



Champion Advisors LLC
Wealth Management

July, 2024

Dear CLIENT,

The global market – both the equity and fixed income sides of it – finished the first half of 2024 in positive territory, continuing the momentum created by impressive returns from 2023 and, hopefully, moving forward in the second half of this year.

As always, potential headwinds can impact those positions as the global economies of the world continue to tackle inflation, political unrest, and a US presidential election that is now less than 120 days away.

We have included an article at the end of your quarterly report prepared by our professional team at Buckingham Strategic Partners, *Quarterly Outlook: Perspectives on Market and Economic Conditions*, that provides a review of specific asset class returns and some portfolio planning thoughts about what to expect coming up in the third quarter of 2024. This report includes a vast amount of information for you if you want to “dig in” with how current economic trends might affect your portfolio going forward.

Please let us hear from you if you would like to discuss your Quarterly Report, the Buckingham article, or any of your personal financial circumstances. We’re happy to meet in person at your convenience or set up a phone/zoom call to get caught up on any questions or concerns you may have about the future of your portfolio!

All the best,

Tommy Tucker
Owner & CEO

Quarterly Outlook

Perspectives on Markets and Economic Conditions

Portfolio allocations and investments are not adjusted in response to market news or economic events; however, we evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in proper context.



Inflation Eases, Recession Risk Falls

Main Takeaway

Although risks remain, the economy has successfully navigated the path toward lower inflation without triggering a recession. Fiscal spending and the expectation that the Federal Reserve will cut interest rates have buoyed the American economy. Rates will likely stay higher for longer than anticipated at the start of the year, which continues to squeeze certain sectors. Inflation continues to stabilize in developed countries, and the likelihood of a global recession has declined.

Top Risks

Although fiscal policies have boosted economic growth, policymakers seem unwilling to navigate back toward a balanced budget. With interest expenses continuing to grow, the debt-to-GDP ratio in the U.S. is on an unsustainable path. Consumer spending is weakening among younger and lower income households. Commercial real estate debt refinancing threatens to undermine regional banks, while a trend toward domestic production threatens higher inflation.

Sources of Stability

Globally, inflation has subsided and the threat of a recession over the next 12 months is on par with a “normal” economy. Other central banks, such as Canada and Europe, have started to reduce their target interest rates. The Fed has indicated its next move will likely be a rate cut, giving businesses and consumers more confidence to spend. Interest rates for businesses, measured by credit spreads, have fallen since the Fed's change in messaging.

ECONOMIC SPOTLIGHT:

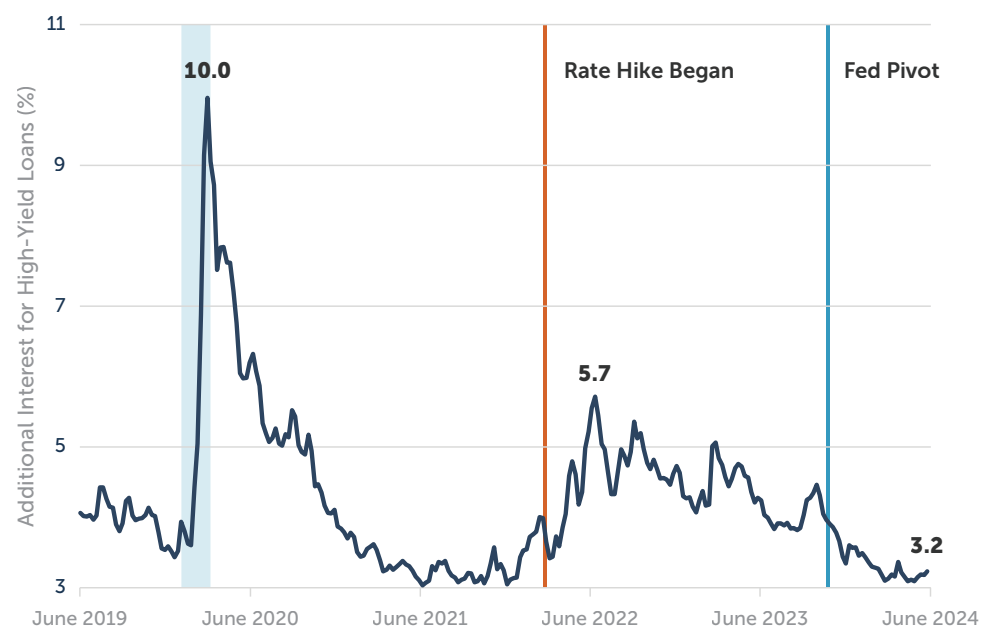
How Does the Fed Impact the Economy?

