

The Challenges and Opportunities in Equities

William E. Hawes, CFA, CFP®

November 13, 2024

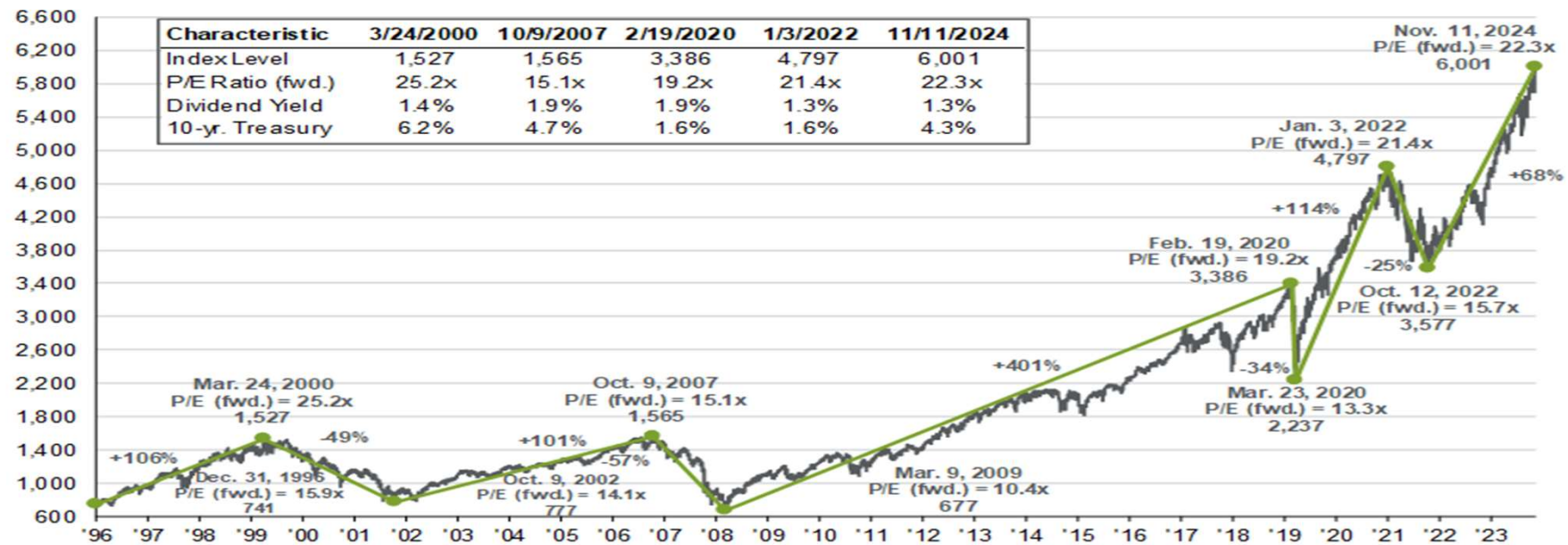


CANDOR ASSET ADVISORS



The US stock market has been on a good run

S&P 500 Price Index



Source: Compustat, FactSet, Federal Reserve, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management.

Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price-to-earnings ratio is a bottom-up calculation based on IBES estimates and FactSet estimates since January 2022. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.

Guide to the Markets – U.S. Data are as of November 11, 2024.

J.P.Morgan
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The Fed projects a soft landing with modest real GDP growth, slowing inflation and falling fed funds.

	Median Projection				
	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>Longer Term</u>
Real GDP Growth	2.0%	2.0%	2.0%	2.0%	1.8%
June Projection	2.1%	2.0%	2.0%		
Unemployment Rate	4.4%	4.4%	4.3%	4.2%	4.2%
June Projection	4.0%	4.2%	4.1%		4.2%
PCE Inflation	2.3%	2.1%	2.0%	2.0%	2.0%
June Projection	2.6%	2.3%	2.0%		2.0%
Core PCE Inflation	2.6%	2.2%	2.0%	2.0%	
June Projection	2.8%	2.3%	2.0%		
Federal Funds Rate	4.4%	3.4%	2.9%	2.9%	2.9%
June Projection	5.1%	4.1%	3.1%		2.8%

Source: Federal Reserve September 18, 2024 FOMC Projections



Consensus estimates call for solid sales, earnings and dividend growth in 2024 and 2025

S&P Fundamental Statistics	2023	2024	2025	Average Growth Since 1991
Sales/Shr	\$ 1,849	\$ 1,905	\$ 2,011	
Sales Growth	5.2%	3.0%	5.6%	4.5%
Operating EPS	\$198.88	\$238.28	\$ 273.53	
EPS Growth	-1.3%	19.8%	14.8%	9.2%
Dividend Per Share	\$ 66.85	\$ 74.81	\$ 78.31	
Dividend Growth	5.1%	11.9%	4.7%	5.9%

Source: Candor Asset Advisors & FactSet

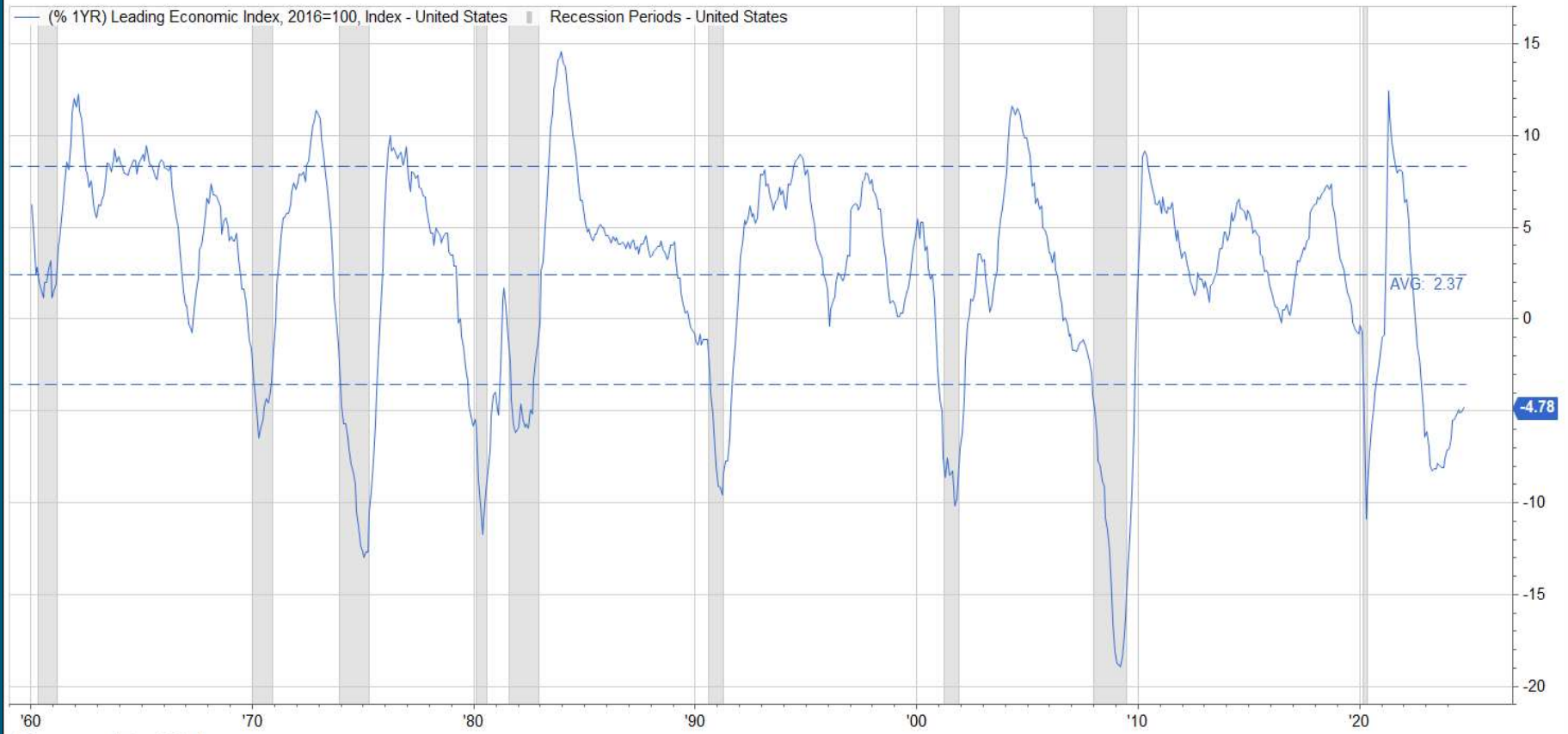


1st Challenge

Is a soft-landing assured or are we headed to a recession? What do both scenarios mean for stocks?



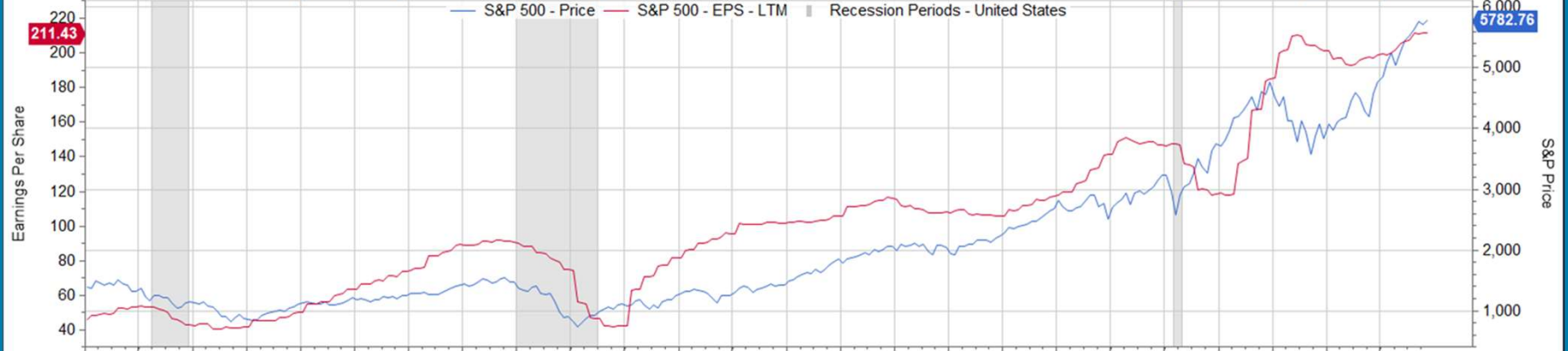
US Leading Economic Indicators currently point to a slowdown but they have improved in the last few months



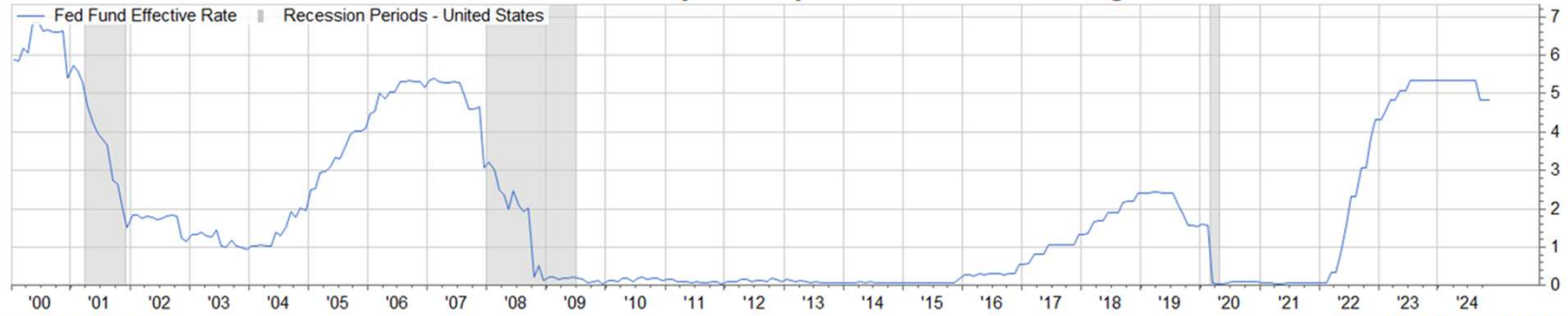
Source: FactSet



The stock market generally follows earnings over time. If/when a recession occurs stock prices may feel pressure.



