



## 2<sup>nd</sup> Quarter 2024 Newsletter

- While several large company stocks rallied in the 2<sup>nd</sup> quarter, most of the broader market was flat or declined. The S&P 500 ended June up 15.29% YTD and was near record highs, with 7 tech stocks responsible for 60% of the return. The S&P 500 Equal Weight Index was only up 4.07% YTD at the end of June.
- A recent WSJ article compared the performance of 12 stocks selected by randomly throwing darts at a list of companies to the performance of investments selected by active fund managers.<sup>1</sup>
  - ❖ After 1 year, the random “dart” selected stocks outperformed the efforts of the professional fund managers by 48%.
  - ❖ Data shows that the underperformance of the active fund managers wasn’t just a stroke of bad luck: In 2020, just 43% of U.S. stock active fund managers beat their index. Only 2.5% were able to sustain outperformance over a two-year period.
- A recent Vanguard study highlighted the difficulty in market timing: If an investor invested \$100,000 from 1996 to 2024 into a balanced 60/40 portfolio and left it alone, it would be worth \$865,000.<sup>2</sup> If they tried to time the market and missed out on just the best 5 days, they would be left with \$659,000. Similarly, they would have \$540,000 if they missed just the best 10 days.

## News and Observations

- The most recent inflation report indicated gradual cooling, with both consumer prices (3.3% CPI) and wholesale prices (3.2% PPI) dropping slightly in May.
- The Federal Reserve is now signaling just one rate cut of a ¼ percent by the end of 2024. Should inflation prove to be stickier than expected the remainder of the year, the anticipated rate cut will be in question.
- The economy has remained resilient with low unemployment, wage growth outpacing inflation, and corporate earnings on track for their strongest growth in 9 quarters.
- The median existing U.S. home price reached \$419,000 in May, a record high for data that goes back to 1999.<sup>3</sup> With 30-year mortgage rates hovering around 7%, current homeowners remain reluctant to let go of their current low rate. At the beginning of 2024, 89% of mortgages had a rate below 6%.<sup>4</sup> The result is a lack of supply which contributes to rising home costs.

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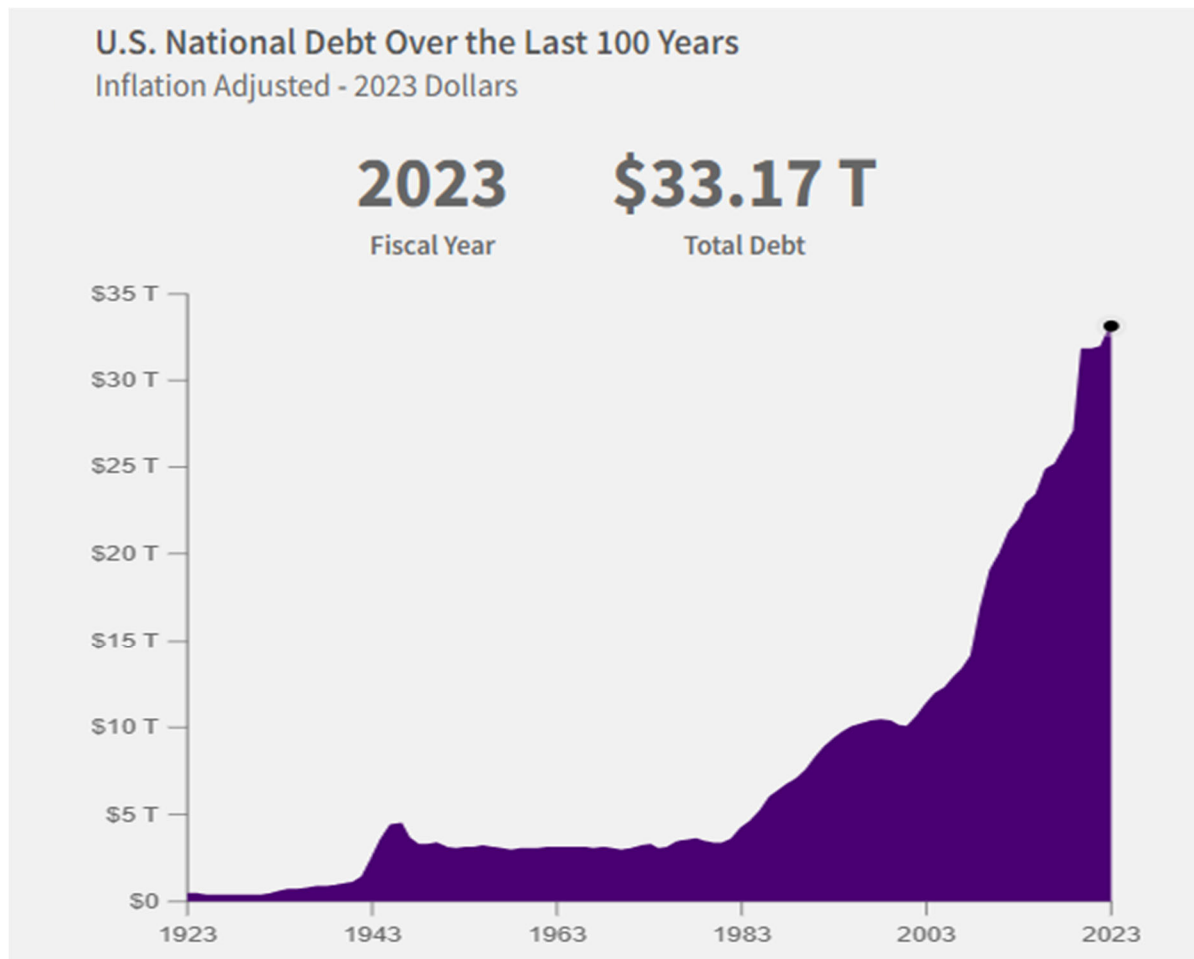
### Market Index Returns

