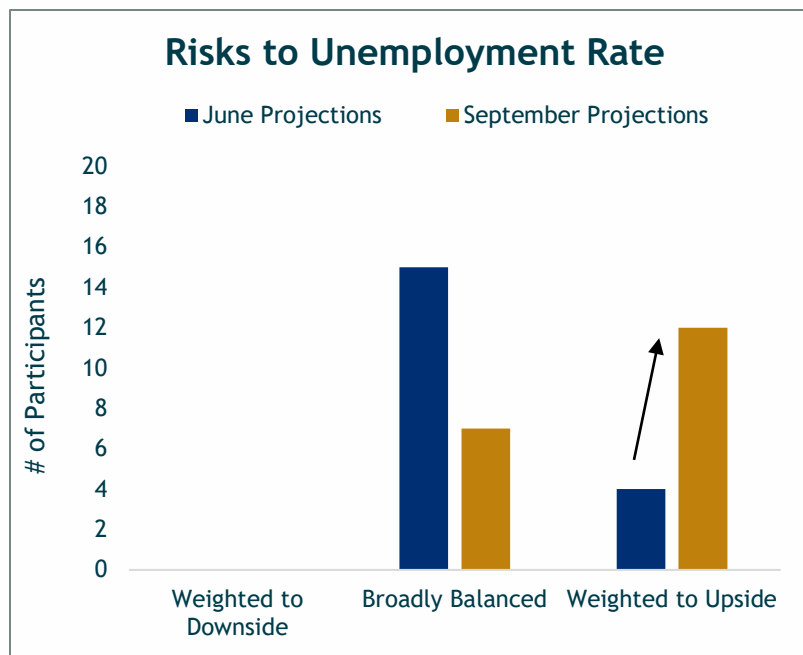


Recession Fed Funds Rate

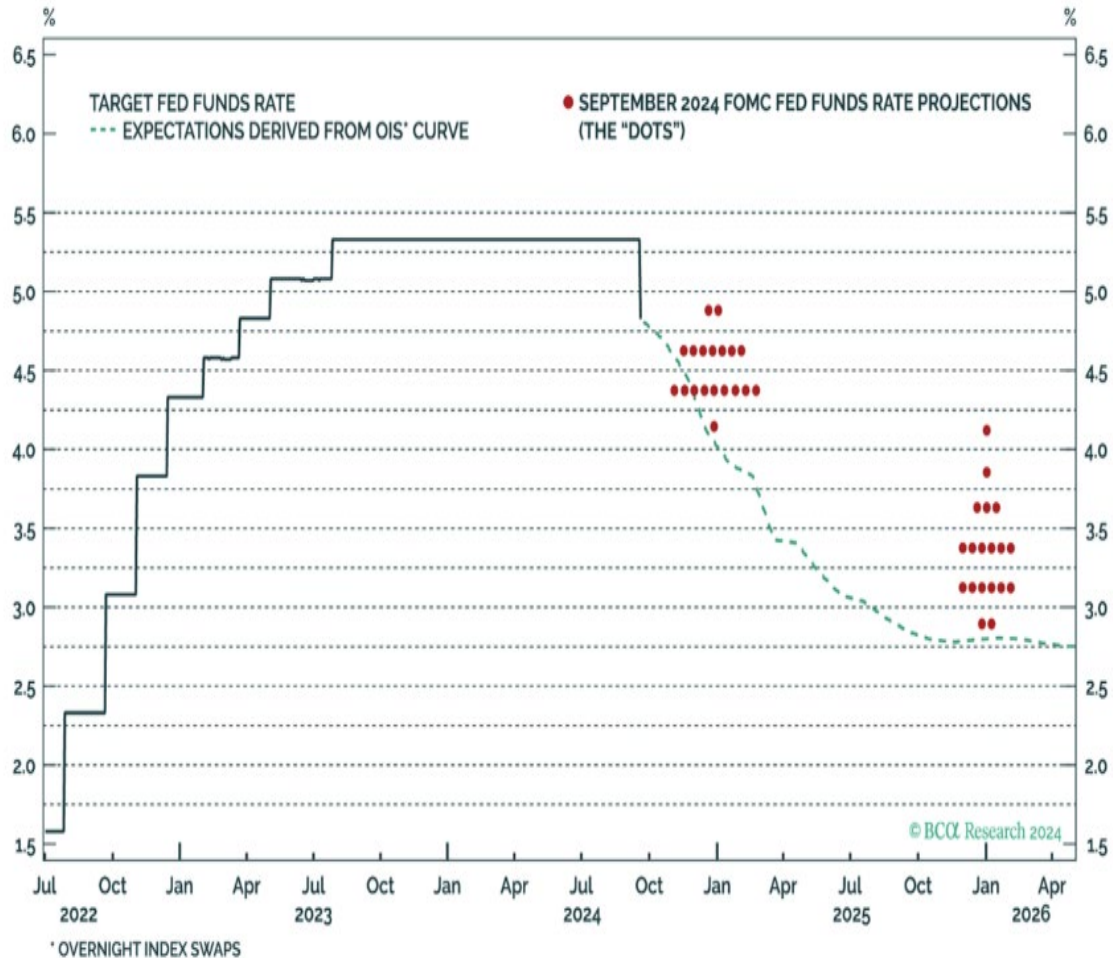


Fed Cut  
Rates 0.5% in  
September

# The Fed Sees Growing Risks to Labor Market and Balanced Risks to Inflation



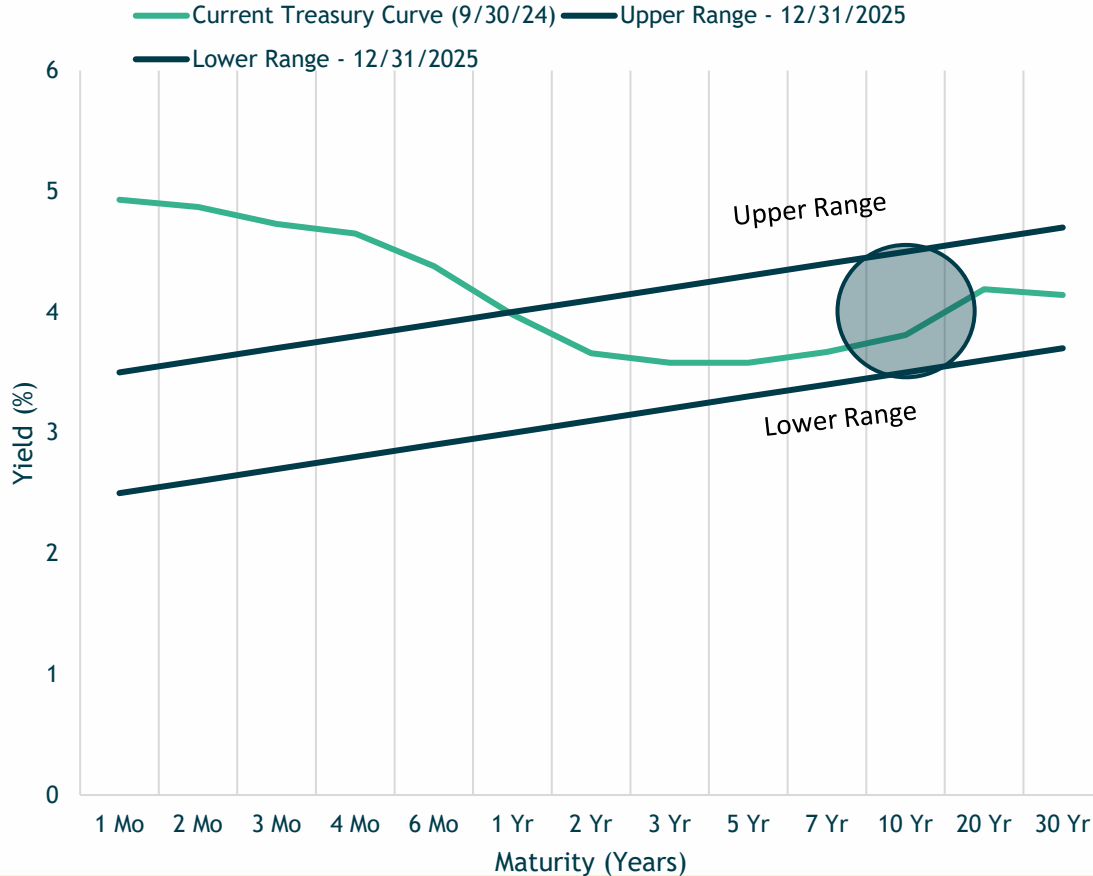
Source: Federal Reserve Summary of Economic Projections. Data as of September 18, 2024.