Fed rate cuts usually correspond with lower earnings



Source: FactSet

Candor Asset Advisors



Consensus estimates appear vulnerable if/when a recession occurs

S&P Fundamental Statistics	2023	2024	2025	Average Growth Since 1991	Recessions Since 1990	If Recession Starts in 2025E	Implied Revision
Sales/Shr	\$ 1,849	\$ 1,905	\$ 2,011			\$ 1,911.67	-4.9%
Sales Growth	5.2%	3.0%	5.6%	4.5%	0.4%		
Operating EPS	\$198.88	\$238.28	\$ 273.53			\$ 194.80	-28.8%
EPS Growth	-1.3%	19.8%	14.8%	9.2%	-18.2%		
Dividend Per Share	\$ 66.85	\$ 74.81	\$ 78.31			\$ 74.95	-4.3%
Dividend Growth	5.1%	11.9%	4.7%	5.9%	0.2%		



Source: Candor Asset Advisors and FactSet



How do recessions typically impact investors?

- Since 1926 we have had 11 stock bear markets.
 - 5 stock bear markets have occurred during the recession
 - 4 stock bear markets have occurred within 6 months of rate hikes (last hike in June 2023) or a recession
 - 2 stock bear markets have occurred in isolation.

Recessions as identified by NBER are a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production and wholesale-retail sales.

Stock bear markets are defined as a 20% decline in stock prices.

Source: National Bureau of Economic Research (NBER), Ibbotson, Candor Asset Advisors

Past performance is not a guarantee or predictor of future performance. Stocks are not guaranteed and have been more

How often do they occur?

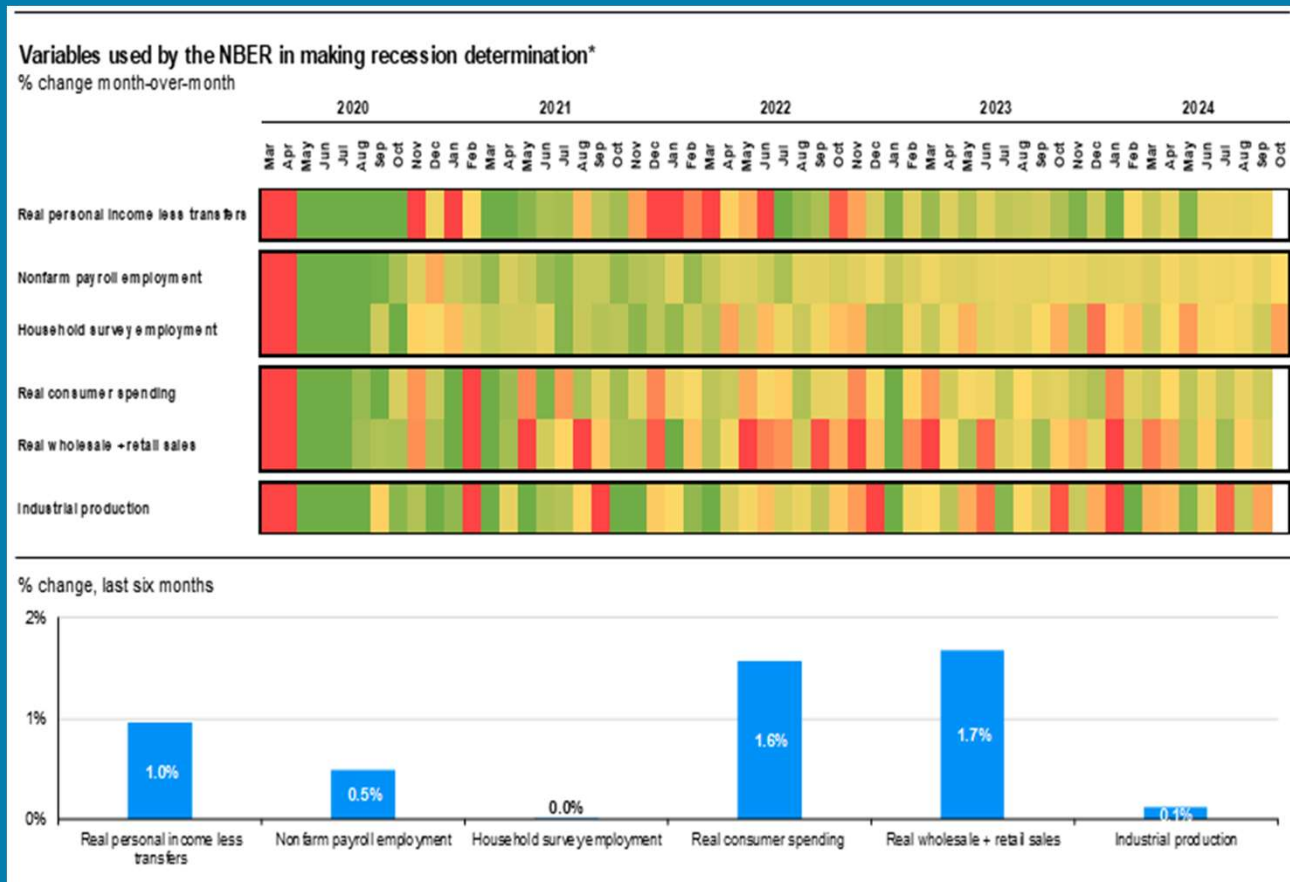
- Recession occur every 5-6 years on average since 1854, 1900 and 1945 and the last one occurred in 2020.

How long do recessions and expansions typically last?

- Recessions have lasted 10 months on average since 1945.
- Expansions have lasted 64 months on average since 1945.



Recent economic data suggests a slowing economy but not a recession



Source: JP Morgan Asset Management

Putting soft landings in perspective

How often have they occurred since 1965?

- 1994 & 1995

Stocks were up modestly during the last soft landing

- 1994
 - US Large Caps +1.5%, Small Caps +0%, S&P earnings +33.5%
- 1995
 - US Large Caps +1.9%, Small Caps +2.4%, S&P earnings +30%

Soft landings are defined as a slowing real GDP growth to +0-2% (pre-2006) or +0-3% (post-2006) for three or more quarters.

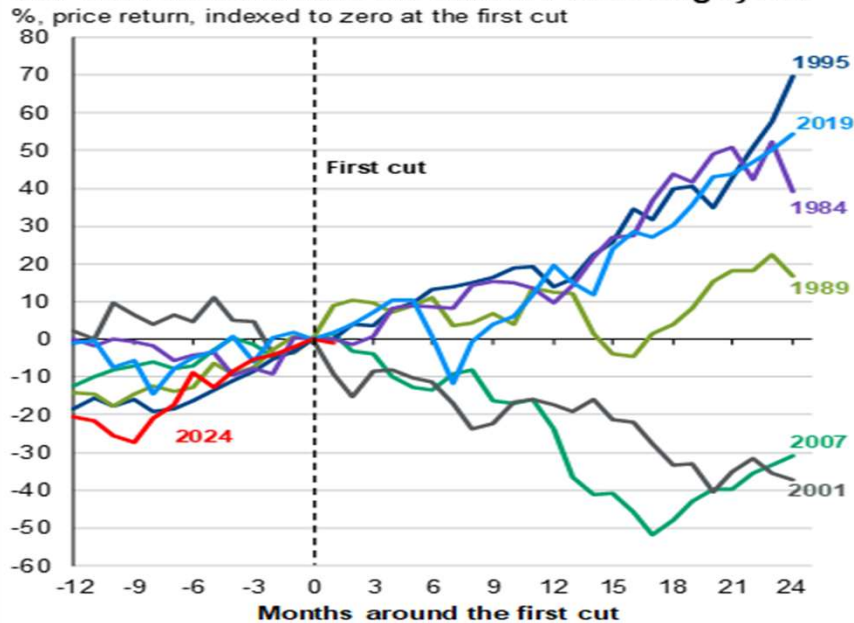
Source: American Economics Association, Ibbotson (1994 & 1995 Annual Total Returns Cited)

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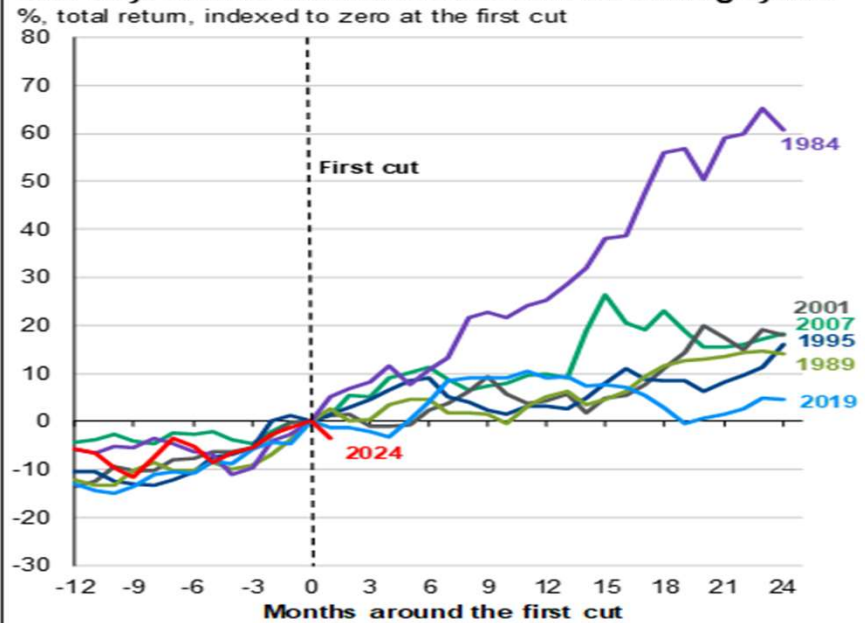


Fortunately, a more accommodative fed is usually good news for stocks

S&P 500 returns around the start of Fed cutting cycles



U.S. 10-yr returns around the start of Fed cutting cycles



Source: FactSet, Federal Reserve, LSEG Datastream, S&P Global, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Excludes 1998 episode due to the short length of the cutting cycle and economic context for the cuts. Guide to the Markets – U.S. Data are as of November 11, 2024.

