Market Update

June 5, 2024

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This week in the markets….

Four Developing Themes

Over the first five months of this year the US and global equity markets have outperformed expectations and no number of confounding issues have been able to derail the extended market performance. However, in the last week we saw the US10Y treasury yield top 4.6% once again the markets respond negatively, ending May with significant volatility and a loss for the month. June started with a rally in overnight futures that met reality quickly as the sun rose to see the major averages fall through the day on Monday.

There are four emerging themes that I think are building in the macro-market that will influence performance over the coming week/weeks.

1. Fed Meeting – June meeting will not see rates fall as expected (June at the latest!) at the onset on 2024.
2. European ECB Meeting – The June ECB meeting is expected to see rates fall (even though inflation in Europe is still 2.65%).
3. Rising tensions and international involvement in Ukraine. The spring/summer campaign season in Ukraine is set to increase tensions as the US/Nato alliance introduces F-16 fighter jets and clearance to fire long-range weapons at limited targets inside Russia.
4. Extended oil production cuts – Opec+ has determined to keep oil production limits in place until 2025 limiting global output and supply.

The issues of monetary policy are obviously contradictory and represent a rare inconsistency in monetary affairs (at least since 2007). It will be interesting to see if the Europeans are right or if the Fed is right regarding inflation and an early pivot to stimulating the economy. While a strengthening European bond market could offer some benefits, our focus remains on maintaining a balanced approach amidst these developments and a slight increase in the average maturity of our bond holdings. This development, alongside the 'Reverse Yankee' effect, where American companies issue significant amounts of EU bonds, underscores a trend towards a bolstering European bond market. European value stocks may also find traction as yields fall and dividends become more competitive for investors seeing income.

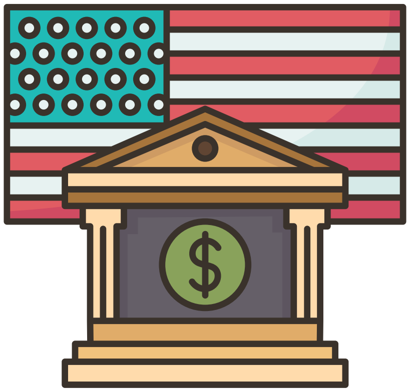
The geo-political / security issues in Ukraine and the oil producing states are pretty well defined below. I expected see a Russian offensive in the south of Ukraine near Odessa this summer in an effort by the Russians to link with Russian sympathizers in Moldova, but the recent strikes (using American missiles) in Belgorod (Russia) by the Ukrainians in an effort to break supply lines to the offensive in Kharkiv is changing the perceived battle lines this summer. The delivery of f-16's and assumed air superiority that will follow should reignite the Ukrainian offensive that was waning this winter/spring. How the Russian's react to this is anyone's guess and something to watch closely.

The next few weeks will likely produce more volatility as the US prepares for its fall election. The Fed will likely be limited to any policy changes after the July meeting to avoid political complications, so if inflation is still a significant issue in the Fed's eyes it could be November before a pivot happens.

	05/10/2023	1/1/2024	05/10/2024	12 MO ROR	YTD ROR
DOW	33561.3595	37566.22	38807.00	15.63%	2.97%
S&P 500	4275.67481	4745.20	5354.00	25.22%	12.20%
NASD AQ	13327.1303	14873.7	17188.00	28.97%	14.45%

Fed Meeting and Expectations

The next Federal Open Market Committee (FOMC) meeting will be held on June 11-12, 2024.This is one of the key dates that investors, economists, and policymakers mark on their calendars.
Many experts expect the Fed to hold rates steady at a target of 5.25%-5.50%, as the Fed still waits for inflation to ease a bit more. However, the Fed also faces risks, as persistent high-interest rates can negatively affect the banking sector, stock market, and trade. These factors could weigh on its next rate decision; futures markets pointed to a better than 50/50 chance that the FOMC will reverse course late in 2024 and begin cutting rates as soon as the summer, according to the CME's FedWatch Tool. Indeed, both analysts and futures markets point to rate cuts by the Fall, but a more than 85% chance of remaining unchanged again in June.



European Bond Market

The buzz around the European bond market has recently centered on anticipation of a June rate cut by the European Central Bank (ECB). Officials from the ECB have hinted at a potential easing in monetary policy, with discussions pointing towards a rate cut in the coming month. This situation is particularly interesting as inflation in Europe has picked up more than expected, with May seeing a 2.6% rise from the previous year. However, despite this uptick in inflation, the ECB seems poised to trim interest rates, a move contrary to what might usually be expected.

