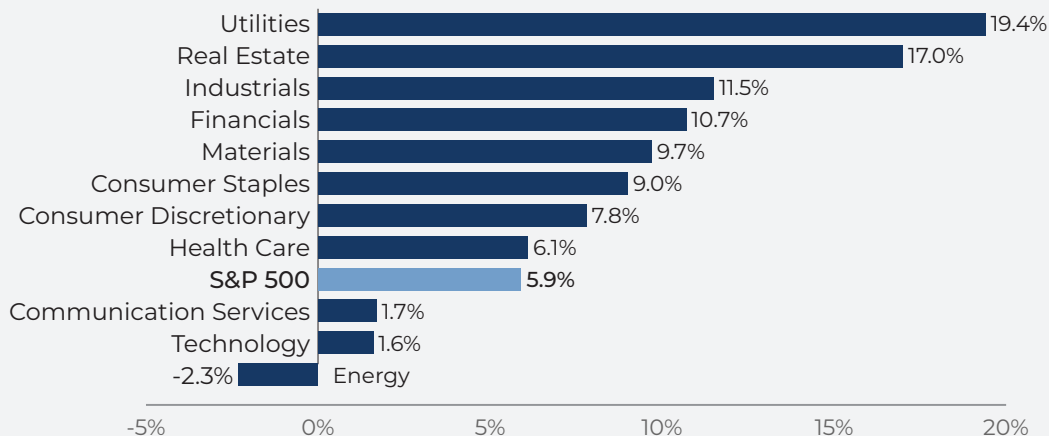


Over the last few quarters, we have written much about market euphoria and the concentrated market leadership among mega-technology companies. Last year, it was the “Magnificent Seven”, then it was the “Fab Four” in the first quarter, and in the second quarter it was all about Nvidia, which had single-handedly accounted for about 35% of the S&P 500’s return at mid-year.

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Sector & Index Performance, 3rd Quarter



Source: JP Morgan Guide to the Markets

Nvidia and some of the largest technology companies declined in the quarter, despite the S&P 500 posting a strong 5.9%, bringing its year-to-date total up to just over 22%. Small cap stocks enjoyed a resurgence in the quarter with the Russell 2000 up 9.3%.

U.S. Equities

Index	Q3 2024	YTD 2024
S&P 500	5.9%	22.1%
Equal-Weighted S&P 500 Index	9.6%	15.2%
Dow Jones Industrial Average	8.7%	13.9%
Nasdaq Composite	2.8%	21.8%
Russell 2000 (Small Caps)	9.3%	11.2%

Source: Morningstar

We think “resilient” might be the most apt description for stock markets in the U.S. and abroad. Both developed markets and emerging markets experienced strong gains in the third quarter and year-to-date as well.

So far, the markets seem rather unfazed by the potential for higher oil prices driven by the widening conflict in the Middle East, ongoing hostilities in Ukraine, and a U.S. election season where dramatic and unprecedented events are becoming the norm!

International Equities

Index	Q3 2024	YTD 2024
MSCI EAFE (Developed Markets)	7.3%	13.0%
MSCI Emerging Markets	8.7%	16.9%

Source: Morningstar

The Federal Reserve and interest rates – the wait is over!

Inflation and the Federal Reserve’s policy for fighting it has been the economic story of the last two-and-a-half years. After raising the Fed Funds rate from 0% to a 5.25%-5.5% range, we have finally seen the long-anticipated first reduction in this policy rate.

With inflation generally falling to between 2% and 3% across multiple measures and recent concerns that the labor market was softening, the Fed cut by a somewhat surprising 0.50% rather than the typical increment of 0.25%. The markets currently expect further reductions at each of the Fed’s remaining two policy meetings this year.

Interpreting the rate cut as lessening the probability of the economy sliding into a recession and offering relief to those segments of consumers and corporations that have been straining under the burden of higher debt costs, investors propelled the S&P 500 stock index to record highs.

The bond market had more of a mixed reaction; while short-term rates fell because they track the Fed Funds rate closely, longer-term interest rates actually rose. The 10-year Treasury Note, against which most 30-year home mortgages are benchmarked, rose from about 3.6% to 3.8% on concerns that such a large cut was premature and could fuel a resurgence in inflation.