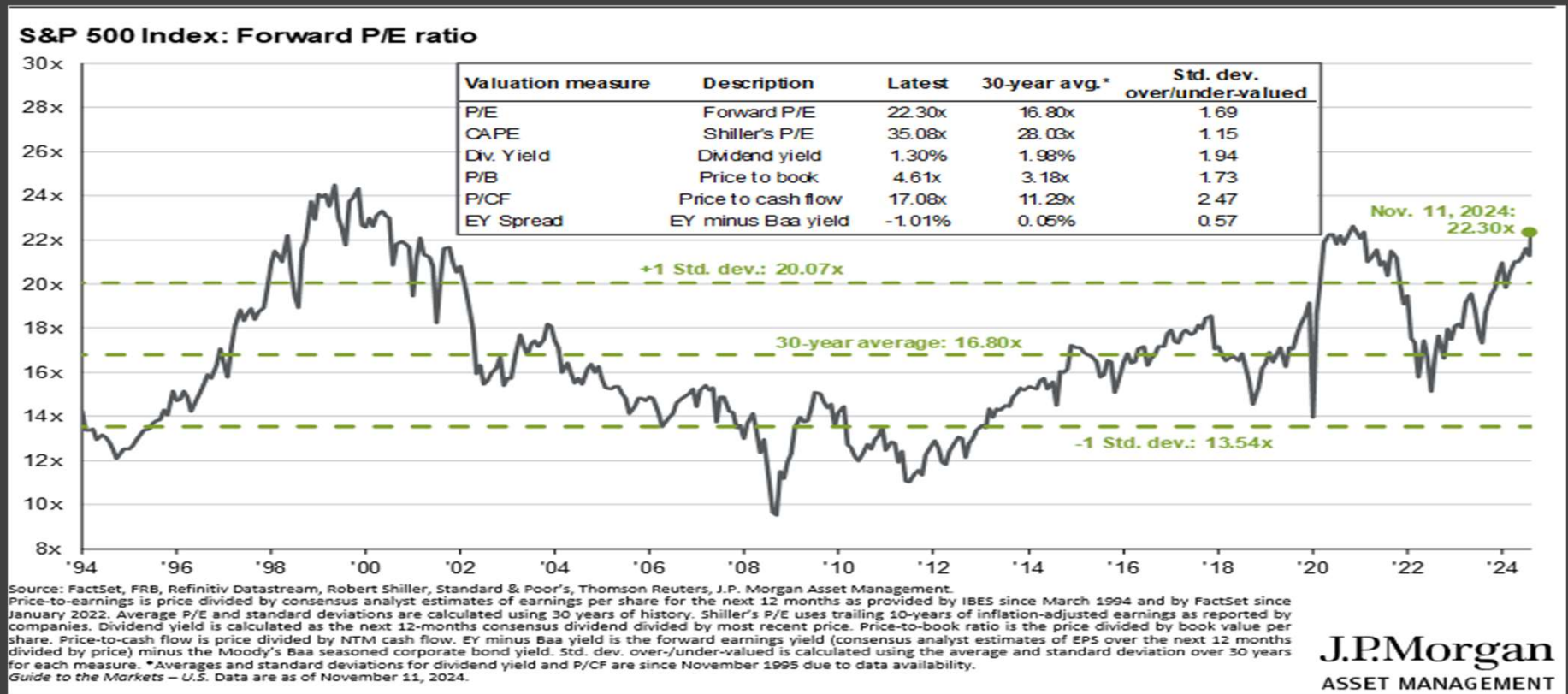
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2nd Challenge

Are US stock valuations attractive and what does it mean for 3-5 year investment returns?

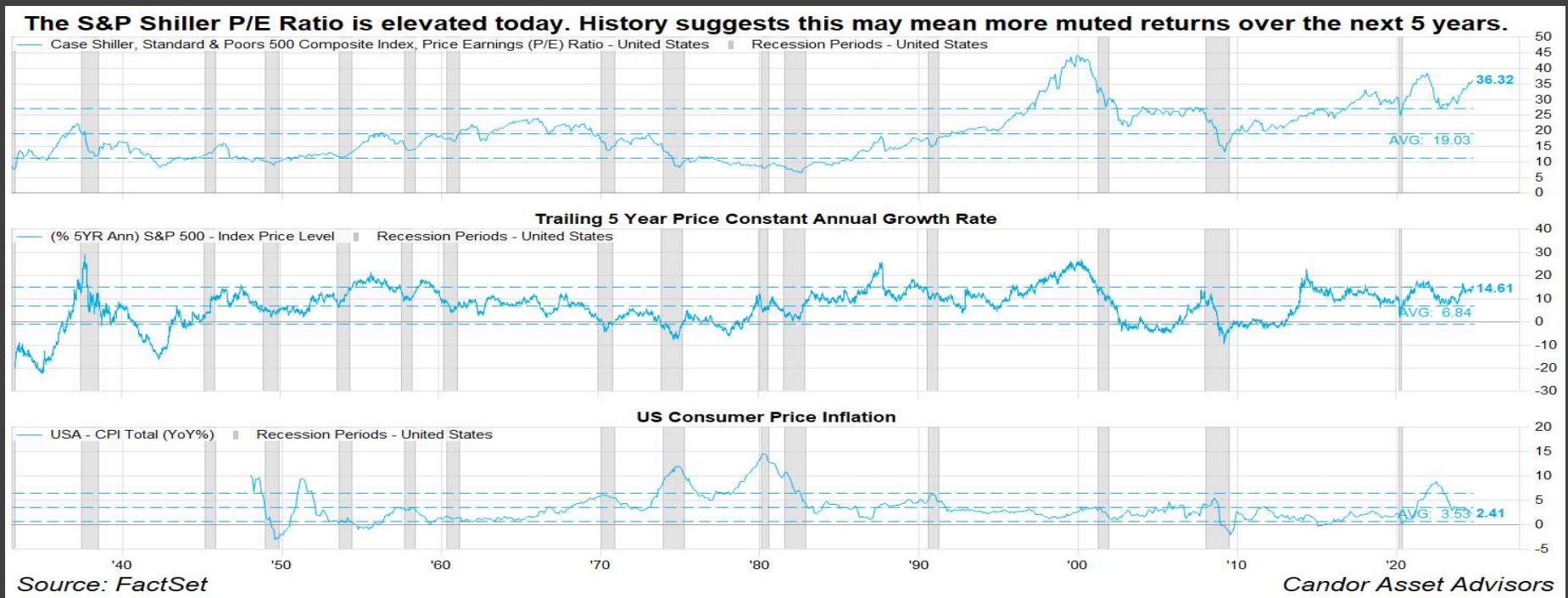


Investors are paying up for US large cap equity exposure



Why do we care about stock valuations?

History suggest high valuations usually correlate with lower returns over the next 3-5 years



The Shiller P/E ratio is calculated by dividing the current price by the average inflation-adjusted 10-year EPS of an index or company. To calculate the Shiller P/E ratio, you adjust the past ten year's S&P 500 company earnings for inflation using CPI, sum them up and then divide them by 10. The Shiller P/E ratio is also known as the Cyclically Adjusted Price to Earnings (CAPE) Ratio or PE 10 Ratio.

Past performance is not a guarantee or predictor of future performance. Stocks are not guaranteed and have been more volatile than other asset classes.



Challenges Conclusions

- There is an elevated chance of a recession based on weak leading economic indicators
- The stock market follows earnings growth and profitability over time
- Current sales and profit estimates face significant cuts if a recession occurs near term
- ~65% of stock bear markets are associated with recessions
- Most economic data suggest soft landing
- The stock market saw relatively flat returns during the last soft landing of 1994-1995
- The stock market usually rallies during early rate cuts, and a relief rally has already occurred
- The S&P's valuation appears elevated
- Elevated US stock market valuations suggest muted stock returns for the next 3-10 years



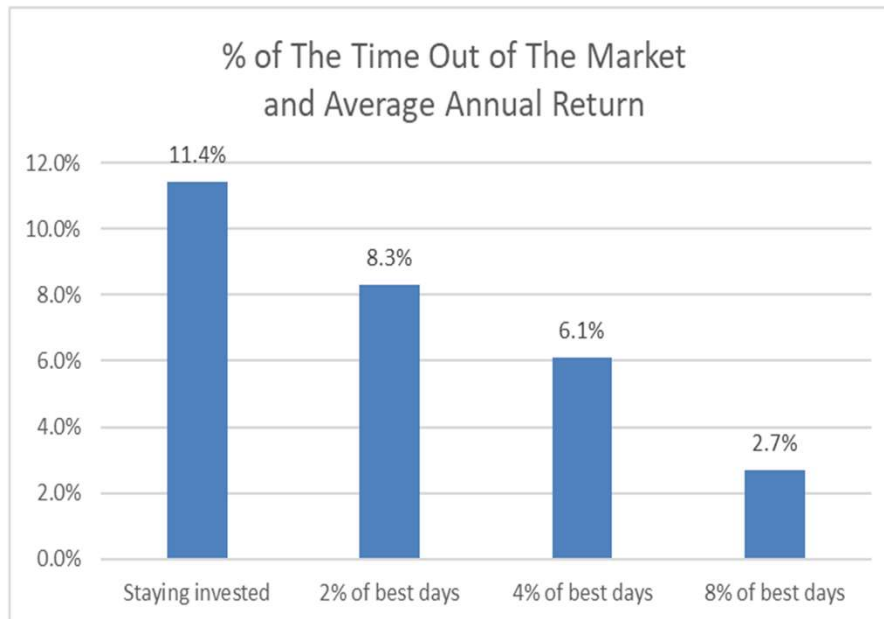
1st Opportunity

Passive investing: Ride out the wave and search for undervalued areas of the world. International offers relative value.