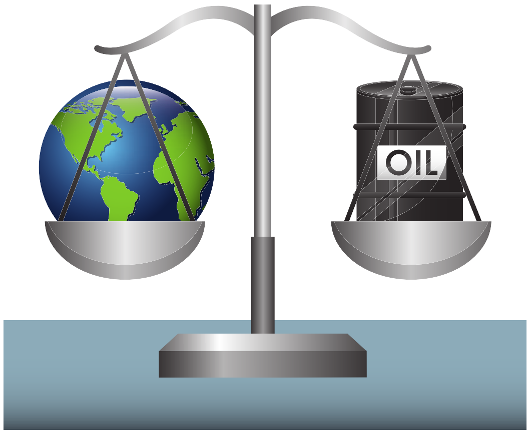
US Treasury Bond Yields

US1MO	5.50%
US3MO	5.397
US6MO	5.348
US1Y	5.121
US3Y	4.518
US5Y	4.326
US10Y	4.293
US30Y	4.443

Ukraine War

The ongoing Ukraine War has ramped up significantly with the decision by Belgium to deliver 30 F-16 fighter jets to Ukraine, aiming to enhance the Ukrainian Air Force's capabilities amid the conflict with Russia. This move is part of a broader pattern of increased military support for Ukraine from Western nations, signaling a heightened level of involvement in the conflict. Specifically, these F-16s are expected to provide Ukraine with the ability to achieve local air superiority in certain sectors and carry out strikes against Russian supply lines and defense systems, potentially altering the dynamics on the ground. The delivery of these jets and the permission for their use within specified constraints underline the West's strategic approach to supporting Ukraine while managing the risks of wider escalation. However, it's the authorization by the US and other Western allies for Ukraine to use these and other Western-supplied weapons for cross-border strikes into Russian territory that marks a pivotal shift. This significant development, aimed at countering Russian military advances, especially near Kharkiv, underscores the complexities and risks of an escalating conflict.

Oil Prices



Recent news highlights notable swings in oil prices, driven by a mix of fluctuating U.S. crude inventories, Federal Reserve's interest rate decisions, and strategies by OPEC+ members. A pivotal OPEC+ meeting underscored the complexity, revealing plans to maintain voluntary output cuts of 2.2 million barrels per day. These maneuvers are designed to stabilize the market amidst geopolitical tensions and economic uncertainties, including concerns over rising interest rates and the global economic slowdown. Meanwhile, changes in crude oil inventories, with a significant drop observed in May, underscore the volatile supply-demand equation influencing market dynamics.

What does this mean for me???

The escalation of the Ukraine War highlights the importance of strategic diversification and the selection of companies capable of navigating the complexities of geopolitical risks. Our focus on companies with robust growth potential and reasonable valuations positions us to weather uncertainties while seeking to capitalize on the opportunities that such conflicts may present to specific sectors.

For our portfolio, which is deeply rooted in the U.S. market across various sectors like Industrials, Technology, and Utilities, these developments carry substantial weight. Companies like MYR Group Inc. and Enphase Energy, Inc., which are integral to our strategy, stand on opposite sides of the spectrum concerning oil price dynamics. Rising oil prices stimulate higher investments in renewable energy initiatives and infrastructure development, potentially benefitting these companies. Conversely, falling prices present a nuanced challenge, requiring close monitoring and strategic adjustments to navigate the shifts positively. These fluctuations in oil prices and the strategic adjustment by OPEC+ to manage production underscore the delicate balance in global energy markets. Our focus remains on leveraging these dynamics to benefit the portfolio, emphasizing the growing importance of renewable energy investments and infrastructure resilience as pivotal factors in our long-term strategy.

This scenario presents a nuanced landscape. While a strengthening European bond market could offer some benefits, our focus remains on maintaining a balanced approach amidst these developments. Firms like Goldman Sachs could stand to gain from increased bond market investments, potentially uplifting financial sector stocks in our portfolio. Conversely, a stronger bond market in Europe could pose challenges for American companies like McKesson and Fortinet in securing competitive financing, thereby impacting their stock valuations indirectly. The anticipated ECB rate cut signals a strategic shift towards stimulating the European economy, which could lead to a more attractive environment for bond investors. This development, alongside the 'Reverse Yankee' effect, where American companies issue significant amounts of EU bonds, underscores a trend towards a bolstering European bond market. Our portfolio's diversification across various sectors, including financials and technology, places us in a position to navigate these shifts. We remain vigilant, adjusting our strategies to harness potential opportunities while mitigating risks associated with these market dynamics.

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