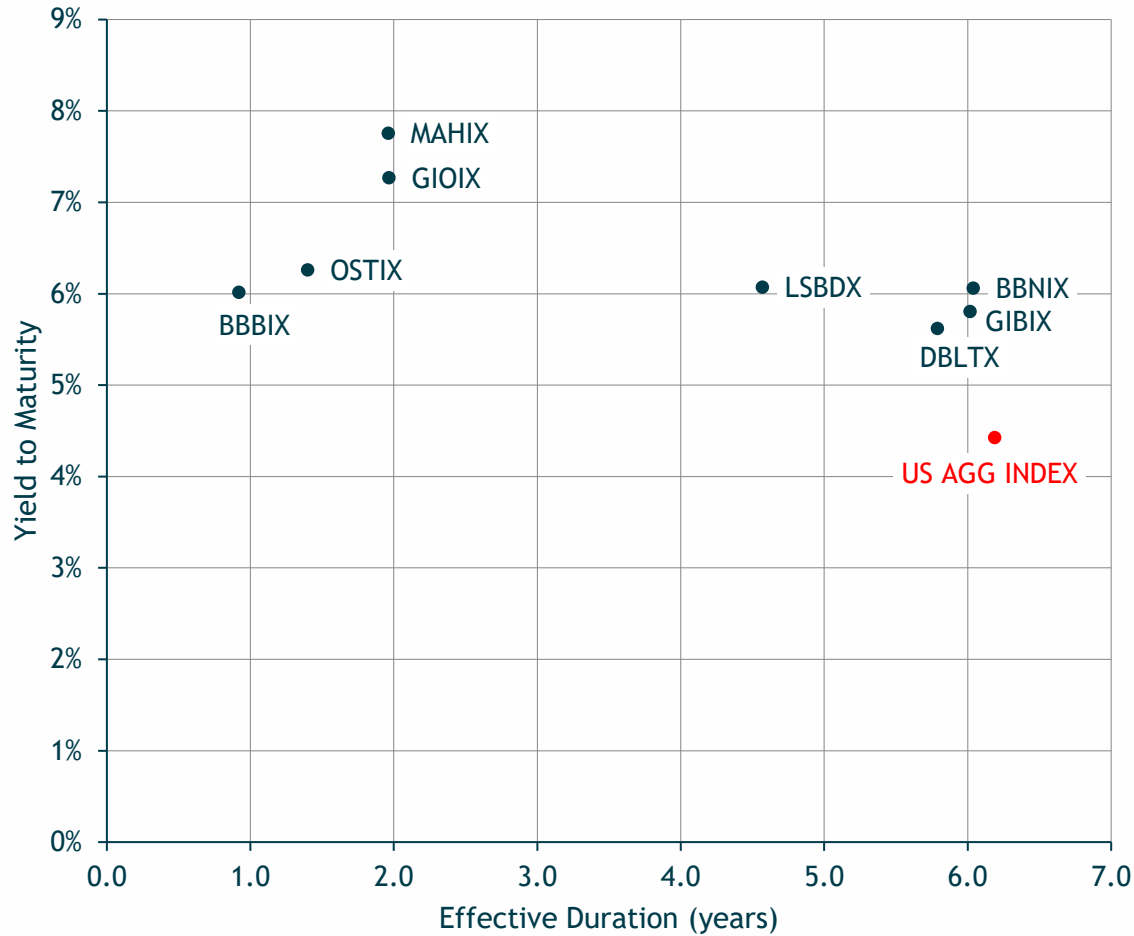
# Bond Market is Pricing in Aggressive Rate Cuts

Source: BCA Research. Data as of 9/30/2024.

## Potential Range of Outcome For the Treasury Yield Curve Year-End 2025



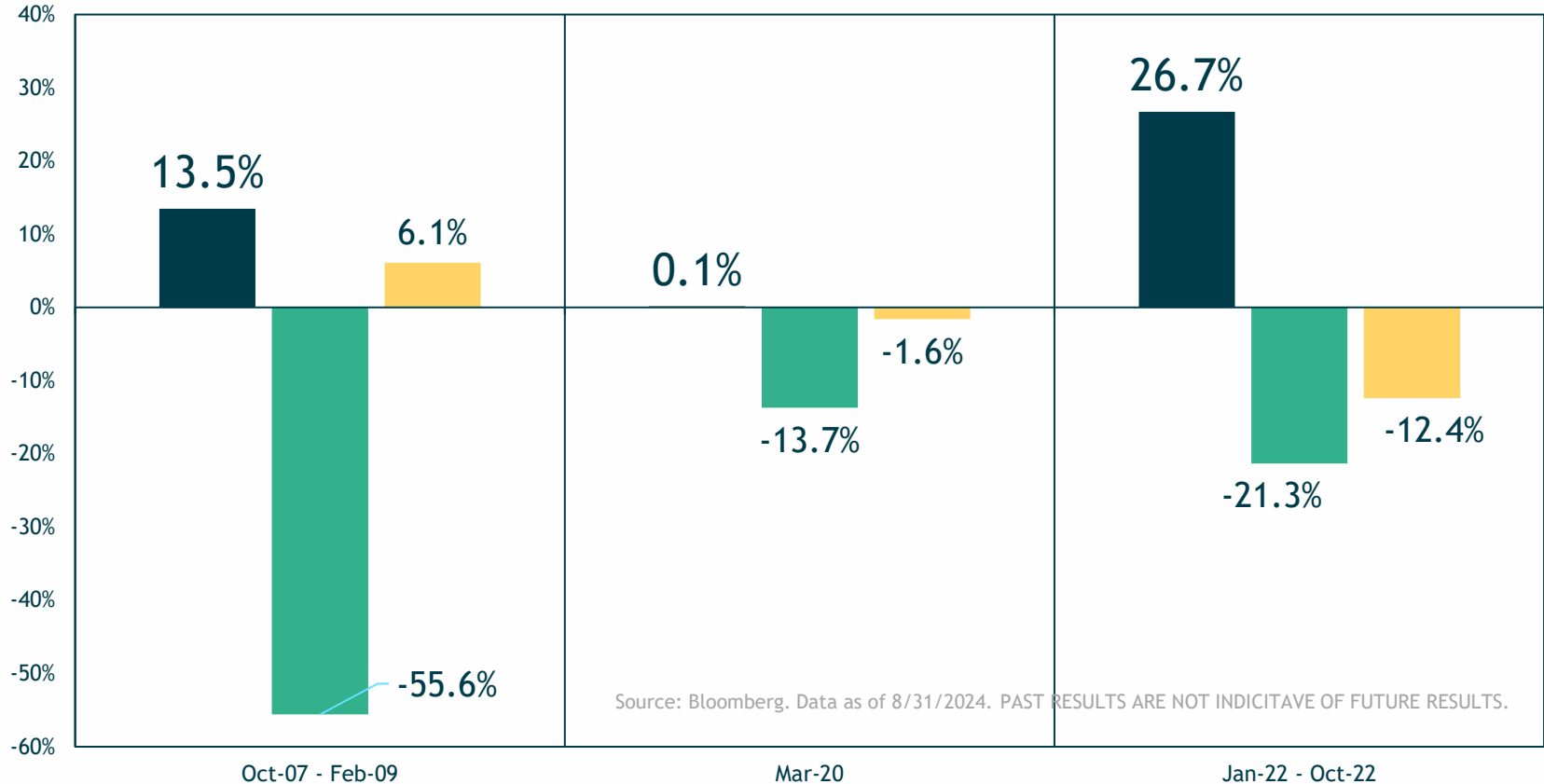
IMGP  
Believes 10-  
Year  
Treasury  
Yields are  
Range Bound