	<u>Q2</u>	<u>YTD</u>
S&P 500 (Large Cap) _____	4.28%	15.29%
Russell 2000 (Small Cap) _____	-3.28%	1.73%
MSCI International Index _____	-0.36%	5.36%
MSCI Emerging Markets _____	5.12%	7.68%
US REIT Index _____	-0.16%	-0.55%
Bloomberg Commodity Index _____	2.89%	5.14%
BofA 1-3 yr Corporate _____	0.99%	1.45%
& Govt. Bond Index		

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## The U.S. National Debt Landscape<sup>5</sup>

- ❖ The national debt is expected to exceed \$50 trillion by 2034 according to the Congressional Budget Office.<sup>6</sup> Additionally, reports show that if Congress does not act, Social Security and Medicare may only be able to cover 80% of expenses around 2035.<sup>7</sup>
- ❖ Some solutions to avoid reduction of benefits include raising the social security wage base (currently only taxed up to \$168,600), cutting overall government spending, and extending full retirement ages (currently 65 for Medicare and 67 for Social Security).
- ❖ Our growing debt suggests the future may bring an increase in taxes for individuals. Although our historically low tax rates for individuals are scheduled to modestly increase in 2026, there may be additional rate increases in the future.
- ❖ Higher tax rates in the future would increase the benefit of today's Roth contributions and Roth conversions and decrease the benefits of pretax 401(k) and traditional IRA deferrals.



1: <https://www.fa-mag.com/news/a-fresh-look-at-market-timing--and-it-s-still-a-terrible-idea-77962.html>

2: <https://www.wsj.com/finance/investing/the-random-path-to-stock-market-riches-3be065ad>

3: <https://barrons-nj.newsmemory.com/>

4: <https://investors.redfin.com/news-events/press-releases/detail/1030/redfin-report-89-of-people-with-mortgages-have-an>

5: <https://fiscaldata.treasury.gov/datasets/historical-debt-outstanding/>

6: <https://www.washingtonpost.com/business/2024/06/18/national-debt-budget-projections-cbo/>

7: <https://www.kiplinger.com/retirement/social-security/when-will-social-security-and-medicare-trust-funds-run-out-of-money>