The Fed's interest rate increases slow down the economy in two ways. First, higher rates increase the cost of borrowing, which makes funding new projects with debt more expensive. Second, by raising rates, the Fed introduces uncertainty into the path of the economy. Higher interest rates slow down consumer spending, so investing in a new project carries more risk: No one wants to release a new product or service to cash-strapped consumers who can't afford to try it.

This second method of slowing the economy, which is more implicit, has changed over the last six months. Since its December 2023 meeting, the Fed shifted to a more dovish tone, meaning policymakers suggested their next move would be an eventual rate cut. Although rates remain elevated at 5.25%-5.5%, investors and businesses have become more confident that rate hikes are behind us, which encourages risk-taking behavior. As the chart shows, the additional interest the riskiest companies expect to pay beyond a Treasury bond, known as the high-yield spread, has continued to fall. In other words, the riskiest borrowers are finding credit more affordable, which can lead to more risk-taking behavior.

The Fed's shift in rhetoric has made its job harder. Higher investment and spending, combined with continued fiscal spending from the CHIPS act and the inflation reduction act, are all inflationary, making the final push to its 2% target even more challenging.

Additional Interest for High-Yield Loans



Source: FRED, Federal Reserve Bank of St. Louis, Ice Data Indices. The shaded area indicates a recession, the orange line represents when the Federal Reserve started its rate hiking cycle in 2022, and the blue line represents the shift in the Fed's positioning to be more dovish. Based on the ICE BofA US High Yield Index Option-Adjusted Spread (OAS), in percent, and reflects the average of the spread over the prior week. The OAS is the additional yield a high-yield bond pays above a similar risk-free Treasury bond, adjusted for options in the high-yield bond (such as the ability to pay early). A lower OAS means that rates for high-yield bonds are lower and credit is easier, while a higher OAS means that credit and loans are relatively more expensive.

Key Areas to Watch



U.S. Economic Growth

Despite rates remaining higher than anticipated at the beginning of the year, the U.S. economy continues to expand with GDP growth estimated to be 1.5% for the second quarter.¹ The services sector is still expanding, and after a short blip of expansion in manufacturing, we're seeing continued contraction. The U.S. is expected to account for over 26% of global GDP this year, the highest in nearly 20 years.²



Monetary Policy

The impact of a higher federal funds rate has worked through the economy significantly slower than in prior tightening cycles.⁶ This is partially due to less rate sensitivity in the broader economy through fixed-rate mortgages and less manufacturing, but the Fed has also made its job harder by taking a more optimistic tone in December 2023, giving consumers and businesses more confidence to spend rather than save.⁷ Markets are currently pricing in two rate cuts in 2024, with an 80% chance of easing as early as September.⁸



Inflation Trajectory

Inflation is falling slower and will likely exceed the Fed's 2% target this year. Cyclical forces, such as the transition to green energy, a focus on U.S. manufacturing and high fiscal spending, are helping to keep inflation above the target rate.³ Increases in auto insurance stand out as particularly painful for consumers, increasing more than 20% over the last 12 months.⁴ Expect inflation to be more volatile as the government continues its deficit spending.⁵



Fiscal Policy

In the U.S., spending continues to exceed revenues. Expect a deficit of 7% this year.⁹ On the positive side, JPMorgan estimates that the primary deficit, which excludes interest expense, will be relatively stable over the next year or two at 3% of GDP.¹⁰ However, with nearly \$9 trillion of debt maturing over the next year, expect higher interest expenses to persist and to put more pressure on the fiscal budget.¹¹

Key Areas to Watch (Cont.)



Commercial Real Estate

With nearly \$1 trillion of commercial real estate that needs to be refinanced this year, much of it at higher rates, we continue to watch the commercial real estate market for signs of distress.¹² Despite headlines around office vacancies, other areas of commercial real estate look resilient, such as warehouses and data centers.¹³ Strain in commercial real estate loans will likely spill over to regional banks and, more slowly, to local municipalities through lower appraisals and lower tax receipts.¹⁴



Global Economy

Globally, central bankers are beginning the process of rate cuts. Canada was the first to cut in early June, followed by the European Central Bank. The Bank of England maintained its policy rate in early June, but economists expect it to start cutting rates in August. Consensus estimates for a global recession in 2024 have declined significantly, now sitting at merely 30% or less for the U.S., U.K., Canada, and Europe.¹⁷