iMGP Bond  
Positioning  
Favors  
Higher Yields  
and Shorter  
Duration

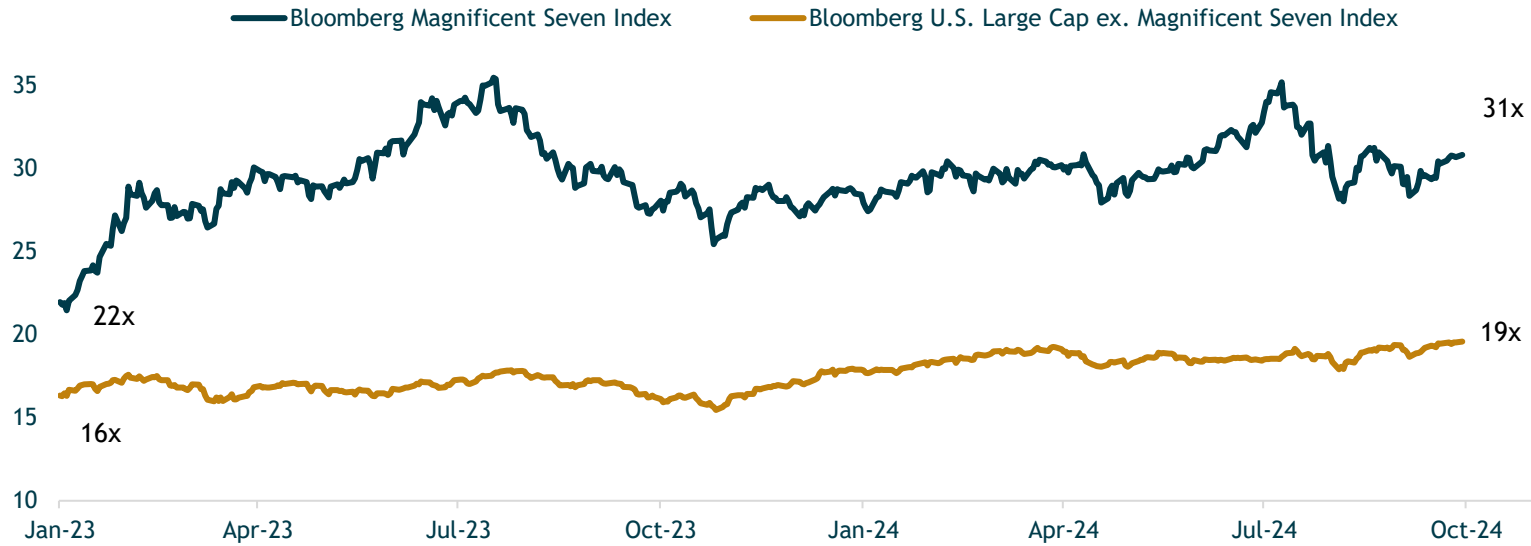
## Performance of Different Asset Classes During Selected Periods of Market Stress

■ SG CTA Index   ■ Bloomberg World Large & Mid Cap Total Return Index (WORLDN)   ■ Bloomberg Global Aggregate Index

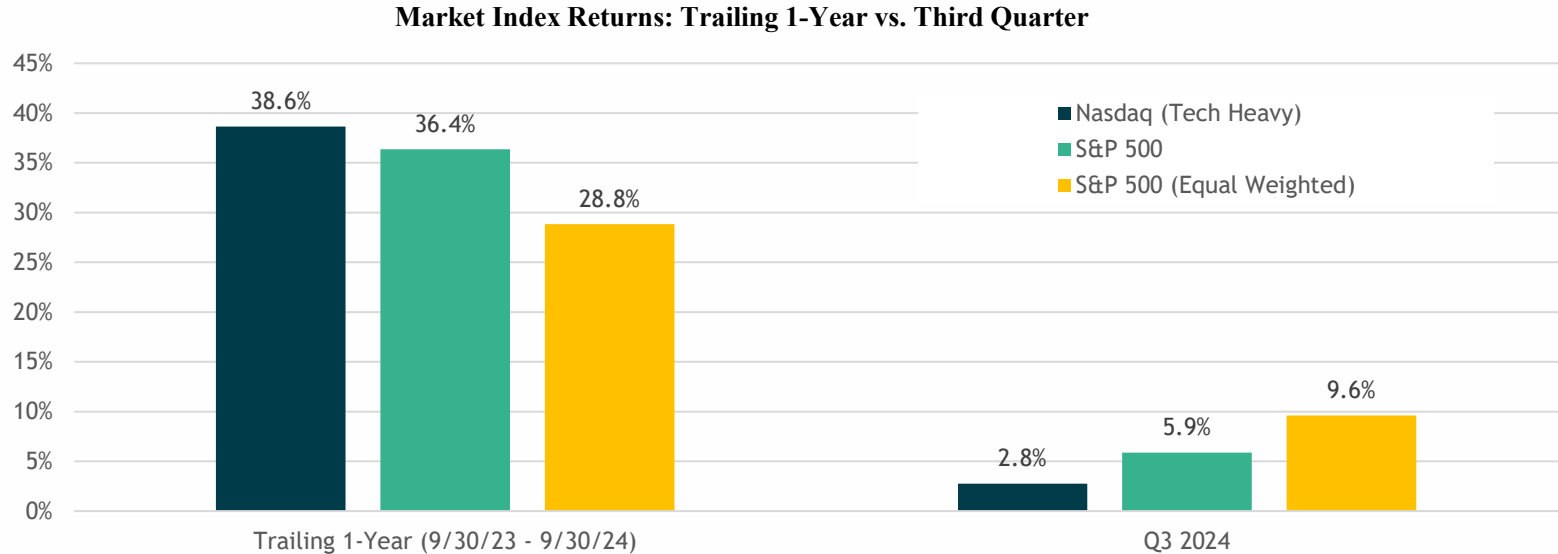


# iMGP Expects the Rally in U.S. Stocks to Broaden Out Beyond Large Cap Growth

P/E Ratio (Next 12 Months)