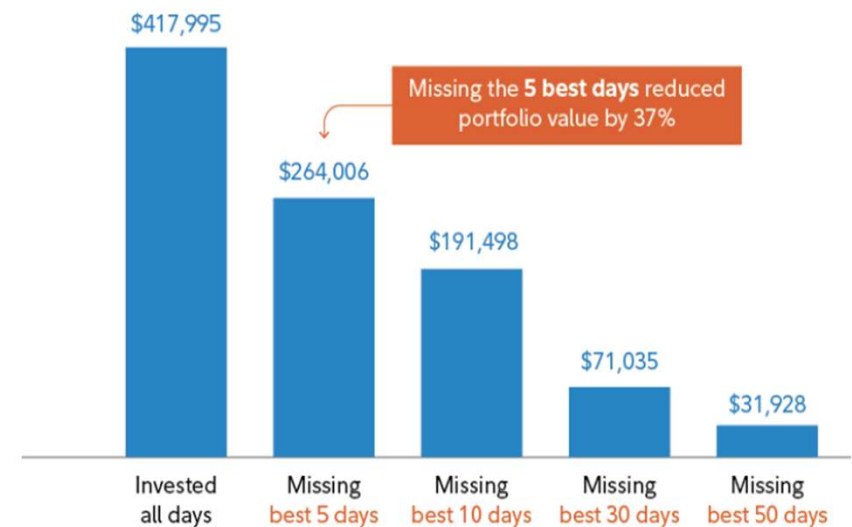
US stock studies since the 1950s have stressed the same thing: The importance of staying invested

1954-1994



1988-2023

Hypothetical growth of \$10,000 invested in the S&P 500 Index, January 1, 1988–December 31, 2023.

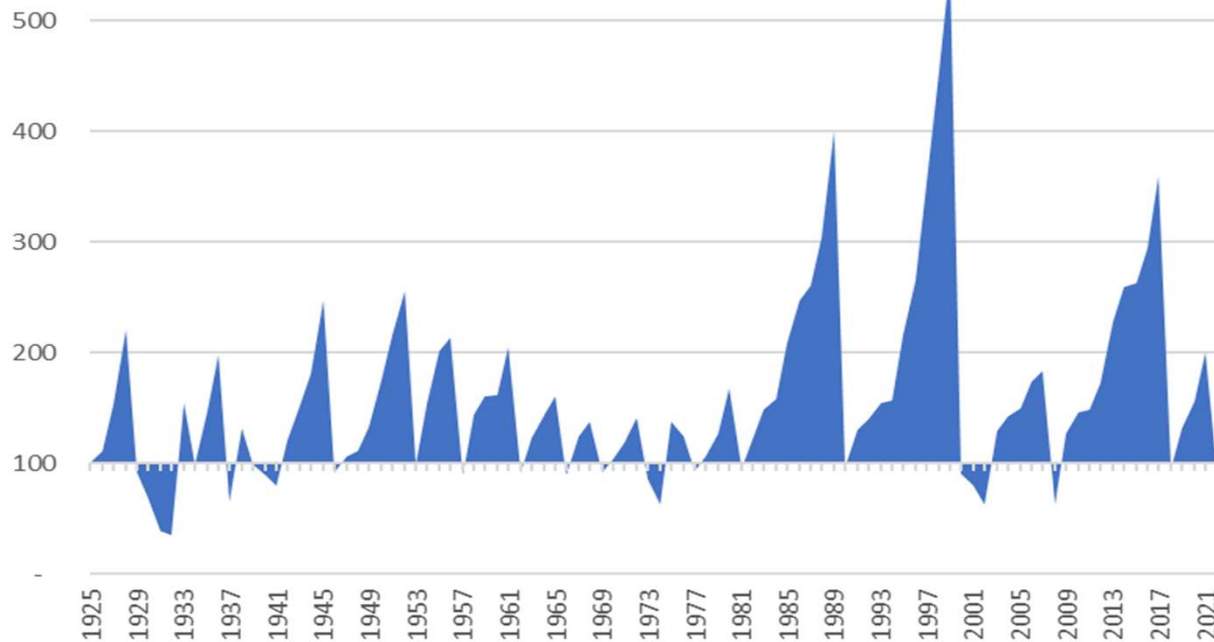


Source: Peter Lynch *One Up On Wall Street*, Fidelity

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S&P 500 Bull Markets Often Surpass Bear Markets in Duration and Magnitude



Riding out the current rough patch is usually the best advice for most stock investors.

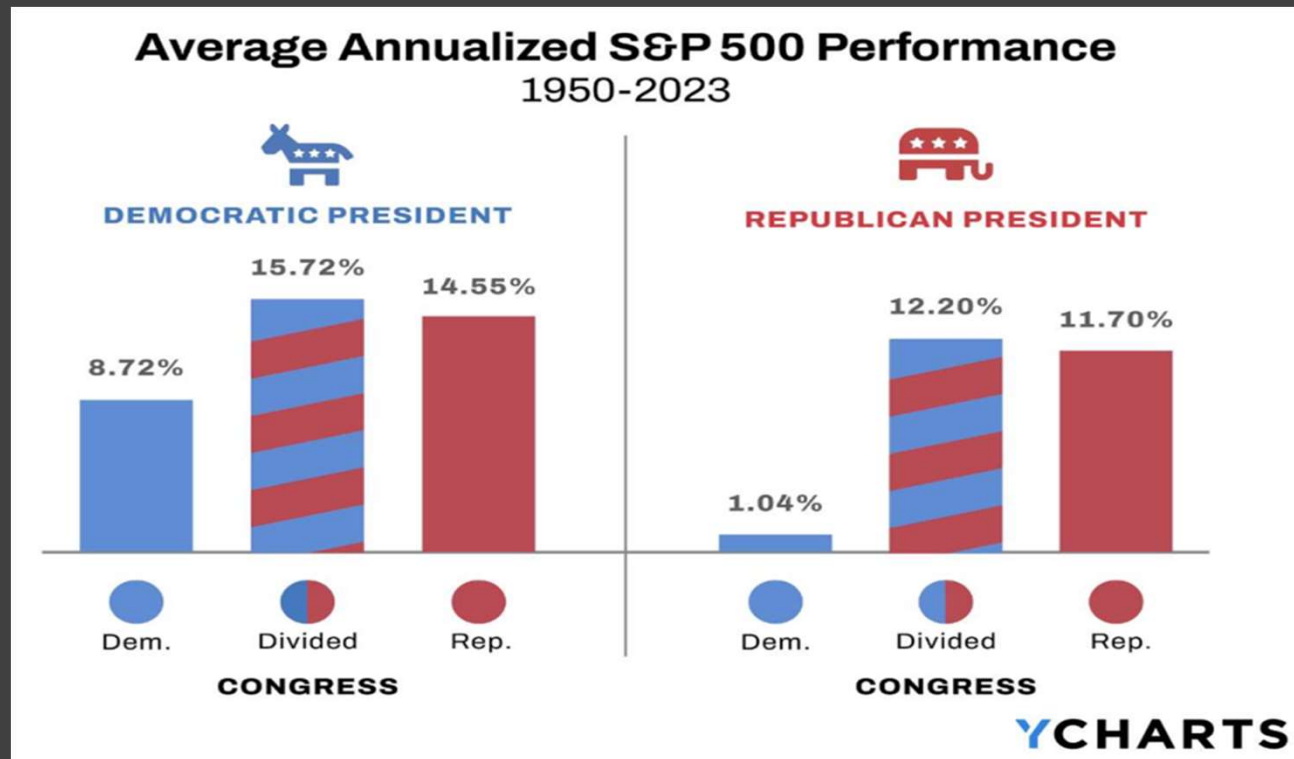
ETF to consider: Vanguard Total Stock Market <VTI> as it is a low-cost global index

Source: Candor Asset Advisors, CFA Institute, and Ibbotson

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History suggests solid returns under a Republican President with a Republican Congress or Divided Congress



The S&P 500 has performed well with unified government

Unified government may be tough to maintain.

- We haven't seen unified government for 4 years since 2003-2007.
- 11 of 15 of the last Presidents had unified government and only 6 of them had it for 4 years.

Source: Hartford Funds

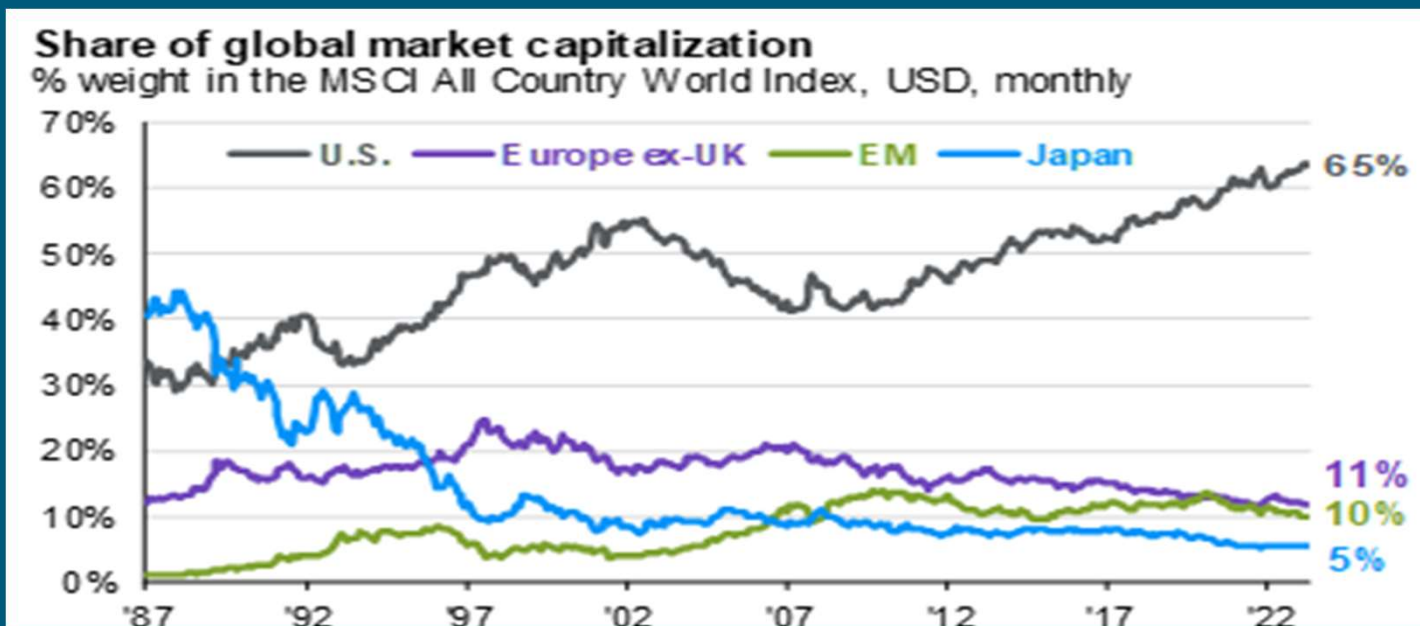
Past performance is no guarantee of future results

