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2nd Quarter 2024

Newsletter #12

	Q2	YTD
S&P 500 TOTAL RETURN	+4.3%	+15.9%
US AGGREGATE BOND TICKER: AGG	Even	-2.4%

Technology or Bust

The first half of 2024 produced positive returns from every sector except real estate and regional banks, both victims of high interest rates. Returns have largely been led by tech names such as NVIDIA, Facebook, and Google, as has been the case for the past few years. However, while big tech has soared, the rest of the market has returned mid-single digit percentages this year.

Over the first half of this year, the S&P 500 has returned almost 16%. However, the *S&P 500 Equal Weight Index*¹ has returned only 3.5%. So, while the big gains look great and feel even better, the bulk of companies making up the index have had average returns so far. It just needs to be noted that investment gains this year are concentrated in the few top performing companies, not necessarily across your entire portfolio.

This is something I have written about in the past; S&P 500 returns, and how dependent the returns are on *certain* stocks due to the index being weighted by market value. *The top 10 biggest companies make up almost 40% of the entire index, while the bottom 250 companies make up only 10% of the index.* Microsoft alone makes up 7%.

Buy now - Bankrupt later

There's a small phenomenon growing *very quickly* underneath the surface of the economy right now. The rise of "Buy Now, Pay Later" (**BNPL**) as a payment option on just about every purchase (including groceries) is beginning to make some economists and investors nervous. Let's run down some statistics:

- More than 45 million Americans have used BNPL services, and that's projected to DOUBLE in the next four years.
- It's estimated that \$334 billion in transactions will be paid for using BNPL worldwide this year.

¹ The S&P 500 Equal Weight Index is the same 500 companies, but all of the constituents are weighted equally, as opposed to the standard index where companies are weighted by market capitalization.

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- Affirm, a company whose entire business model is providing this service, has begun offering BNPL loans for *elective medical procedures*.
- A Bloomberg News poll found that 43% of BNPL customers had fallen behind on their payments in the past, and one third of respondents used BNPL because their credit cards were maxed out.
 - *The New York Fed reports that 18% of credit card users are using greater than 90% of their available credit.*

These are payday loans wearing sheep's clothing.

Worst of all, *these loans are not reported to credit agencies*. So, consumers who *are* paying their loans back diligently are not getting any benefit on their credit scores. On the same token, because the loans are not reportable, lenders would have no idea if a consumer had this debt behind them.

What can we extrapolate from this? Consumers with lower incomes are stretched by the increased prices of everyday necessities. The lowest 10% of earners saw their wages increase by a bigger percentage than any other cohort since 2019, but those increases have not kept up with higher costs.

What does this mean for your investments?

The credit usage and delinquency rates are not bad signs by themselves. But they do show us that the consumers of lesser means are in a very tight spot. If the Fed misses their goals and we have either higher unemployment than expected, *OR* inflation lingers for longer, we are going to see these consumers begin to default in greater numbers. The roads leading us to that outcome are riddled with low-growth scenarios and recessionary trends. These outcomes would likely put pressure on our equity holdings.

The Fed will eventually cut rates

Frankly I'm getting bored writing about the Fed, and I'm sure you are bored reading about it, so *I'll keep this short*.

The Fed is *probably* going to begin cutting rates in September, and I think that's the right decision based on the information available today.

Inflation in May fell to 2.6%, and unemployment inched up to 4.1% in June. Inflation is getting closer to their 2% goal, and the labor market is loosening up, both signs that they can start thinking about cutting rates.

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Items to note

- The IRS updated the Required Minimum Distribution (RMD) rules for IRA accounts inherited in 2020 or later. The first distribution will be required in 2025, and the entire account distributed within 10 years of the deceased date of death.
- The Summer Olympics are fast approaching. Here are some highlights:
 - The loaded Men's Basketball team, featuring Celtics Jason Tatum, Jrue Holiday, and Derrick White.
 - The Women's Basketball team are looking for their 8th straight gold medal.
 - The Women's Water Polo team is looking to extend their gold medal streak to four.

A little flavor of inspiration

My wife and I just recently bought a new home, and while we were moving, I found an old notebook from BC High, saved from an English course taught by Mr. Michael Frost, a teacher who has had a profound impact on my life. One of the quotes from the notebook is a line by Henry David Thoreau; *"The mass of men lead lives of quiet desperation."*

Do something today that makes you happy. It doesn't have to be extraordinary. It could be as simple as dinner with a friend or calling your kids. Just don't do nothing.

Enjoy the rest of your summer and we'll see you soon,

Joe and Patrick