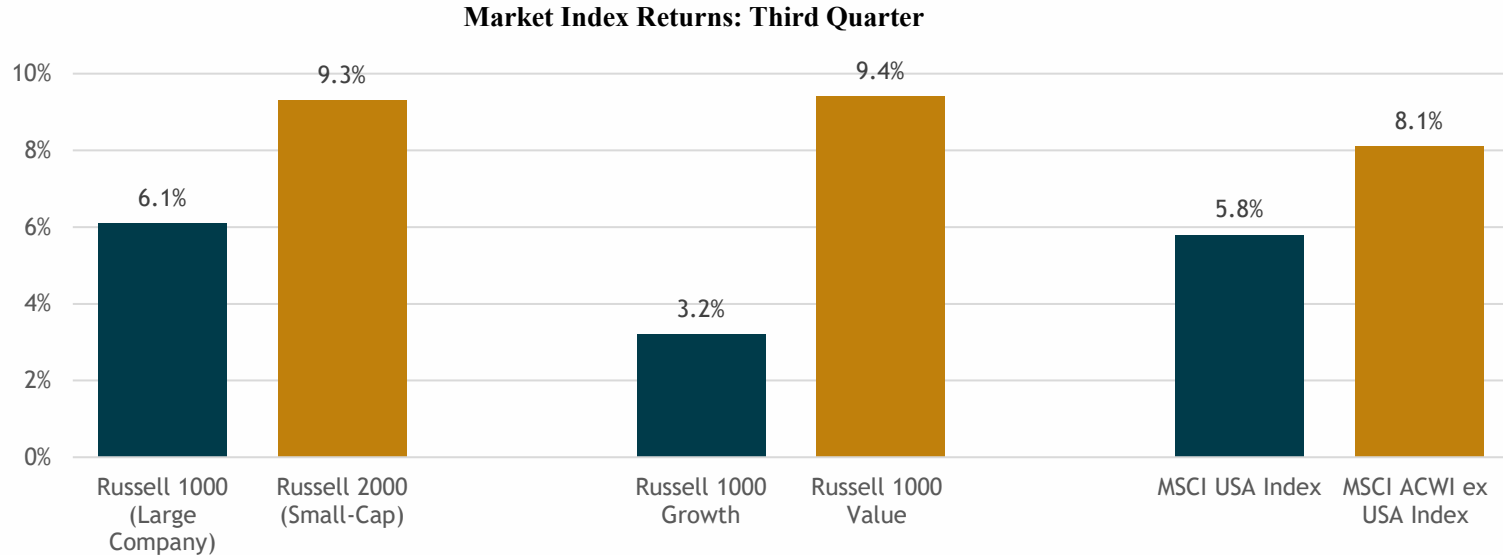
# Equity Market Trends Shifted in Third Quarter



S&P 500 (Equal Weight) includes the same constituents as the capitalization weighted S&P 500 Composite.  
Source: Morningstar Direct. As of 9/30/2024.

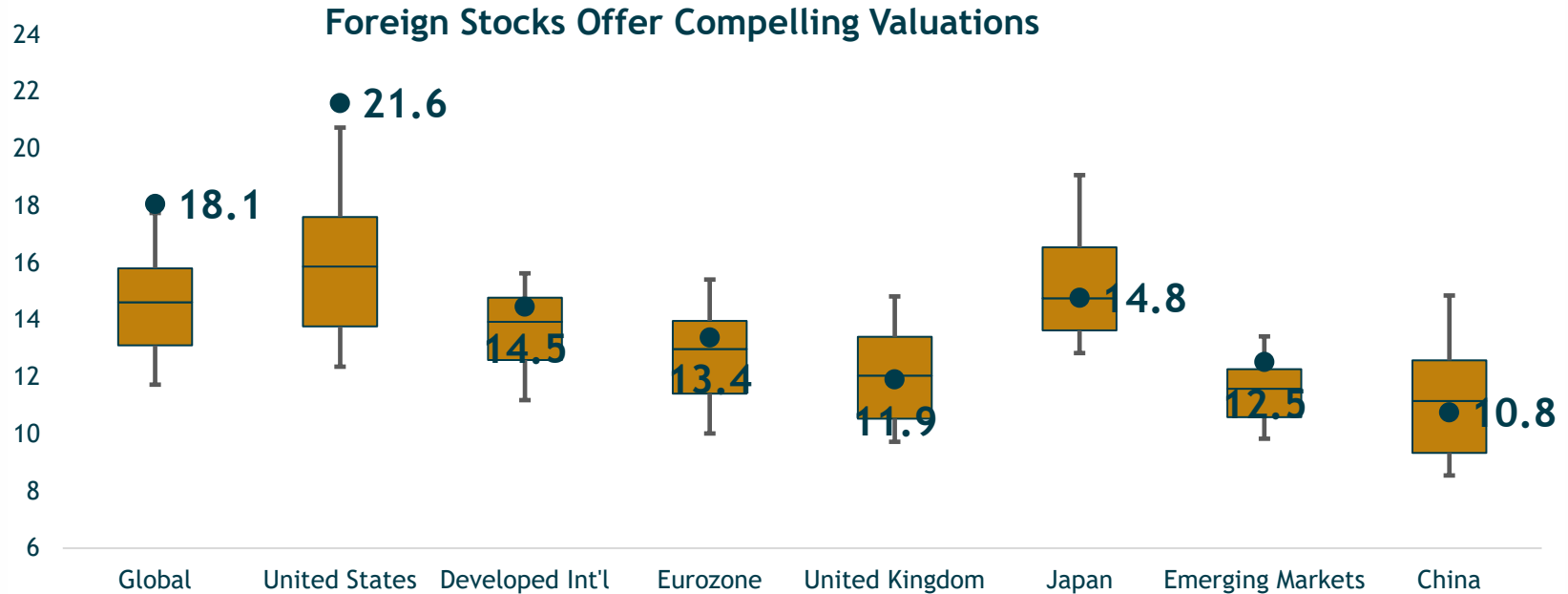


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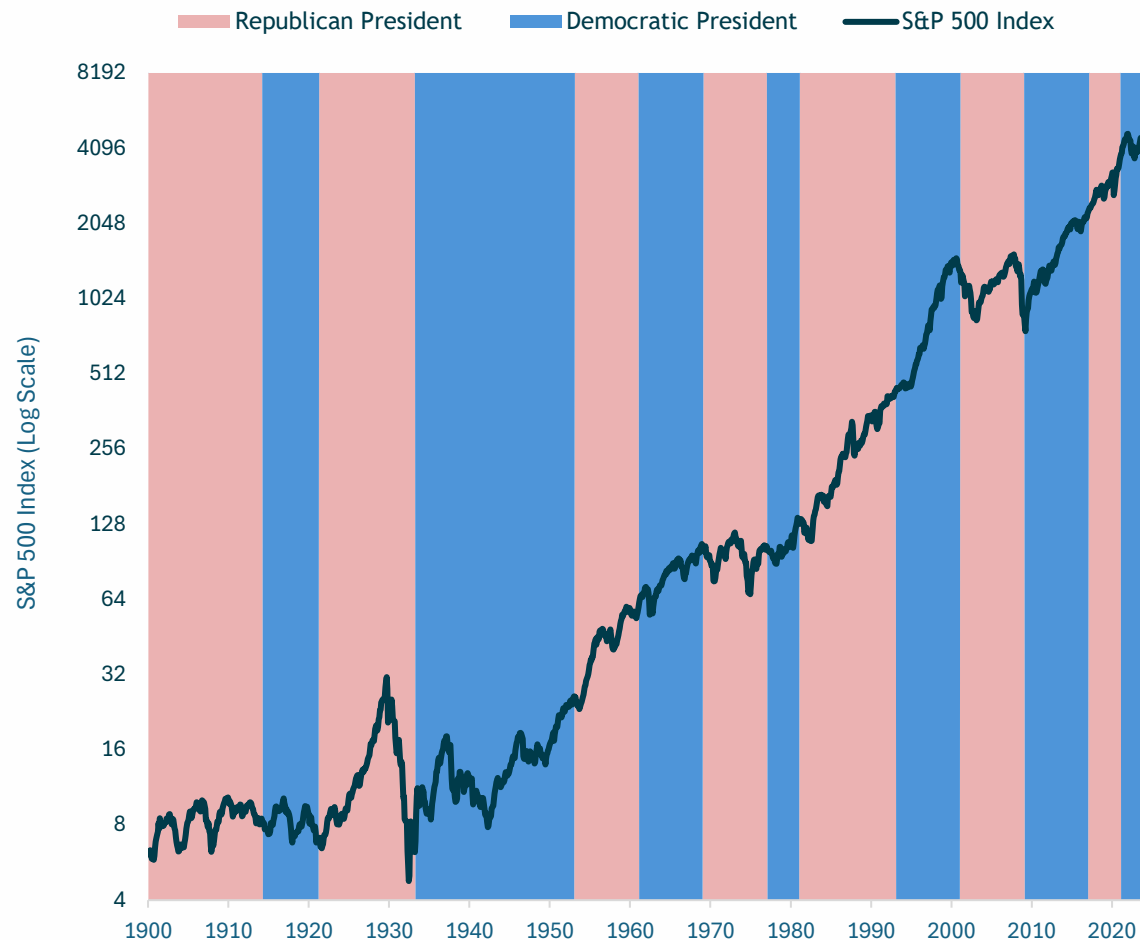
# Foreign Stock Valuations are Attractive



Source: Bloomberg LP. Data from 1/1/2006 to 9/30/2024.