Start	End	President	Senate	House	Performance Following Start Date				
					1 Yr	3 Yr	5 Yr	10 Yr	20 Yr
1937	1939	D - Franklin D. Roosevelt	D	D	-34.73	-5.27	-7.47	4.37	11.12
1939	1941	D - Franklin D. Roosevelt	D	D	-0.38	-7.37	3.71	7.18	13.38
1941	1943	D - Franklin D. Roosevelt	D	D	-11.59	10.11	16.81	13.25	14.66
1943	1945	D - Franklin D. Roosevelt	D	D	25.63	26.97	14.74	16.95	15.16
1945	1947	D - Harry S. Truman	D	D	36.31	9.82	10.60	17.00	14.88
1949	1951	D - Harry S. Truman	D	D	18.60	24.58	17.74	19.94	14.86
1951	1953	D - Harry S. Truman	D	D	23.97	13.21	23.76	16.08	12.06
1953	1955	R - Dwight D. Eisenhower	R	R	-0.94	25.63	13.51	13.40	11.64
1961	1963	D - John F. Kennedy	D	D	26.88	12.48	13.25	8.18	8.31
1963	1965	D - Lyndon B. Johnson	D	D	22.76	17.14	12.37	9.91	8.30
1965	1967	D - Lyndon B. Johnson	D	D	12.46	7.83	4.98	1.25	7.79
1967	1969	D - Lyndon B. Johnson	D	D	23.89	8.01	8.38	6.62	10.15
1977	1979	D - Jimmy Carter	D	D	-7.19	5.41	8.09	13.80	14.54
1979	1981	D - Jimmy Carter	D	D	18.45	14.27	17.30	16.27	17.73
1993	1995	D - Bill Clinton	D	D	10.08	15.35	20.27	9.35	8.22
2003	2005	R - George W. Bush	R	R	28.68	14.39	12.83	7.10	9.80
2005	2007	R - George W. Bush	R	R	4.91	8.63	0.42	7.68	
2009	2011	D - Barack Obama	D	D	26.46	14.12	17.94	13.12	
2017	2019	R - Donald Trump	R	R	21.83	15.28	18.48		
2021	2023	D - Joe Biden	D	D	28.71	10.01			
Average					13.74	12.03	11.99	11.19	12.04

Sources: Senate.gov and House.gov. Congressional sessions run two years (e.g., the House became Republican in the 2016 midterm election and served from January 2017 to January 2019).



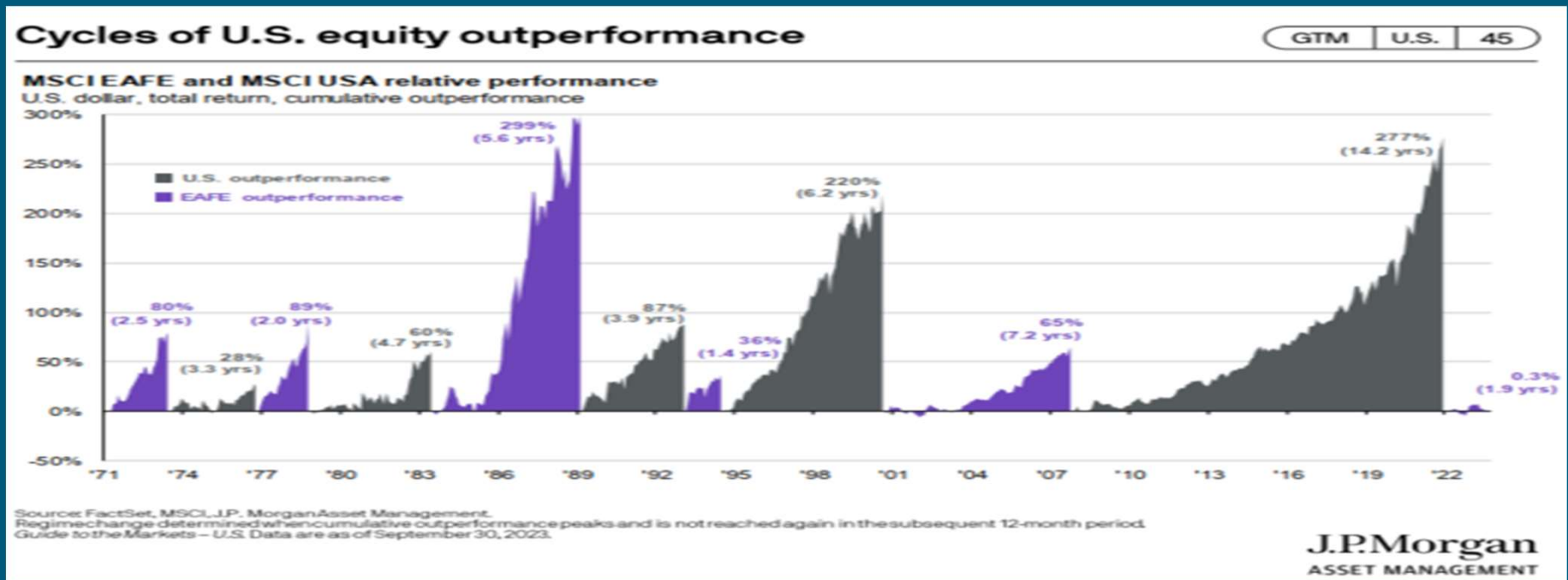
Here
are
some
mind-
blowing
stats



	2024 GDP	% of Total	Population	% of Total	Current % of Market Cap
US	29.17	26.5%	336,810,000	4.3%	65.00%
Advanced Economies Excluding US	64.68	58.8%	763,190,000	9.6%	25.00%
Emerging and Developing Economies	45.38	41.2%	6,820,000,000	86.1%	10.00%
World	110.06		7,920,000,000	100.00%	

Source: JP Morgan Asset Management and International Monetary Fund
Past performance is no guarantee of future results

US outperformance is cyclical: The US outperformed most of the last 17 years



Note, the US outperformed in 2023 and 2024 YTD, Source: JP Morgan Asset Management
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Notable firms see more return potential abroad

Vanguard

- 10 year NOMINAL average annual return forecasts
 - US Equities +3.2-5.2%
 - US large cap +3-5%
 - US small cap +5-7%
 - International Equities +6.9-8.9%
 - Developed Economies Ex US +7-9%
 - Emerging Markets +5.7-7.7%

Research Affiliates

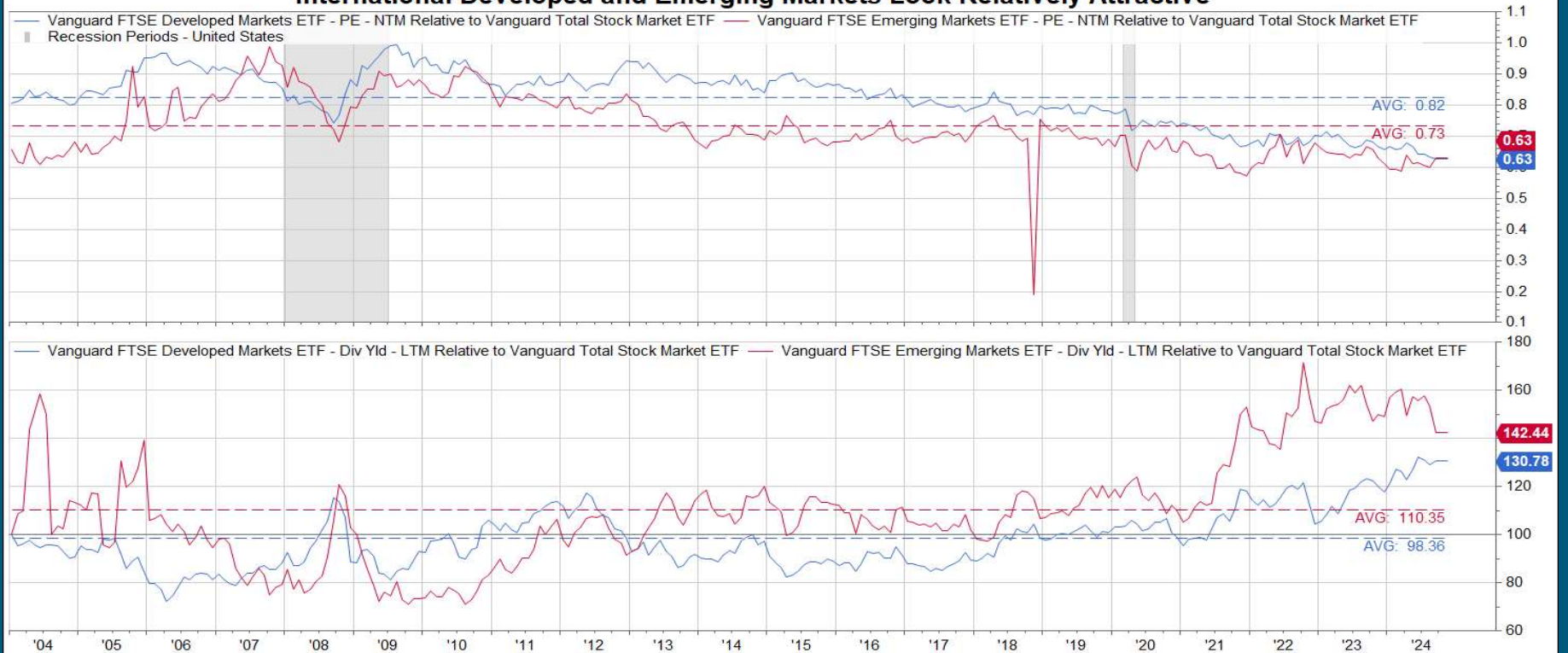
- 10 year REAL average annual return forecasts
 - US Equities
 - US large cap +1%
 - US small cap +4.8%
 - International Equities
 - Developed Markets Ex US +6.6%
 - Emerging Markets +6.3%

Source: Vanguard 8/13/24 forecasts, Research Affiliates Asset Allocation Interactive

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International Developed and Emerging Markets Look Relatively Attractive