Some market watchers, including ourselves, believe that the concerns over the labor market have been overblown. While the unemployment rate has risen in recent months, it has been largely due to an increase in the supply of workers due to rising immigration numbers. The number of people actually losing their jobs remains near historic lows, and wage inflation is still over four percent.

The debate for the rest of the year will be over how rapidly the Fed will continue to cut rates – if they move too quickly, it could reignite inflation; too slowly and it could risk recession.

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Fixed Income

Index	Q3 2024	YTD 2024
Bloomberg US Aggregate Bond Index	5.2%	4.4%
Bloomberg Global Aggregate Bond Index	5.3%	4.4%
Bloomberg Municipal 5-Yr Index	3.0%	2.2%

Source: Morningstar

Election 2024 – Into the home stretch!

We mentioned at the beginning of this newsletter how resilient the equities markets have been throughout all of the chaos, both political and geopolitical, that has created big headline after big headline all year. On top of that we are racing toward the largest fiscal cliff in our nation's history with the 2017 tax cuts expiring at the end of 2025 and an exploding national debt. The total national debt is now 116% the size of the entire U.S. economy in a full year (or 116% Debt/GDP)ⁱ. Ten years ago, that figure was 96%, and it was 57% ten years before that. Both sides of the aisle in Washington have agendas that are forecasted to grow Debt/GDP in the area of 6% to 8% per year for the foreseeable futureⁱⁱ. Only during World War II, the Global Financial Crisis, and the pandemic has the U.S. run such large deficits. Those were all times of crisis – unlike today where we have a strong economy and low unemployment. This year will be the first time in our history that we spend more on the interest on our debt than we spend on national defenseⁱⁱⁱ. As interest payments account for more and more of the U.S. government's expenditures, it could limit our ability to deal with future national emergencies or economic recessions, which would likely have a significant impact on markets.

We included a segment in last quarter's newsletter showing that Presidential administrations have demonstrated very little control over the stock markets, and that the periods of highest returns came during administrations that were not thought to be very "market friendly." That is not to say that such events can't cause some shorter term-volatility, but the market forces that lead to sustained bear markets are typically years, if not decades in the making. The last two severe and sustained bear markets, the bursting of the "internet bubble" and the Global Financial Crisis, were excesses that built up over years, as is the debt issue in the paragraph above. If we see a painful bear market in the next four years, it is much more likely due to issues that are already taking root rather than new tariffs or tax increases.

Could Election 2024 impact your financial planning?

Just because elections are unlikely to lead to Armageddon for the markets, that doesn't mean they can't impact your financial plan. Income taxes, capital gains taxes, estate taxes, and more – many important issues are on the table in this election, so let's preview what we know about how the various races are going and where we could see some impact on your financial planning.

This year's Presidential race certainly looks too close to call at this point, but some big changes are likely coming in Congress!

i. Source: The World Bank

ii. Source: CBO Baseline Forecast

iii. Source: Strategas

Regardless of who wins the Presidency, the most likely outcome will be that we will have a divided government heading into 2025, which could be the biggest year for tax policy in over 100 years.

Right now, it looks like the most likely outcome for Congress is for control of the two houses to flip, with the Democrats likely taking control of the House of Representatives and the Republicans likely taking control of the Senate. However, an overwhelming win for either candidate could create enough momentum for either side to sweep the White House and both houses of Congress, which seems unlikely with a month to go.

Regardless of who wins the Presidency, the most likely outcome will be that we will have a divided government heading into 2025, which could be the biggest year for tax policy in over 100 years.