# S&P 500 vs. Presidential Political Party



## Re: Election

Historically  
Stocks Trend  
Higher

Source: Bloomberg. Data as of 9/30/2024.



# Capital Group



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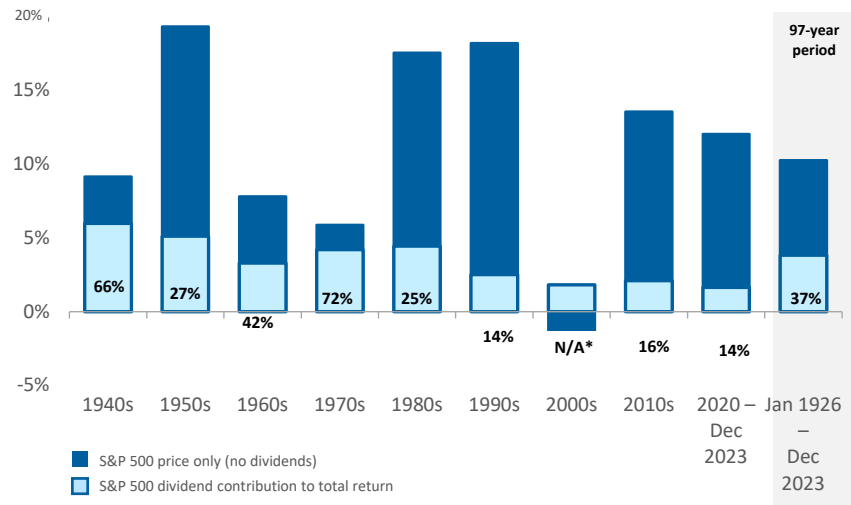
-  Dividends
-  Selective growth
-  International



# Dividends may be relevant for the first time in decades

## Dividends have comprised 37% of total returns since 1926

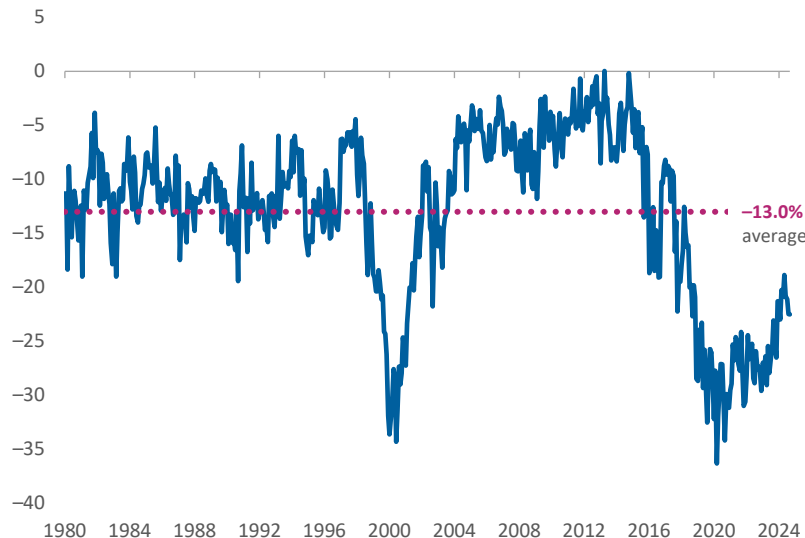
### S&P 500 annualized total return by decade



Source: Capital Group. Data as of 12/31/23.

\*Total return for the S&P 500 Index was negative for the 2000s. Dividends provided a 1.8% annualized return over the decade. Past results are not predictive of results in future periods.

## Forward P/E ratio of high dividend stocks vs. S&P 500 Index (%)



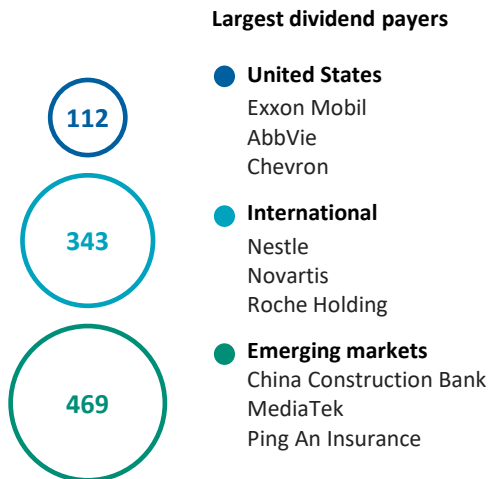
Source: Goldman Sachs. As of 9/30/24. P/E ratio = price-to-earnings ratio. The forward P/E represents the forward ratio for the next fiscal year. Past results are not predictive of results in future periods.

This exhibit is examining the P/E multiple of the cohort of stocks in the S&P 500 Index with the highest quintile dividend yield (sector-neutral) relative to the broad S&P 500 Index.

# Attractive yields exist around the globe

Think dividends for risk-adjusted returns

## Number of companies with dividend yields higher than 3%

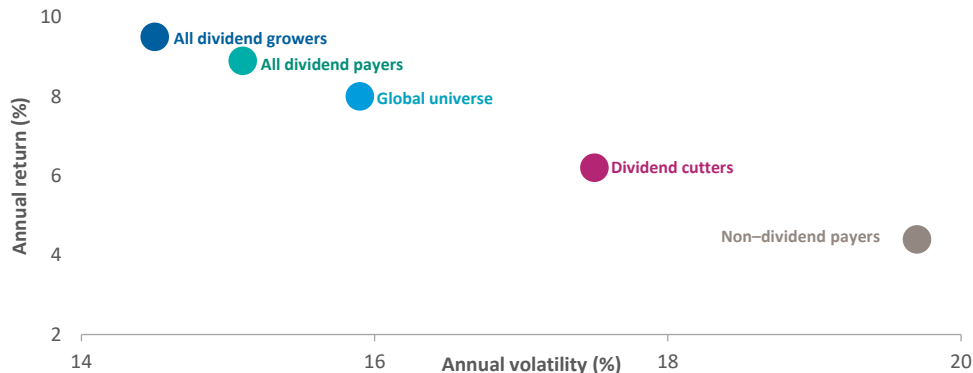


Source: Capital Group, FactSet. As of 9/30/24. United States reflects the S&P 500 Index. International reflects MSCI EAFE. Emerging markets reflects MSCI Emerging Markets Index. Largest dividend payers reflect largest holdings by weight in the index.

Past results are not predictive of results in future periods.

## From 12/31/89 to 12/31/23

Universe segment



Sources: Compustat, Worldscope via FactSet, MSCI, Capital Group. Data from 12/31/89-12/31/23.