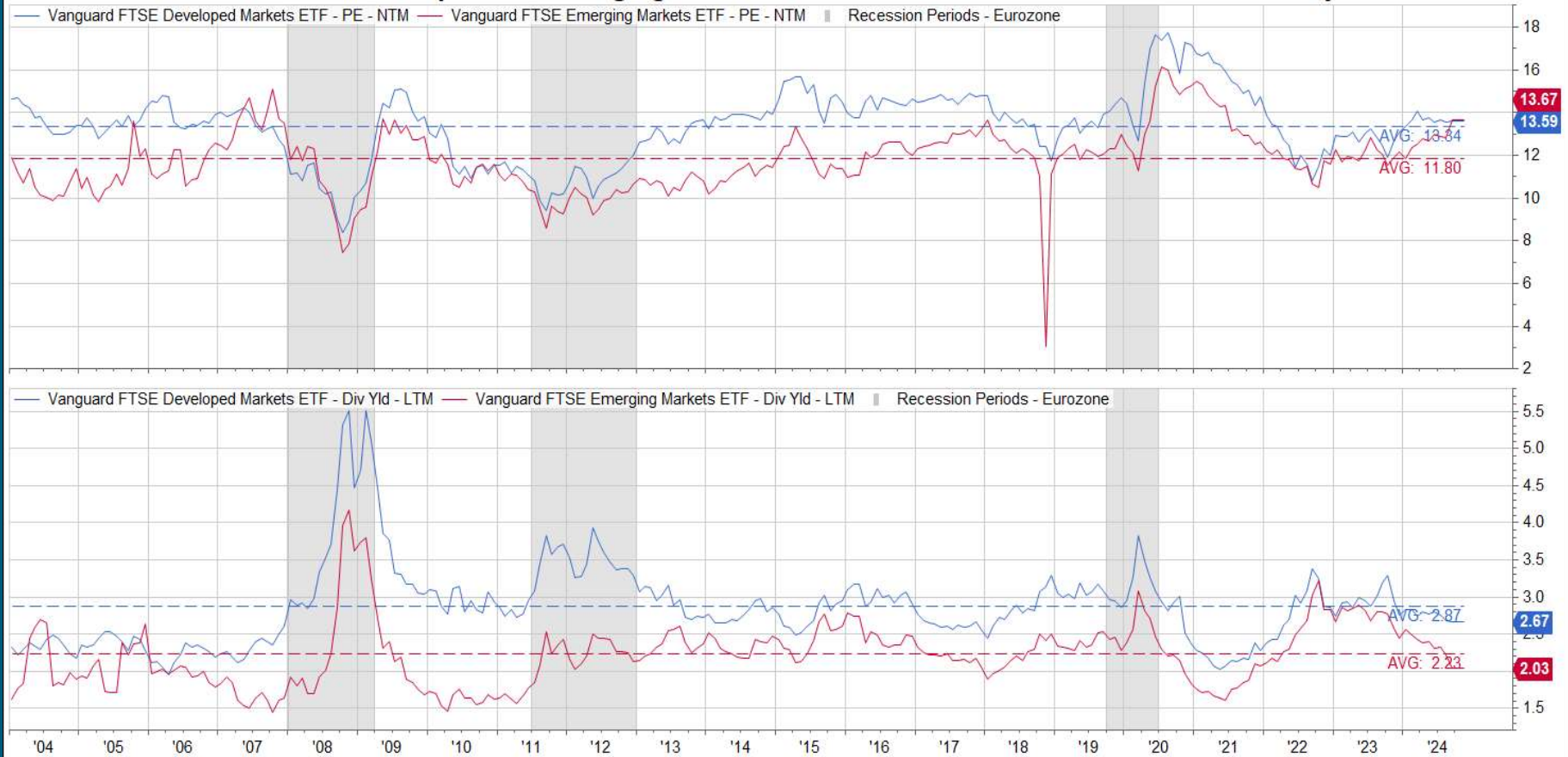
Source: FactSet

ETFs to consider for international broad equity exposure: Vanguard FTSE Developed Market ETF <VEA> and Vanguard FTSE Emerging Market ETF <VWO>

Past performance is not a guarantee or predictor of future performance. Stocks are not guaranteed and have been more volatile than other asset classes.



International Developed and Emerging Markets Look More Reasonable Versus Their History



Source: FactSet



2nd Opportunity

Broaden your US equity exposure: Mega caps look expensive today



Overweighting last year's largest companies usually doesn't pay off in the long run

Ten Largest Market-Capitalization Stocks in the World at the Beginning of Each Year

2021	2010	2000*	1990	1980
Apple	PetroChina	Microsoft	Nippon T&T	IBM
Microsoft	Exxon Mobil	General Electric	Bank of Tokyo-Mitsubishi	AT&T
Amazon	Microsoft	NTT DoCoMo	Industrial Bank of Japan	Exxon
Alphabet	ICBC	Cisco	Sumitomo Mitsui Banking	Standard Oil
Facebook	Wal-Mart	Wal-Mart	Toyota	Schlumberger
Tencent	China Construction Bank	Intel	Fuji Bank	Shell
Tesla	BHP Billiton	Nippon T&T	Dai-Ichi Kangyo Bank	Mobil
Alibaba Group	HSBC	Exxon Mobil	IBM	Atlantic Richfield
TSMC	Petrobras	Lucent Technologies	UFJ Bank	General Electric
Berkshire Hathaway	Apple	Deutsche Telekom	Exxon	Eastman Kodak

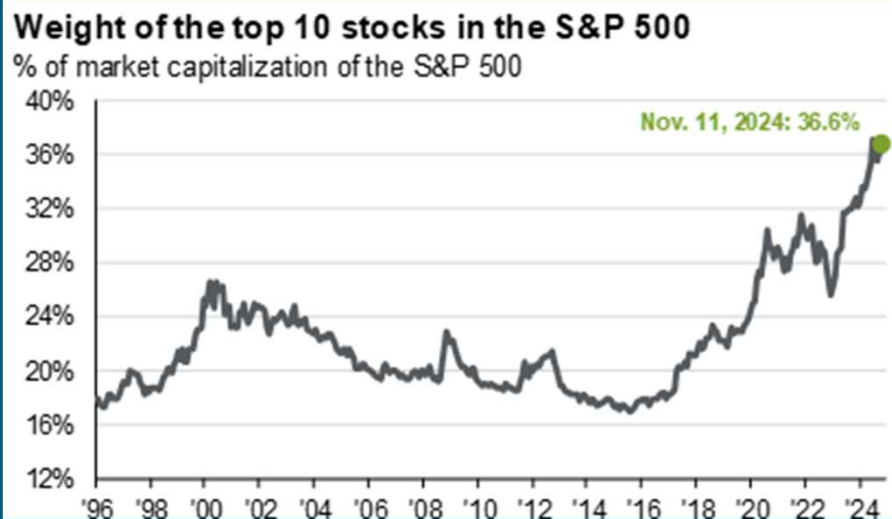
	New Addition to List	Drops Off List Next Period	Flip-Flop: New, Then Drops
Company is:	US	European	Emerging Markets
			Japanese or Australian

*Year 2000 represents holdings as of March, three months late.
 Source: Research Affiliates, LLC, using data from Financial Times, Wikipedia, and Gavekal Research. Rankings shown represent beginning-of-year rankings.
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Source: Research Affiliates "The Largest Companies By Market Value Change Over Time", 5/17/21
 Past performance is not a guarantee or predictor of future performance.

Several signs point to broadening your US equity exposure



ETFs to consider for broad US equity exposure: Invesco S&P 500 Equal Weight <RSP> and Vanguard Total Stock Market Index <VTI> , Source: JP Morgan Asset Management

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3rd Opportunity

Enhanced Indexing: Focus on areas of the market that outperform over the long run and are undervalued



Stock Factors That Have Outperformed The Overall US Stock Market Over The Long Term					Data Through: November 2022			
Factor	Captures Excess Returns From	Rationale	Metric	Data Since	Average Annual Excess Return			
					Since Inception	50 Years	20 Years	10 Years
Value	Stocks that have lower prices relative to their fundamental value	Investors want to say they are invested in the current era growth stories and over estimate the durability of growth. Value stocks have greater leverage, lower margins and lower return on asset. Investors need to be compensated for taking greater risk with value stocks	Price/Book Value	1926	3.0%	3.2%	-1.3%	-1.5%
			Price/Dividends	1927	1.7%	2.3%	0.5%	-2.3%
			Price/Earnings	1951	5.2%	3.8%	0.1%	-1.7%
			Price/Cash Flow	1951	3.8%	2.9%	-0.5%	-4.5%
Size/Small Cap	Smaller firms by market capitalization relative to their larger counterparts	Smaller firms are under followed relative to larger firms. Smaller firms have more leverage, lower margins and return on assets and investors need to be compensated for taking greater risk with small cap stocks.	Market Capitalization	1926	1.8%	1.0%	3.3%	-2.2%
Low Volatility	Stocks that have lower volatility, beta and/or idiosyncratic risk	Investors over pay for more volatile stocks in the pursuit of higher investment returns	Beta	1963	5.0%	5.5%	5.7%	7.4%

Source: Ken Fama Library, Top 30% portfolio compared against bottom 30% portfolio cited
 Past performance is not a guarantee or predictor of future performance.



Stock Factors That Have Outperformed The Overall US Stock Market Over The Long Term

		Summary		
		Performs Well		Performs Poorly
Factor	Metric			
Value	Price/Book Value	Early Cycle		
	Price/Dividends	Bear Markets, Early Cycle		Late cycle
	Price/Earnings	Bear Markets, Early Cycle		
	Price/Cash Flow	<u>Bear Markets,</u> Early Cycle		
Size/Small Cap	Market Capitalization	Bull Markets, <u>Early Cycle</u>		Bear Markets, <u>Late Cycle,</u> Recessions
Low Volatility	Beta	<u>Bear Markets,</u> Late Cycle, Recessions		Bull Markets, <u>Early Cycle</u>

Source: Ken Fama Library,

Top 30% compared to bottom 30% portfolio cited.

Bull markets defined as a 20%+ cumulative price appreciation and bear markets defined as 20%+ cumulative price depreciation in S&P monthly prices.

Underlined timing observation are more statistically significant and confirmed through Research Affiliates. Otherwise, to be highlighted in the summary table, the factor outperforms greater than 60% of the time and/or the excess return is 5%+ OR the factor outperforms less than 40% of the time and/or the underperformance is 5%+.