Here are some key tax issues that will need to be addressed:

- » Expiring individual tax provisions from the Tax Cuts and Jobs Act (TCJA), which was passed during the Trump administration
- » Expiring tax provisions for small businesses
- » Affordable Care Act subsidies
- » The Global Minimum Tax
- » The Inflation Reduction Act's Energy Tax Provisions
- » Housing tax policy

And the debt ceiling will need to be raised as it expires at the end of next year as well, so another year of political brinksmanship looks likely. Some of the issues that we will be following most closely for clients are:

- » **Capital Gains Taxes** – If capital gains tax rates look likely to rise significantly, there may be circumstances where some clients will find it favorable to take certain gains in 2024 before higher rates potentially take effect for the 2025 tax year.
- » **Income Taxes** – Changing income tax rates could impact the choice between taxable and municipal bonds, as well as the decision on most tax-efficient allocation of assets among different accounts.
- » **Estate Taxes** – With the current estate tax exemption of approximately \$13.6 million scheduled to fall by nearly half after 2025, this is an issue we've been discussing with clients for a couple of years. The political reality is that there are a lot of voters deciding important congressional races in states where a lot of voters have significant land holdings which could be significantly impacted by the estate tax issue, so there will be significant political pressure to mitigate any decline in the exemption

As discussed earlier, political agendas have not proven to be the primary drivers of large, sustained market movements, but they do often cause bouts of volatility. We often see market volatility leading up to and immediately following elections and during stressful brinkmanship around raising the debt ceiling.

Whether it is short-term volatility or a sustained bear market for equities, the time-proven method for keeping financial goals on track is informed and effective portfolio diversification across asset classes.



Dennis Follmer
Chief Investment Officer



John Yanchek
Managing Partner



Tucker Donahoe
Managing Partner

FINANCIAL PLANNING NEWS

529 PLANS are by far the most common vehicles we leverage to potentially fund educational costs. We feel it is critical that our clients understand how flexible the plans are. Outlined below are some of the most important 529 plan features that are not always apparent.

529 GIFTING/CONTRIBUTION ADVANTAGES: There is not an outlined contribution limit when it comes to 529 plans. In most cases, contributions are considered gifts with gift tax limits. In 2024, the gift tax limit is \$18,000 per donor for a single beneficiary. The 529 plan adds more flexibility with gifting by allowing gifts to be front loaded for up to 5 years. This means that you can kickstart a 529 plan with an initial contribution of up to \$90,000 (\$18,000 annual exclusion multiplied by 5 years). This will count as your maximum gift for the next 5 years but will maximize potential growth in the account.

FLEXIBILITY IN ELECTING BENEFICIARIES: 529 plans give us flexibility in electing and changing who the beneficiary is. This means that you can transfer the beneficiary of a 529 plan to another family member if one of the beneficiaries decides not to go to college or does not have enough qualified education expenses to utilize all the funds. Typically, beneficiary transfers must be under the “direct family” umbrella.

POTENTIAL STATE TAX BENEFITS: Every single state and Washington D.C. sponsor at least one 529 plan. You are not limited to your own state's 529 plan, but there may be specific state tax benefits to enrolling in your home state's plan. For example, a resident of Massachusetts may be eligible for a state income tax deduction if they enroll and make contributions into the Massachusetts U. Fund (State sponsored 529 plan).

ROTH CONTRIBUTION POTENTIAL: SECURE Act 2.0 now allows 529 plan owners to roll over funds into a Roth IRA without incurring federal income tax. As of 2024, the total amount that can be rolled over into a Roth IRA is \$35,000 per beneficiary. The funds must be rolled over to a Roth IRA that is in the same name as the beneficiary for the 529 account. The 529 account must have been open for at least 15 years in the beneficiary's name and the funds being rolled over must have been in the 529 account for at least 5 years.

K-12 TUITION EXPENSES: Depending on the state, 529 plans have expanded their use beyond just the expense of college. 529 plans allow for \$10k per year to be used for K-12 tuition expenses. Unlike college, only the tuition is considered a qualifying educational expense when used for K-12.

We are excited to introduce two new members to the Montis team.



DAN TRAUB joins us as a Senior Financial Advisor with over 30 years of experience in investment and wealth management. His expertise and commitment to personalized client service will be a valuable asset to our team.



ROBERT MCGAHAN, our new Operations Associate, brings a strong background in financial operations and will play a key role in supporting the day-to-day functions of our operations team.

Please join us in welcoming Dan and Robert to the Montis family!

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Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational and comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Montis account holdings correspond directly to any comparative indices or categories. Please Also Note: (i) performance results do not reflect the impact of taxes, (ii) comparative benchmarks and indices may be more or less volatile than your Montis accounts, and (iii) a description of each comparative benchmark and index is available upon request.