Consumer Lending

Despite broadly positive economic news, some American consumers continue to feel the pinch. The percentage of consumers starting to miss payments on their credit card or auto loans is in the high single digits.¹⁵ Although the total credit card utilization rate, the amount borrowed as a percent of what individuals could borrow, is steady at roughly 23%, an analysis by the Fed found that 18% of borrowers are using more than 90% of their credit, which is especially concentrated among lower income and younger individuals.¹⁶



China

The Chinese government made headlines earlier this year by advocating for new productive forces. Although vague, the overarching desire is to further establish the Chinese nation as a leading innovator in existing industries and a leader in emerging technologies. Internal policies and entrepreneurs' distrust of the government will likely hinder these ambitions. This year, Mexico overtook China as the No. 1 source of imports to the U.S.¹⁹

Economic and Market Snapshot

The big story continues to be NVIDIA. Having grown by over 150% this year, the chipmaker now comprises nearly 6% of the S&P 500, and helped the index surpass 40% of global market cap.²⁰ While the AI story has boosted mega-cap stocks, higher interest costs are weighing on small firms with more debt.

Bond markets continue to be particularly volatile by historical standards. The data-dependent Fed has bond traders closely watching economic releases, leading to larger price fluctuations around announcement times.

Major Asset Class Returns**

Q2 2024

		Quarterly Return	Past 12 Months
Stocks			
U.S. Stocks	▲	3.2	23.1
International Stocks	▼	-0.7	10.8
Emerging Markets Stocks	▲	5.1	13.6
Bonds			
U.S. Government Bonds	▲	0.6	3.4
Global Bonds	▲	0.9	4.8

*The Magnificent Seven stocks include Apple, Microsoft, Alphabet, Amazon, NVIDIA, Meta, and Tesla.

**See Appendix on page 8.

Key Economic Indicators**

Real GDP Growth (%)



Core CPI (%)



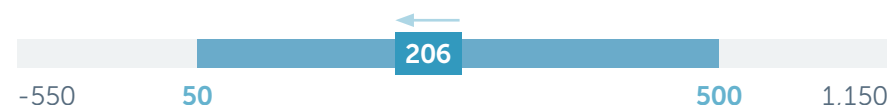
Consumer Sentiment



Unemployment Rate (%)



Jobs Added (Thousands)



Investment Planning Implications

Where do markets go from here?

Disappointment could lead to price declines. The top 10 stocks now account for nearly 35% of the S&P 500 index, a record high. With such concentration in the index, the overall market is sensitive to the returns of a few, large firms.²¹

Stock buybacks are up. Despite high rates, large technology firms continue to buy their own shares.²² Share buybacks have increased 16% compared to the first quarter last year, led by firms such as Meta, Apple, Netflix and NVIDIA. Buybacks return cash to shareholders and suggest the firms are optimistic about their future and the economy. Given the high cash levels at these firms and tight credit spreads, expect buybacks to continue.

Corporate bankruptcies have risen. Corporate defaults are up so far in 2024, with 41 defaults year to date compared to 45 in all of 2023.²³ Despite the increase in defaults, most companies have avoided bankruptcy, largely due to increased use of distressed exchanges, which allow the company to exchange debt for new loans with more favorable terms, and equityization, which allows a company to exchange debt for stock in the company, both of which avoid shuttering the company.

What are the investment planning implications?

Higher correlations. The Treasury's issuance of bonds to fund the fiscal deficit could continue to put downward pressure on Treasury prices, which means higher rates going forward. Given the uncertainty around changes in economic growth and inflation, we can reasonably expect stocks and bonds to move in tandem more frequently than prior economic cycles, reducing the effectiveness of bonds as a portfolio diversifier.

Diversification. A strengthening dollar has dampened returns from international stocks over the last 12 months. However, given high valuations and concentration risk in the U.S. stock market, investors would be wise to consider investing in companies outside of the U.S. or overweighting small, profitable companies. For those concerned about stock market risk, alternative investments in asset classes such as reinsurance or private credit offer a unique source of risk with returns that are largely disconnected from traditional stock and bond markets.

Cash and bonds. Short-term rates remain elevated, meaning many investors can benefit from high interest payments in money market funds and certain savings accounts and CDs. With over \$6 trillion of cash sitting in money market funds, many investors appear to have more cash than normal.²⁴ Expect bonds to continue to be more volatile over the remainder of the year until the path to Fed rate cuts becomes clear.

About the Buckingham Team



Kevin Grogan, CFA, CFP®

Chief Investment Officer

Kevin is a member of Buckingham's Investment Policy Committee and helps lead the firm's investment strategy, portfolio management and fixed income teams. He has co-authored three books on investment topics and enjoys educating others on concepts that will have a tangible effect on their financial lives.