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US value is relatively attractive versus the US stock market

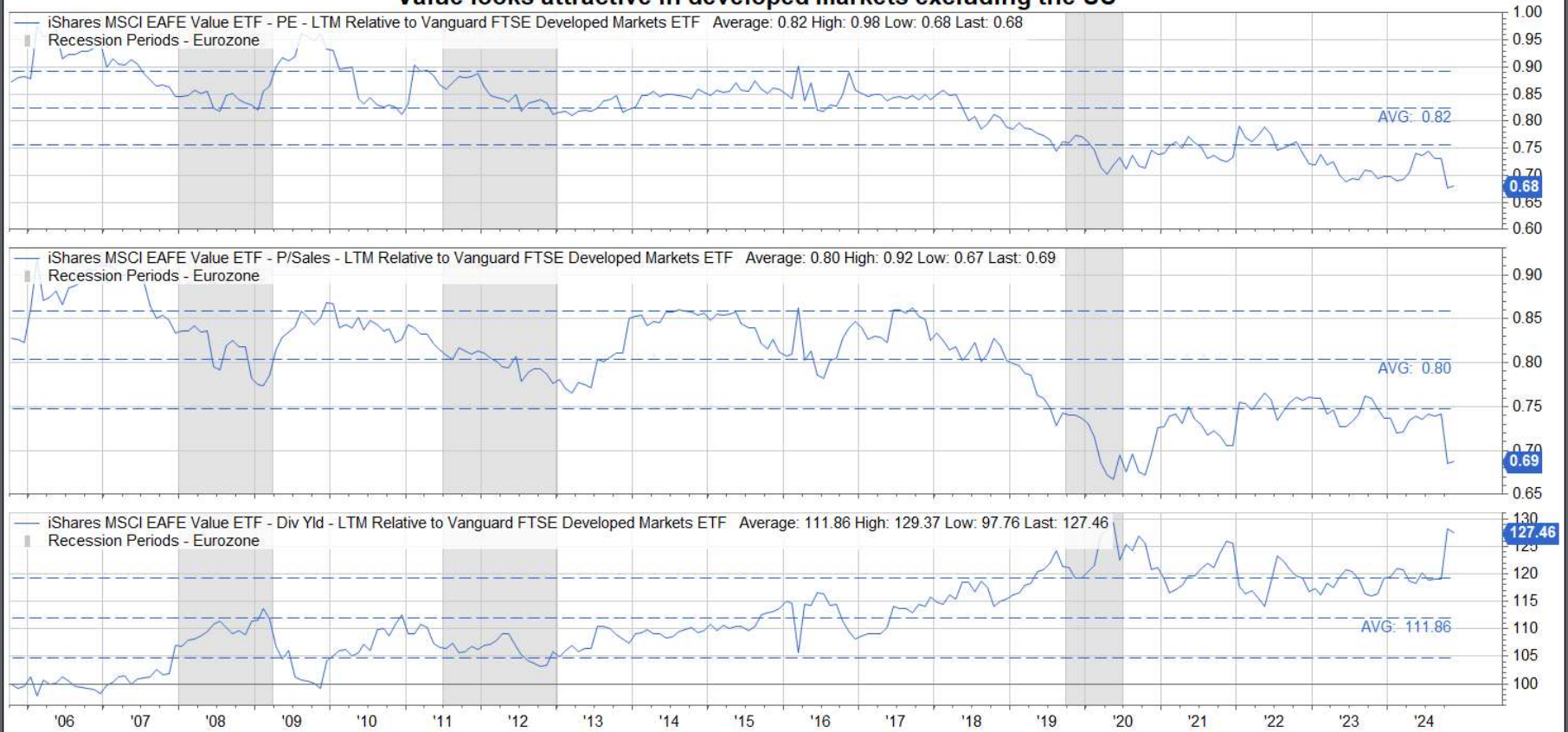


ETF to Consider for US Value Exposure: Vanguard Value <VTV>

Past performance is not a guarantee or predictor of future performance.



Value looks attractive in developed markets excluding the US

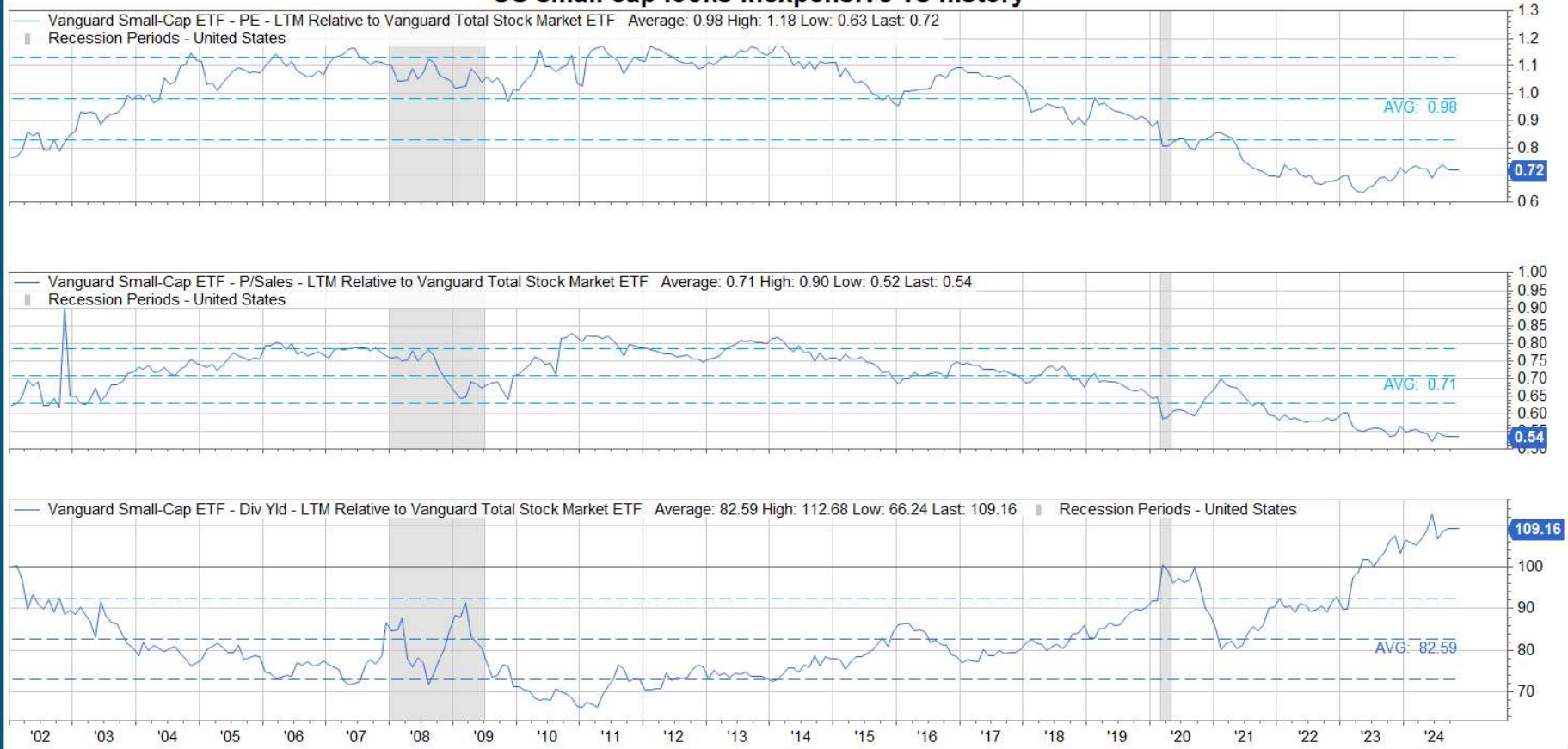


ETF to Consider for International Value Exposure: iShares MSCI Value <EFV>

Past performance is not a guarantee or predictor of future performance.



US small cap looks inexpensive vs history

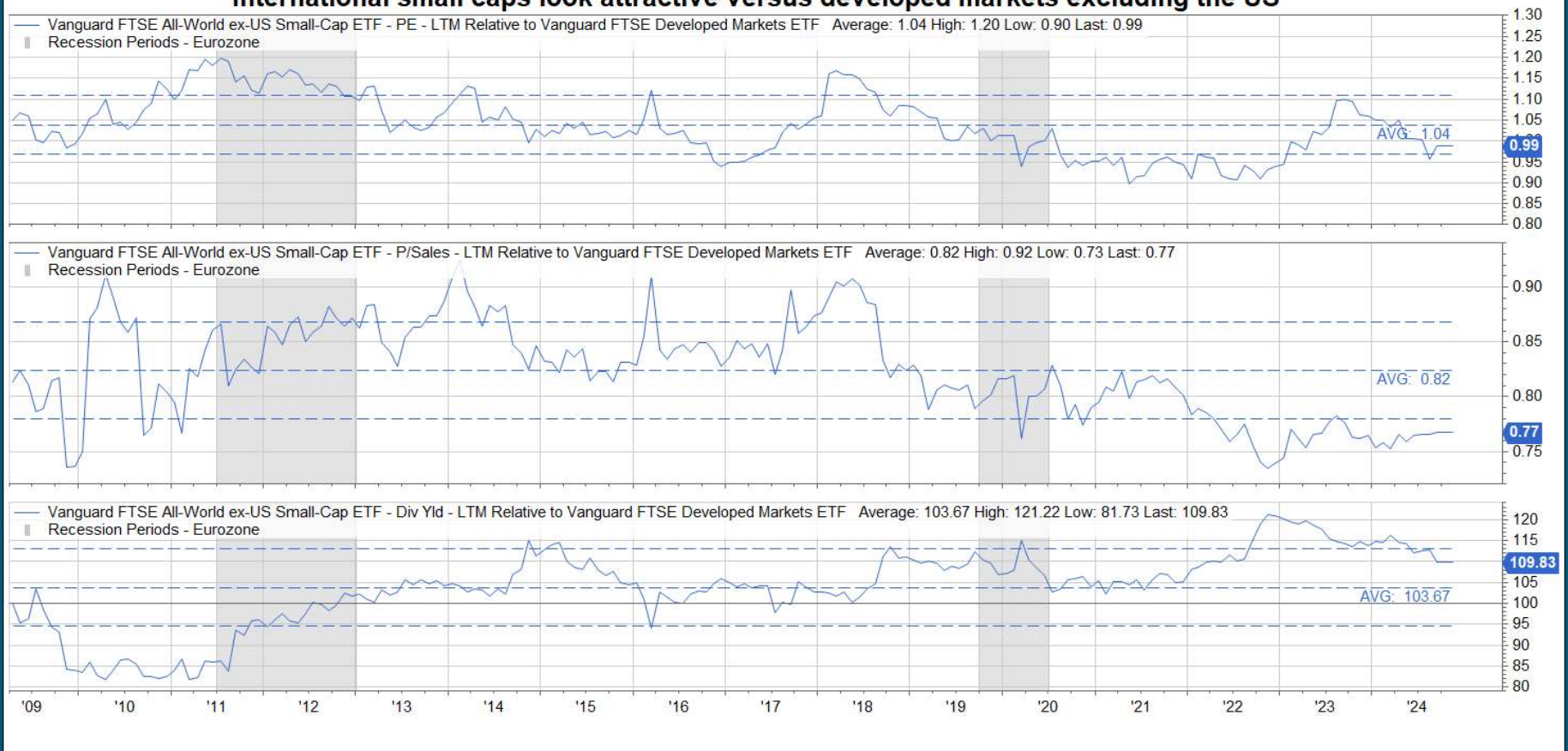


ETF to Consider for US Small Cap Exposure: Vanguard Small Cap ETF <VB>

Past performance is not a guarantee or predictor of future performance



International small caps look attractive versus developed markets excluding the US