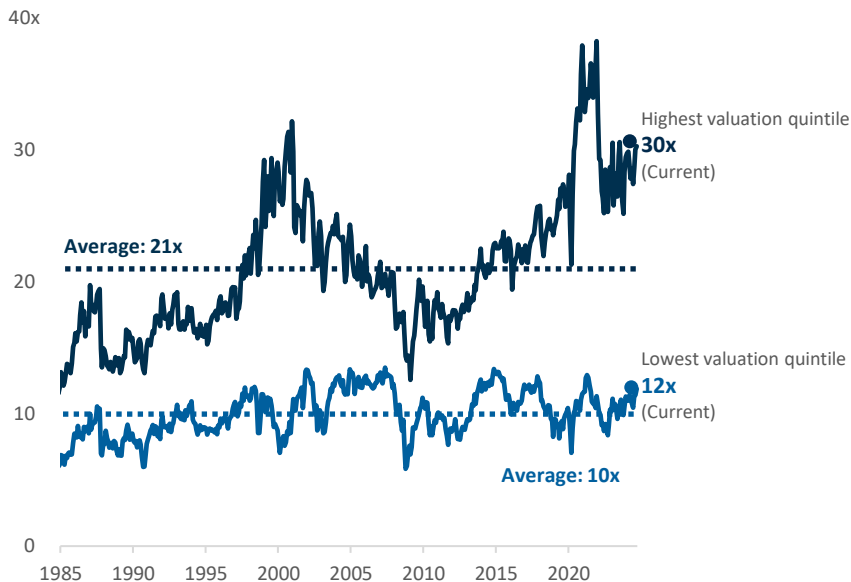
Returns for the global universe are total returns in USD (with gross dividends reinvested) calculated as a weighted average of regional portfolio allocations. The universe consists of an equal-weighted portfolio of the 1,000 largest companies in the S&P BMI Global Index for North America (50% weight), Europe (25%) and Japan (10%); and the 500 largest companies for Emerging Markets (10%) and Pacific ex Japan (5%) from December 1989 to December 2004. Thereafter, the universe consists of an equal-weighted portfolio of the 1,000 largest companies in the MSCI IMI (Investable Market Index) Indices for North America, Europe and Japan; and the 500 largest companies for Emerging Markets and Pacific ex Japan. The global universe is based on an approximate weighting of regions in the MSCI ACWI and do not reflect the changing regional shifts. The universe constituents were rebalanced quarterly, and volatility (standard deviation) is based on monthly returns. All companies composing the global universe are split into dividend payers and non-dividend payers. A company was classified as a "dividend payer" if it paid a dividend during the previous quarter. A company was classified as a "dividend grower" (a subset of payers) if its trailing 12-month dividend per share increased relative to one year earlier. Past results are not predictive of results in future periods.



# Multiple expansion among expensive companies is likely to slow down

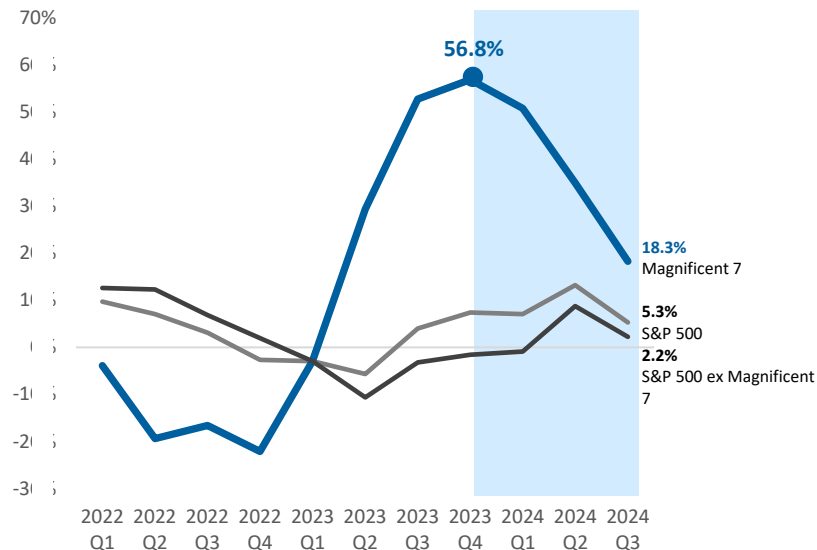
Meanwhile, the earnings landscape continues to shift

Forward P/E multiple of S&P 500 Index highest and lowest valuation quintiles (sector-neutral)



Source: Goldman Sachs. As of 9/30/24. P/E = price-to-earnings. The forward P/E represents the forward P/E multiple for the next fiscal year.

Earnings growth YoY



Source: Bloomberg. As of 9/30/24. Earnings = net income. YoY = year over year. Magnificent 7 (highest performing stocks in the S&P 500 Index in 2023) includes Apple, Microsoft, Amazon, NVIDIA, Alphabet, Tesla and Meta.



# Seeking growth beyond the Magnificent 7

## The largest companies dominate the U.S. market...

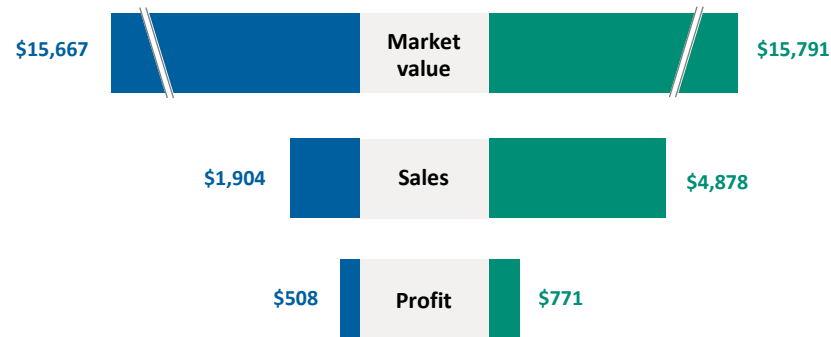
Stocks of the S&P 500 Index (USD billions)

### Magnificent 7

Apple, Microsoft, Amazon, NVIDIA, Alphabet, Tesla, Meta

### Next 50 companies

Berkshire Hathaway, Eli Lilly, Broadcom, Wal-Mart, J.P. Morgan and more

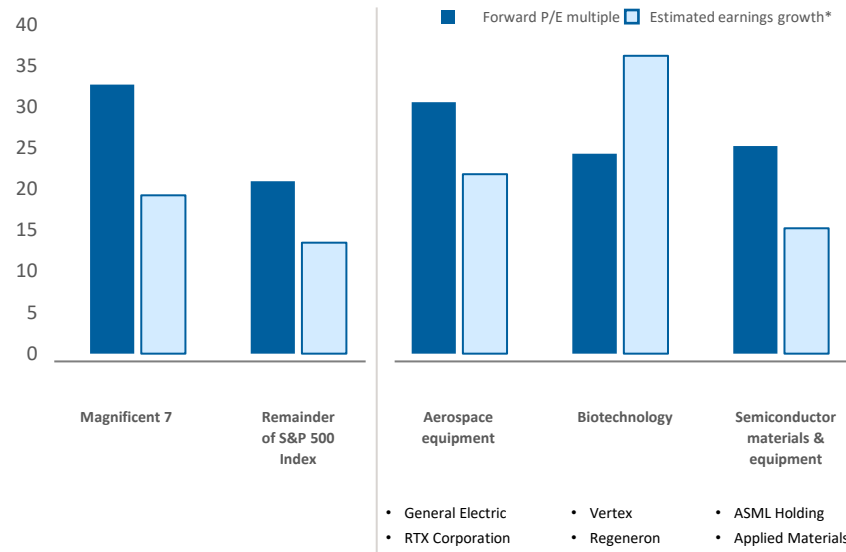


Sources: Capital Group, FactSet. Next 50 companies represent stocks following the Magnificent 7, ranked by market capitalization, with the above stocks topping the list. Sales are the net sales (or revenues) of the relevant item reported in the last 12 months. Profit is represented by the trailing 12-month operating profit. As of 9/30/24.

Past results are not predictive of results in future periods.

## ...but other industries offer attractive growth opportunities

S&P 500 Index valuations and projected earnings growth



Source: FactSet. As of 8/31/24. Forward P/E multiple represents the forward P/E multiple for the current fiscal year. \*Estimated earnings growth is a % annual growth figure. Magnificent 7 stocks were the top 7 contributors to returns for 2023 in the S&P 500 Index.