Blerina Hysi

Director, Fixed Income

Blerina works with fixed income and advisory teams to help construct and maintain customized bond portfolios, with an eye toward finding the best way to implement comprehensive financial plans. Her duties include fixed income analysis, bond trading and building tailored, client-focused portfolio solutions.



Daniel Campbell, CFA

Investment Strategy Advisor

Dan helps clients and advisors understand and implement an evidence-driven investment strategy. He has a demonstrated ability to understand complex investment topics, but he gets the most energy from conversations with individuals and families in pursuit of financial freedom.

Additional economic and investment resources are available at [buckinghamstrategicwealth.com/resources](https://www.buckinghamstrategicwealth.com/resources)

Buckingham's Investment Policy Committee (IPC) is a committee for Buckingham Strategic Wealth, LLC and Buckingham Strategic Partners, LLC (collectively Buckingham Wealth Partners) and not a committee for independent members of the Buckingham Strategic Partners community.

Appendix

Page 3:

- ¹ Atlanta Fed GDPNow estimate as of July 8, 2024.
- ² Wall Street Journal. America's Economy Is No. 1. That Means Trouble. April 25, 2024.
- ³ Apollo. The Outlook for Inflation. May 24, 2024.
- ⁴ Bureau of Labor Statistics.
- ⁵ The Economist. Central banks have spent down their credibility. April 3, 2024.
- ⁶ Bloomberg. Fed's Bostic Says Policy Is Taking Longer to Slow Growth. May 23, 2024.
- ⁷ Apollo. The Fed Cut Reflexivity Paradox. May 29, 2024.
- ⁸ CME FedWatch as of July 8, 2024.
- ⁹ The Economist. The rich world faces a brutal spending crunch. April 9, 2024.
- ¹⁰ J.P.Morgan. The Investment Implications of the Federal Debt: An Update. May 12, 2024.
- ¹¹ Apollo. The Deteriorating US Fiscal Situation. April 12, 2024.

Page 4:

- ¹² Apollo. CRE in Trouble. June 8, 2024.
- ¹³ J.P.Morgan. Commercial Real Estate: 14. Macro Risk or Investment Opportunity? May 6, 2024.
- ¹⁴ National Bureau of Economic Research.
- ¹⁵ Financial Times. A debt crisis at the economy's edge. May 15, 2024.
- ¹⁶ New York Fed. Delinquency Is Increasingly in the Cards for Maxed-Out Borrowers. May 14, 2024.
- ¹⁷ Apollo. Global Economic Outlook Improving. June 7, 2024.
- ¹⁸ Economist. How Xi Jinping plans to overtake America. March 31, 2024.
- ¹⁹ NPR. Mexico has overtaken China as the leading source of goods imported to the U.S. Feb. 8, 2024.

Page 5:

- ²⁰ Apollo. The Importance of US Public and Private Markets. May 14, 2024.

Major Asset Class Returns: The index representation for the Major Asset Class Returns is as follows: U.S. stocks are represented by the Russell 3000 Index, international stocks by the MSCI World ex U.S. IMI Index, emerging markets by the MSCI Emerging Markets IMI Index, U.S. government bonds by the Bloomberg Government Intermediate Total Return Index, and global bonds by the FTSE World Government Bond 1-5 Year Index. Past performance is not a guarantee of future results. Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Index performance does not reflect the expenses associated with the management of an actual portfolio. Information from sources deemed to be reliable, but its accuracy cannot be guaranteed.

Key Economic Indicators: Sources: Bureau of Economic Analysis (BEA) for real GDP growth. Real GDP is the annual rate of change of real gross domestic product, seasonally adjusted. Bureau of Labor Statistics (BLS) for core CPI. The core consumer price index (CPI) is the annual rate of change, seasonally adjusted, and excludes food and energy. Consumer sentiment is from the University of Michigan's consumer sentiment index. Unemployment rate is reported by the BLS, and jobs added is based on nonfarm payroll employment reported by the BLS. Retrieved from FRED, Federal Reserve Bank of St. Louis. For all indicators, the boxed number reflects the latest reading, and the line above the box shows the change since the last update. The shaded areas reflect normal readings compared to history (based on the 25th-75th percentile of historical measures), while areas outside the dark blue reflect more extreme readings compared to history. The ranges are based on the percentile values of historical readings for each economic figure. The lowest number reflects the 5th percentile value, the bottom of the blue range reflects the 25th percentile, the top of the blue range is the 75th percentile, and the highest value reflects the 95th percentile. All ranges are based on the full period available. To account for population and employment, the ranges presented for jobs added are based on the percent change in employment numbers, using December 2022 as the base year.