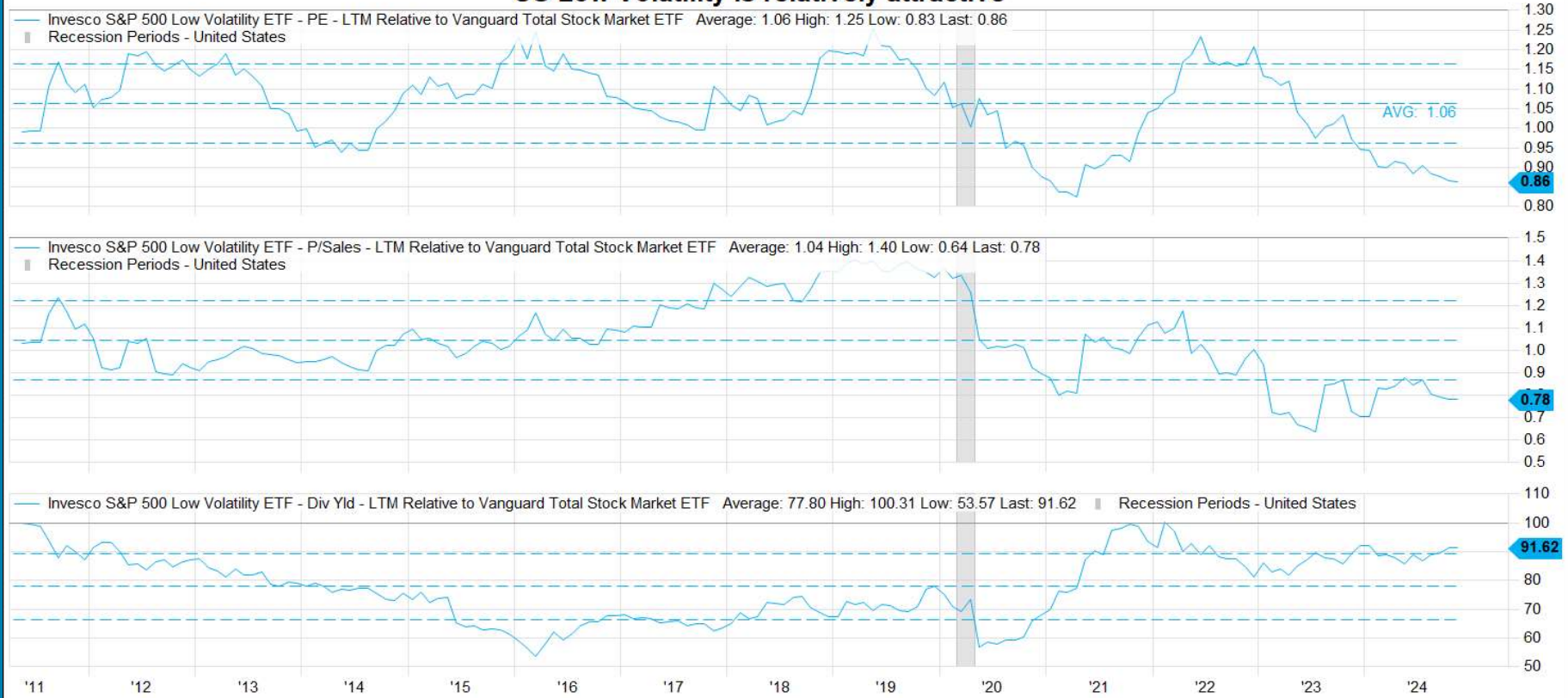


ETF to Consider for International Small Cap Exposure: Vanguard FTSE All World Ex US Small Cap <VSS>

Past performance is not a guarantee or predictor of future performance



US Low Volatility is relatively attractive

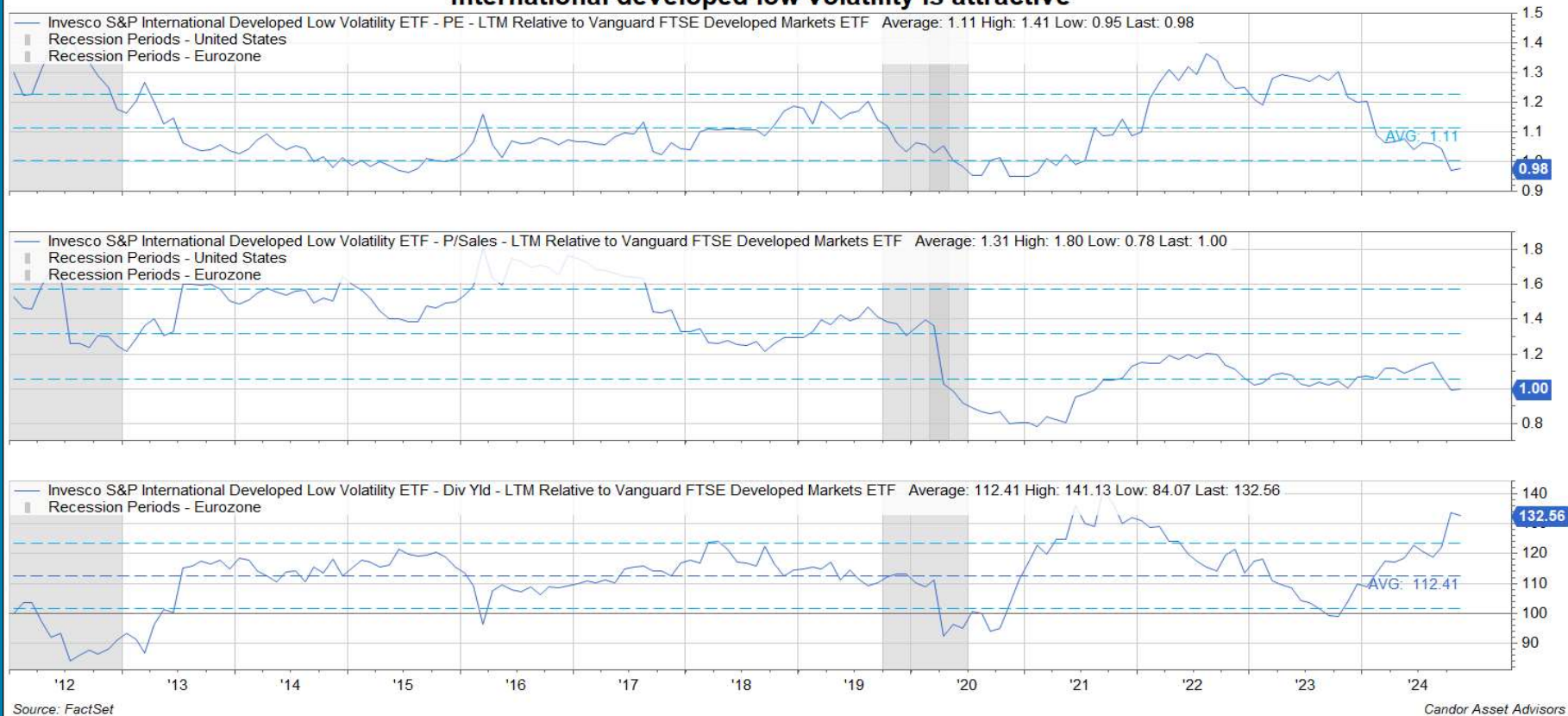


ETF to Consider for US Low Volatility Exposure: iShares MSCI USA Minimum Volatility <USMV>

Past performance is not a guarantee or predictor of future performance.



International developed low volatility is attractive



ETF to Consider for EAFE Low Volatility Exposure: Invesco S&P International Developed Low Volatility <IDLV>
 Past performance is not a guarantee or predictor of future performance.



Opportunities Conclusions

- Trying to time the market is often a fool's errand because a significant portion of returns occur in short periods of time
- Bull markets often exceed bear markets in duration and magnitude
- Putting your politics aside and investing through political cycles often makes sense
- The US % of world market capitalization is near highs
- US outperformance is often cyclical, and the US has outperformed for an extended period recently
- International developed and emerging markets' valuations are only slightly elevated, and the relative valuation gap is attractive versus the US
- Consider broadening out your US equity exposure
- Value, small cap and low volatility stock funds look relatively attractive



For more information

- Check out our website at:
www.candorassetadvisors.com



Candor Asset Advisors, LLC is an investment management and financial advisory firm located in Austin, Texas. We help our clients identify, refine and achieve their financial goals by providing sound investment advice, focused planning, prudent asset allocation and effective portfolio management.

Achieving these financial goals helps you realize what's important to you -- whether that's purchasing a home, funding a child's education, taking the vacation of your dreams, starting a business, providing care for loved ones, making charitable donations, or retiring on your terms.

Honesty, integrity and customer service are at the heart of everything we do. We believe open communication is essential. We employ a collaborative process to understand your goals, constraints, life events, risk tolerance and time horizon so that we can tailor our recommendations to you.

Thank you for your interest in our firm. Please [reach out](#) if you would like to know more.

- We discuss where we see opportunities in stocks, fixed income and other asset classes in our investment strategy commentaries
- Sign up to receive our insights by emailing us at:
 - info@candorassetadvisors.com
- To schedule a conversation, use the following link:
 - https://calendly.com/bhawes-1/brief_conversation

William E. Hawes, CFA, CFP® President and Chief Investment Officer

With over 24 years of industry experience, Bill brings a wealth of knowledge in investment management and financial planning. Prior to earning his MBA, Bill worked in mortgage banking and insurance, and the insights gained provided him with a broader perspective of the financial issues facing clients.

Bill has been a Chartered Financial Analyst since 2000 and is a Certified Financial Planner. Bill also enjoys golf, travel, studying history, watching his favorite sports teams, and spending time with family.

Before founding Candor Asset Advisors™, Bill co-created and managed Century Management's Large Cap Absolute Value and Large Cap Value strategies. Bill also analyzed companies in a variety of industries for the firm's all-cap value strategy.

Prior to moving back to Texas, Bill served as an equity analyst for Engemann Asset Management in Southern California. He co-managed a mid-cap growth fund and served as a multi-sector analyst for the mid-cap and large-cap growth teams.

After graduate school, Bill served as co-portfolio manager and equity analyst at Franklin Templeton. While there he served as portfolio manager on All Cap, Large Cap Core, and Consumer Sector portfolios. Notable institutional clients included CalPERS, Mitsui Trust, Norges Bank, and Penn Mutual. He also spent considerable time analyzing auto, transportation, and consumer stocks.

Bill earned his Master in Business Administration from the University of Southern California. While there he also served on USC's MBA student investment fund.

Between his graduate and undergraduate studies, Bill worked at North American Mortgage Company in California as a management trainee and later as a financial analyst and marketing coordinator. The experience gave him a better understanding of the mortgage and real estate markets which he leverages to this day.

Bill earned his Bachelor of Business Administration from the University of Texas at Austin. While a student, he also served as a special agent for Northwestern Mutual. The experience gave him an understanding of life and disability insurance and the work ethic, tools, and temperament needed to grow a financial services practice.





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Investment advisory and financial planning services offered through Candor Asset Advisors, LLC, a registered investment advisor.



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