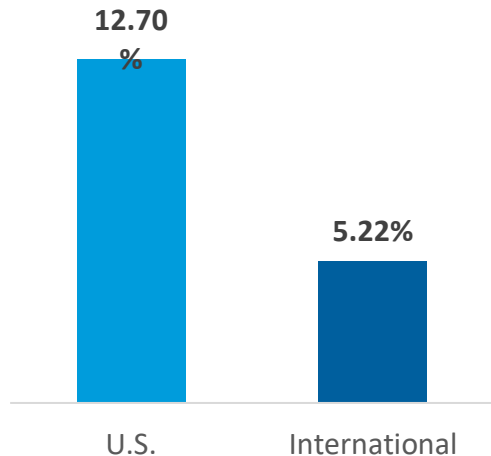


# Are the past 10 years likely to repeat?

Decomposing the drivers of returns provides some clues

## The scoreboard

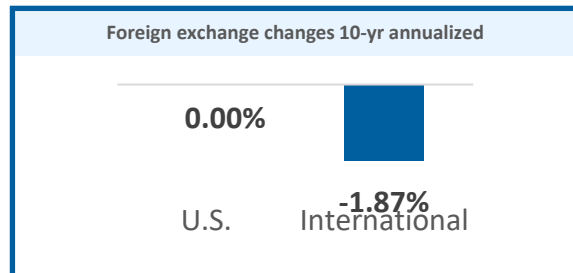
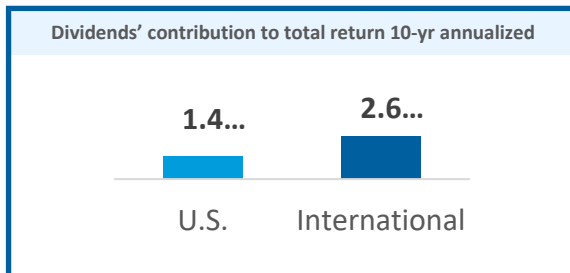
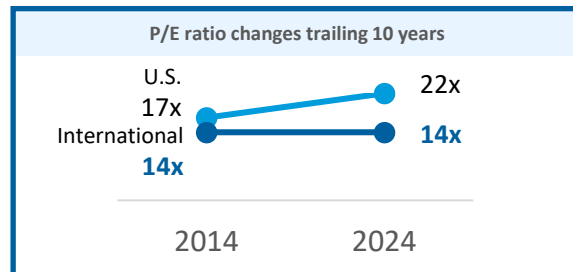
10-year annualized returns  
Period ending 9/30/24



## Key playmakers

Historical drivers of returns

3 of 4 key playmakers potentially favor international

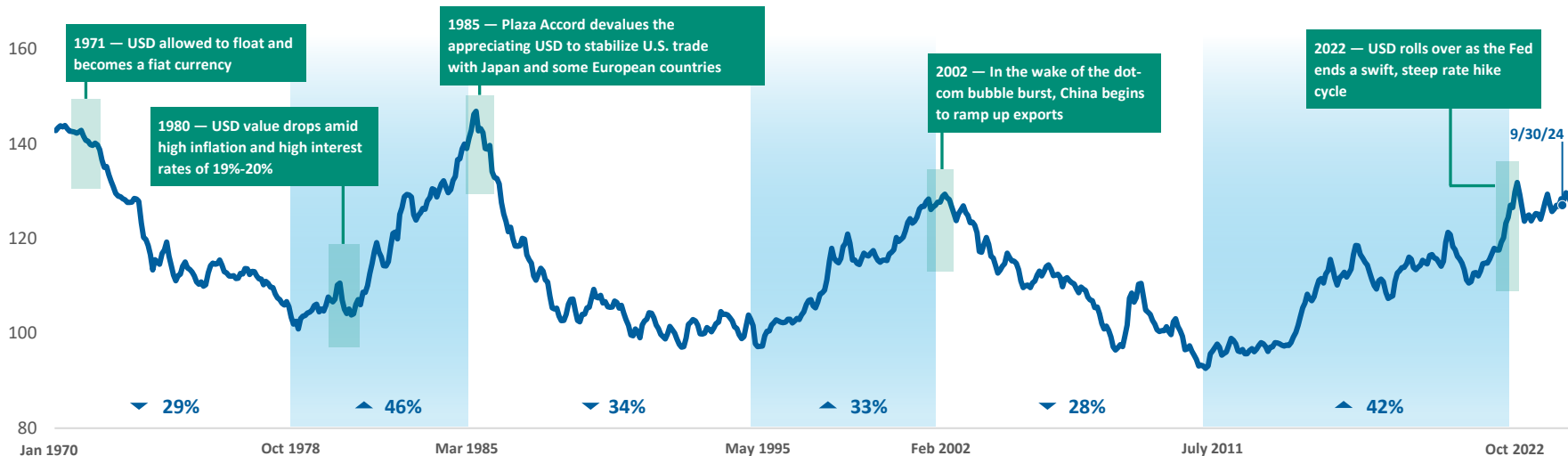


Sources: Capital Group, FactSet, Morningstar. As of 9/30/24. Past results are not predictive of results in future periods.

All U.S. data refers to the MSCI USA Index; all international data refers to the MSCI ACWI ex USA Index. Earnings growth is 10-year compound annualized growth rate (CAGR) of the index's earnings. P/E ratios are the most recent month-end price divided by the estimated earnings per share for the current fiscal year as of 9/30/14 and 9/30/24. Dividends' contribution to total return is calculated as the index's 10-year annualized total return minus the index's 10-year annualized price return. Foreign exchange changes are relative to the U.S. dollar, so it is not applicable for the U.S. index, and for the international index, it is calculated as the dollar-denominated MSCI ACWI ex USA Index minus the local currency-denominated index.

# Currency catalyst: What happens without a USD headwind?

U.S. dollar index (blue line: 2010 = 100)