Page 6

- ²¹ Apollo. Extreme Concentration in the S&P 500. June 9, 2024.
- ²² Wall Street Journal. Buybacks Are Back: Corporate America Is on a Spending Spree. May 9, 2024.
- ²³ S&P Global. Default, Transition, and Recovery: An Increase In Distressed Exchanges Drives Defaults In Europe. June 12, 2024.
- ²⁴ Investment Company Institute. Release: Money Market Fund Assets. June 27, 2024.

For informational and educational purposes only and should not be construed as specific investment, accounting, legal or tax advice. Certain information is based upon third-party data, which may become outdated or otherwise superseded without notice. Third-party information is deemed to be reliable, but its accuracy and completeness cannot be guaranteed. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio nor do indices represent results of actual trading. Information from sources deemed reliable, but its accuracy cannot be guaranteed. Performance is historical and does not guarantee future results. Neither the Securities and Exchange Commission (SEC) nor any other federal or state agency have approved, determined the accuracy, or confirmed the adequacy of this article.

Report Disclaimer

The total portfolio returns are net of management fees, but may not be net of fees paid to other advisors. Total portfolio returns will not be net of fees in situations where your total household advisory fees are paid by another household, in which case the total portfolio returns are gross of management fees. Returns for Periods Exceeding 12 Months are annualized.

As your investment advisor, we are committed to providing personal services to you. Please contact us if there have been any changes in your financial situation or investment objectives (or investment restrictions that you may wish to impose) that may affect our management of your accounts.

We recommend that you compare these statements with the ones you receive from your custodian(s). Values may vary slightly because of, but not limited to, situations such as rounding, accrued interest or the timing of information reporting. The custodian of your account does not verify the accuracy of our fee calculation.

Deposits resulting from External (Management) Fee Payments are not reflected as a Contribution Withdrawals resulting from External (Management) Fee Payments are not reflected as a Withdrawal.

For the Portfolio Value vs. Cumulative Net Investment Graphic, Payments are not reflected as a contribution or a withdrawal.

There is no guarantee that any investment program or account will be profitable or will not incur a loss. Securities values may fluctuate and each securities price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Information contained herein is derived from and based upon data obtained from one or more unaffiliated third parties. While information presented in this report has been obtained from sources believed to be reliable and every effort is made to provide reports free from error, due to the possibility of human or technology error by third parties, the data contained herein is not guaranteed as to its accuracy or completeness and no warranties are made with respect to results obtained from its use.

Accounts beginning with 'TAS' or 'ME' are accounts under advisement, not direct management. For those accounts set up through ByAllAccounts, Advisor is not responsible for the choices available in that account(s), but rather is using best efforts to recommend the preferable choice of securities among those offered, taking into consideration your overall asset mix. Information for ByAllAccounts data is provided by external third parties not engaged by Advisor and therefore Advisor does not guarantee the accuracy, completeness or timeliness of any this data or information. Information provided in this report is not a substitute for the information within official account statements provided to you by your account custodians.

For individual fixed income securities, the following important notes apply:

- Average Coupon and Average Yield are based on Par Value
- Weights and Average Duration are based on Market Value
- For Non-Callable Bonds: Yield to Worst means Yield to Maturity
- TIPS: Treasury Inflation-Protected Securities
- Projected Annual Income for TIPS is based on coupon and accrued inflation-adjusted income up to the current date and does not adjust for future inflation fluctuation.
- Yield to Worst at Cost is excluded for CDs and TIPS.
- Average Years to Redemption is based on Par Value.
- Average Duration is based on Market Value
- Average Coupon and Average Yield are based on Par Value.
- For bond redemptions, weights and averages displayed are based on Par Value and Term is based on expected redemption date.
- For ratings, Copyright © 2010, Standard & Poor's Financial Services LLC ("S&P"). Reproduction of Ratings Xpress-Credit Ratings in any form is prohibited except with the prior written permission of S&P. S&P does not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and is not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of ratings. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. S&P SHALL NOT BE LIABLE FOR ANY DIRECT, INDIRECT, INCIDENTAL, EXEMPLARY, COMPENSATORY, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES, COSTS, EXPENSES, LEGAL FEES, or LOSSES (INCLUDING LOST INCOME OR PROFITS AND OPPORTUNITY COSTS) IN CONNECTION WITH ANY USE OF RATINGS. S&P's ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Contact us if you would like a copy of our current Form ADV Part 2, Privacy Policy or Code of Ethics.

Report Data Disclaimer

For the above report, bond accrual is included in market values. Performance returns are calculated using internal rate of return (IRR), net of fees. ** The first 12 month returns are not annualized * Asset Level Return is Gross of Fees