

PERFORMANCE

| | Dow Jones Industrial | S&P 500 Dividends* (Capitalization Weighted) | S&P 500** (Equal Weighted) |
|----------|---------------------------------|---|---|
| 2024 Q1 | 5.62% | 10.56% | 7.91% |
| 2024 Q2 | -1.73% | 4.28% | -2.63% |
| 2024 Q3 | 8.21% | 5.89% | 9.60% |
| 2024 YTD | 12.31% | 22.08% | 15.16% |

The S&P 500 performance as of September 30, 2024 was up 22.08% year-to-date, the strongest first three quarters the market has seen since the late 1990's. However, the composition of the market's performance changed for the first time in two years! Five Mile River (FMR) has commented in recent client quarterly letters about the potential for the breadth in the market to increase, benefiting both growth and value stock investing. That time arrived in the Q3 2024, evidenced by both the Equal Weighted S&P 500 and the Dow indexes rising faster than the often reported Capitalization Weighted S&P 500 Index. This shift reflects a broadening in the number of stocks participating in the market's rally. Increasing market breadth is an important positive for the market and reflects the current optimism that lower inflation and interest rates are here to stay. The diversified investment style employed in FMR portfolios has resulted in a strong Q3 and year-to-date client performance.

At the conclusion of the Fed's September 18th meeting Federal Reserve Chairman Jerome Powell announced the first reduction in the fed funds rate since 2020. The rate dropped $\frac{1}{2}\%$ (50 basis points) to a range between 4.75% and 5%, down from the highest fed funds rate in 20 years. The Federal Reserve Board members forecast two additional rate cuts of $\frac{1}{4}\%$ each in November and December of 2024. Their forecast calls for a slowing economy to result in a "soft landing" and no recession. Powell also indicated that the Board expected a further decline in rates of 1% in 2025 consistent with their inflation target of 2%.

The current Fed does use the personal consumption expenditures (PCE) gauge to measure inflation which was +2.2% in August from a year earlier. The Fed's preferred "core" PCE, which excludes food and energy, was up 2.7% for the month of August. U.S. domestic equity markets reacted very strongly to this rate-cutting report.

Concerns about a possible "hard" landing or recession have been significantly diminished because of expected declining interest rates and declining inflation. Real GDP growth for the second half of 2024 is now forecast to be between 2.5% and 3%. Inflation is cooling, and for now, is moving

steadily lower with moderate economic growth. Resurgent inflation is what poses the key risk to this favorable outlook, and Jay Powell and the Fed do not want to create a recession just to eradicate inflation. What can change this optimism?

Macro Events

A Macro Event can impact, on a large scale, national or world-wide economies. Currently there are at least four Macro Events underway, some recent, some continuing from the recent past. These include: 1) the Russian-Ukraine war 2) the Iranian-Israel war including Iran's proxies, Yemen and Lebanon 3) the U.S. major east coast Longshore Association dock workers strike at 60% of U.S. ports 4) the most polarized U.S. Presidential Election with the political parties promoting markedly divergent agendas.

FMR client letters have discussed Black Swans, a metaphor for events that come as a surprise, have a major and sometimes a rare effect that was hard to predict. Can there be a Black Swan originating from these Macro Events?

Five Mile River has no crystal ball on the resolution of these first three Macro Events or if they will become Black Swans, **but they are not affecting FMR's investment strategy for client portfolios**. As to the 4th Macro Event, volatility in the equity markets is likely until the election results are known and final. It is important to add that a positive and likely outcome of this election is a "divided government." Why? A gridlocked Congress is unlikely to pass more federal spending legislation that reignites inflation. It is important to note that the Federal debt is now \$35 Trillion, and existing legislation on the books has locked in a \$1.5 Trillion to \$2.0 Trillion deficit increase every year through 2030. Interest on the existing debt is about \$1 Trillion a year.

Stock Market Returns

Equity returns through the first nine months this year are quite positive and above the 2024 FMR forecast of 8% to 10% made at the beginning of the year. Valuations (otherwise known as price/earnings ratios or P/Es) for technology stocks are high. Past FMR client letters have called out the unusual domination by the "Magnificent Seven" companies, which at their peak market capitalization this past spring, represented 40% of the performance of the S&P 500. This domination of performance by this handful of companies REVERSED in 3Q 2024.

FMR clients' only current long-term holding of the Magnificent Seven is Microsoft. This client holding has been managed over many years by reducing its size when it rose to over 5% weighting in client portfolios (risk management). We continue to believe that this dominant software company and their services and products provide very attractive long-term appreciation in the tech space.

Clients' portfolios continue to hold dominant #1 and #2 companies in their sectors with wide moats and have strong and focused chief executive officers. The 30 to 35 company holding in FMR client portfolios have strong balance sheets with free cash flow, that allows them to invest in growth capital expenditures (CAPX); buy back their shares; and grow their dividends for shareholders.

The best validation of FMR's investment strategy is FMR's performance over time. What should be noted is that this strategy has produced attractive relative performance in BOTH up and down markets. In 2022, when the S&P 500 declined over 20%, FMR portfolios declined between just 5% and 11%. AND the FMR investment strategy is performing well in the 2024 rising market, keeping pace with the Equal Weighted S&P 500 Index performance increase.

We are always available to discuss your account(s) performance. If your financial objectives or goals have changed, this would be a good time to review your individual portfolio strategy to ensure that it is aligned with your objectives. We wish you a wonderful holiday season and a happy and healthy remainder of 2024.

Sincerely,



Lee



Todd



Martha

**The S&P 500 Index is a market capitalized weighted index of 500 companies. It is a growth-biased index because the larger the capitalization of a company, the larger the weighting it contributes to the S&P 500 Index performance. The index referenced includes the dividends issued by these 500 companies. This index is used for a comparison for FMR accounts. The performance data included in this letter are not audited and have not been otherwise reviewed or verified by an outside party. While Five Mile River Investment Management, LLC endeavors to furnish accurate information, investors should not rely upon the accuracy or completeness of this information.*

*** The S&P 500 Equal Weighted Index (EWI) is a version of the S&P 500 index however the difference is that all 500 companies of the S&P 500 are given an equal weight of 0.2% of the total index. This differs from the S&P 500 which gives the highest valued companies the largest weight in the index (otherwise known as the market cap weighted index). The EWI eliminates the mega cap concentration that produces a distorted market index performance.*

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