## Relative returns of the MSCI EAFE Index to the S&P 500 Index

81%

-99%

68%

-119%

54%

-233%

MSCI EAFE outpaced

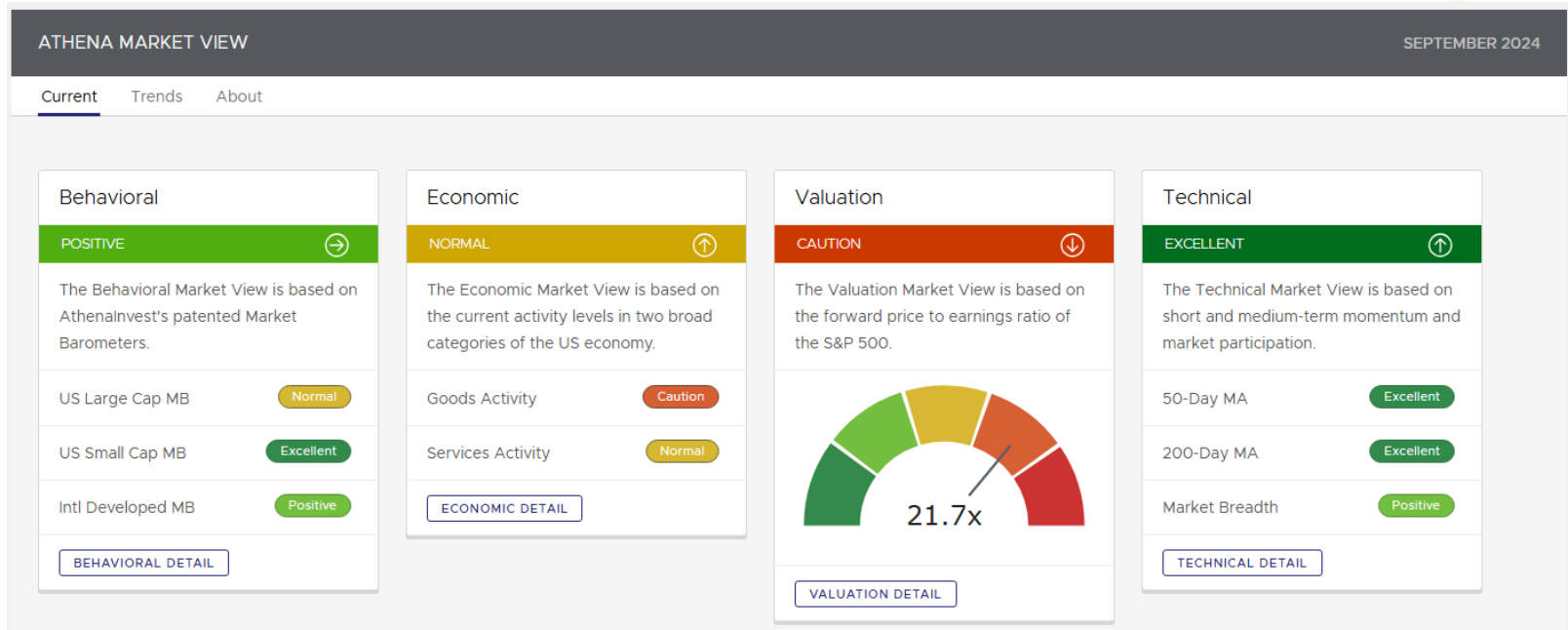
MSCI EAFE lagged

Sources: Capital Group, FactSet, J.P. Morgan, MSCI, London Stock Exchange Group, S&P Dow Jones Indices LLC. Relative returns and change in the USD index are measured on a cumulative total returns basis in USD. The U.S. dollar index reflects J.P. Morgan's U.S. Real Broad Effective Exchange Rate Index, which is rebased to 100 as of 2010. U.S. dollar index data as of 9/30/24. Relative returns data as of 10/31/22. Past results are not predictive of results in future periods.

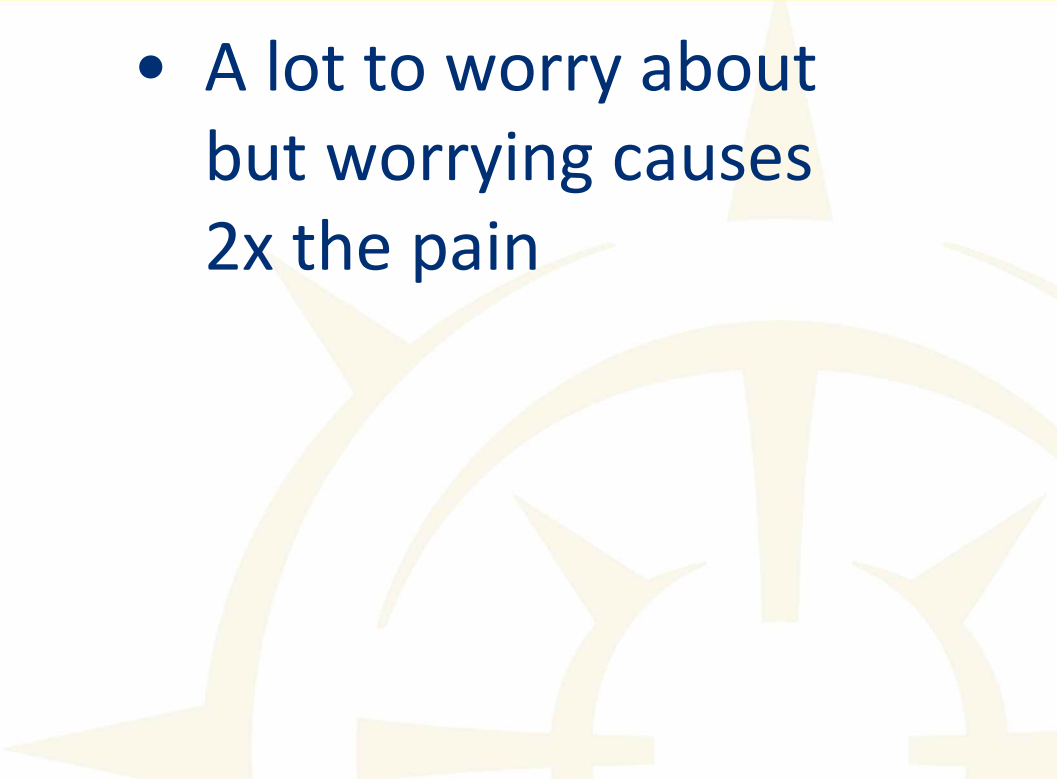
The Plaza Accord allowed a devaluation of the U.S. dollar, aiming to reduce the U.S. trade deficit and help stabilize trade with Japan.

# Athena Invest Market Barometer

Oct 2024



# Summary

- Things are good
  - A lot to worry about but worrying causes 2x the pain
- 
- A faint, light-colored graphic of a scale of justice is visible in the background on the right side of the slide. It features a central vertical pillar supporting a horizontal beam, with two pans hanging from the beam. The graphic is semi-transparent and serves as a decorative element.

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# A&I Wealth Management

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Sources: iM Global Partner, Athena Invest, Morningstarr, Bloomberg, Capital Group, Goldman Sachs, Compustat, FactSet, MSCI, J.P. Morgan, MSCI, London Stock Exchange Group, S&P Dow Jones Indices LLC.

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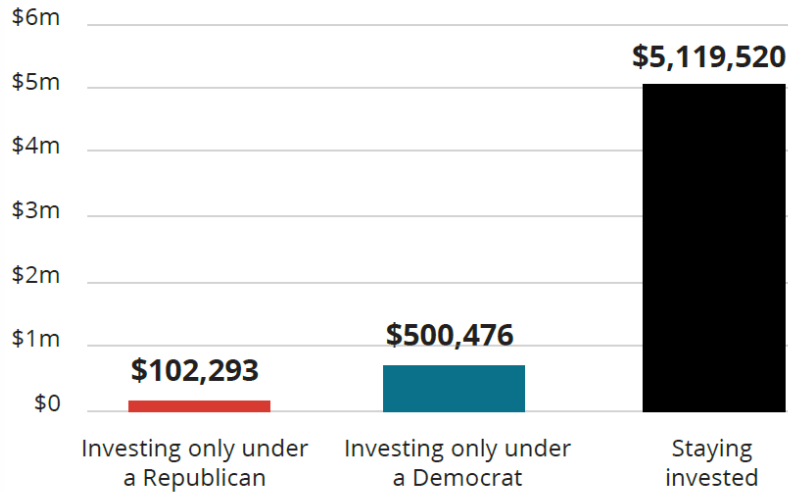
Historical performance returns for investment indexes and/or categories, usually do not deduct transaction and/or custodial charges or an advisory fee, which would decrease historical performance results. There are no guarantees that a portfolio will match or outperform a specific benchmark.





# But I only want to invest when the President belongs to my political party

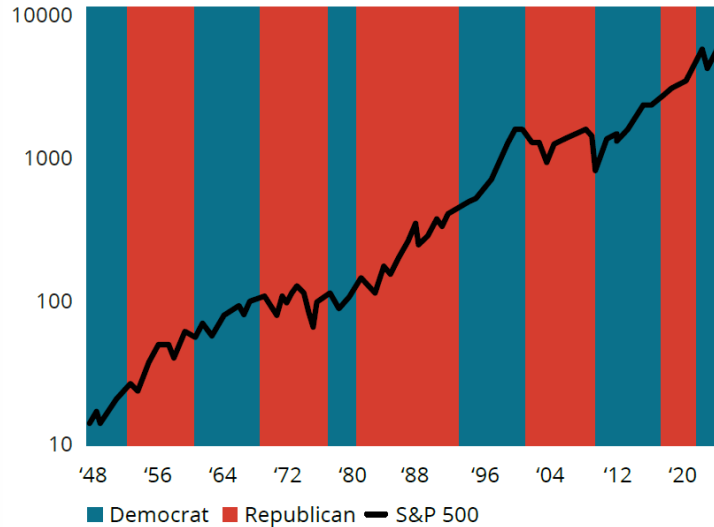
**Growth of \$10,000 (1961-2023)**



**Sources:** Schwab Center for Financial Research, Morningstar.

# But I know this President will ruin my investments

**S&P 500 & President's Party**



**Sources:** Truist IAG, Bloomberg.