Patten & Patten

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QUARTERLY INVESTOR LETTER

Cash generally does not provide higher returns than fixed income securities, but for an extended period, that has been the case. In fact, money market funds offer annualized yields in excess of 5.0% while, through the first six months of 2024, the benchmark bond index posted a negative total return. The 10-year Treasury yield rose from 3.88% to 4.40% as economic data supported a favorable outlook and inflation remained stubbornly above the Fed's target.

The outperformance by cash products reflects the impact of an inverted yield curve in which shorter maturities provide greater current income than longer maturities. An inverted curve is a market anomaly that is likely to persist until the Federal Reserve cuts policy rates. Many bond funds also aggressively positioned for numerous Fed rate cuts at the beginning of the year. Guidance from the Fed now indicates a single rate reduction prior to yearend.

The S&P 500 posted stellar returns, establishing 31 record highs and the second best first half return since 2000. However, market leadership remained extraordinarily concentrated. The narrowness of the ongoing rally is unsustainable, but there are no indicators that reliably forecast a prospective broadening. We are optimistic that market participation will expand beyond technology companies involved with Artificial Intelligence and pharmaceutical companies with new weight loss therapies. However, both sectors continue to attract a disproportionate amount of investor capital and attention. For this reason, we expect concentrated leadership could persist for some time.

There are technical market conditions that warrant caution, but overall, fundamentals remain healthy with corporate earnings expected to accelerate. We note that higher rates have augmented income and provide additional support to consumption. Thus, there is a reasonable probability that economic growth could accelerate. However, recent economic data suggest growth could be moderating. Moreover, excess savings from pandemic programs are fully exhausted. Retail spending is now entirely dependent on wages, interest, and dividend income. That condition could dampen consumption growth going forward. While we acknowledge there are headwinds to growth, we remain constructive.

We look forward to discussing these matters with you and reviewing your accounts. Please contact the office if you would like to schedule a virtual or in person meeting.