CYPRESS

ASSET MANAGEMENT, INC.

MARKET COMMENTARY **July, 2024**

	Q2 2024
S&P 500 Total Return	4.28%
NASDAQ	8.47%
Dow Jones	-1.27%
Russell 2000	-3.28%
World ex. US	2.51%
Oil ($81.54/bbl)	-1.74%
Long Term Treasury (4.51%)	-1.55%
As of June 30, 2024	

The S&P 500 rose 4% in the second quarter, 2024 as the market extends its mid-cycle recovery. The market built on a solid first quarter; as a result, the S&P 500 is up a strong 15% for the first half of 2024. The market was boosted by a surging tech sector driven by continued buying interest in the largest technology companies, commonly known in the press as the Magnificent 7: Microsoft, Apple, Amazon, Meta (Facebook), Netflix, Alphabet (Google) and Nvidia. Artificial Intelligence (AI) is the market's new current theme and Nvidia, currently the breakthrough innovator of software and semiconductor chips that power generative AI, is the darling of the market. This group accounted for much of the return in the index during the quarter, reflecting a period of historic profits for these companies as the demand for AI equipment went parabolic. We are witnessing a corporate arms race among the tech titans to procure, integrate and exploit the highly anticipated efficiencies inherent in AI. Many in the tech business have declared that AI will be bigger than the internet and all the major technologies that came before it. The future will prove or disprove the efficacy of the technology and reveal the winners as well as the losers. But the tech driven boom has led to extraordinary concentration in the market, with the top ten stocks in the S&P 500 representing roughly 36% of the index; something we have not seen since the late 1990s and before that the 1950s and early 1960s. This poses a real challenge to the equity market and to portfolio managers and investors.

Interest rates rose slightly during the quarter; the 10-year treasury yield increased from 4.2% to 4.4%. The Fed stuck to the "higher for longer" theme on rates, insisting that inflation remained sticky and it remained data dependent, looking for more meaningful declines in inflation and jobs before it might pivot to lower rates. West Texas Intermediate oil was flat for the quarter at $81/bbl. Little changed on the global front: conflict continues in Europe and the Middle East and heightened tensions in Asia and the Pacific between China, Taiwan and the Koreas extending to the Philippines and South Pacific.

Inflation, Recession and the Federal Reserve

The Federal Reserve has a dual mandate: keep the economy healthy, via monetary policy, by pursuing the economic goals of maximum employment and price stability. In short, the Fed seeks to use its powers to avoid recession and fight inflation. In a sense, the Fed is a risk management enterprise: today they are seeking to level an economic teeter totter by balancing the risks of slaying inflation with higher interest rates, while they also minimize the risks of overdoing it - thereby driving the economy into a recession, destroying jobs and punishing markets. It is a never-ending economic balancing act. During 2023, the Fed was preoccupied with fighting inflation. The message in 2023 was, because inflation was proving sticky instead of transitory, that the Fed was prepared to keep applying the brakes and let rates stay "higher for longer." Employment was strong, inflation was persistent and the economy showed few signs of weakening. Now, in 2024 the environment has changed: inflation has receded and downside risks are rising. The inflation threat appears to be fading as the threat of recession, while still modest, appears to be rising. The unemployment rate is up, it has risen 1/10 of a percent every month for the last three months. The last time that happened was in 2016. Then, the Fed started the year by saying they would hike rates four times but, because of higher unemployment, it raised rates only once. Unemployment gets the attention of the Fed and markets because of the risk that unemployment grows in a non-linear fashion (e.g. a hockey stick). That is, unemployment exhibits momentum; it can dangerously feed on itself, and can grow faster and faster. We feel that this shift in risk to the economy from inflation to recession clears the way for the Fed to initiate the anticipated rate cutting cycle in the second half of 2024.

The backdrop of slowing inflation, a Fed now intent on cutting rates, and resilient economic growth is favorable for stocks and reflects a classic goldilocks mid-cycle environment. But before investors get too complacent, we must note the challenges posed to the market from elevated concentration and the significant outperformance of the Magnificent 7 tech giants and a handful of others mega caps, and the increased volatility we could see as we enter the home stretch of an historic Presidential election.

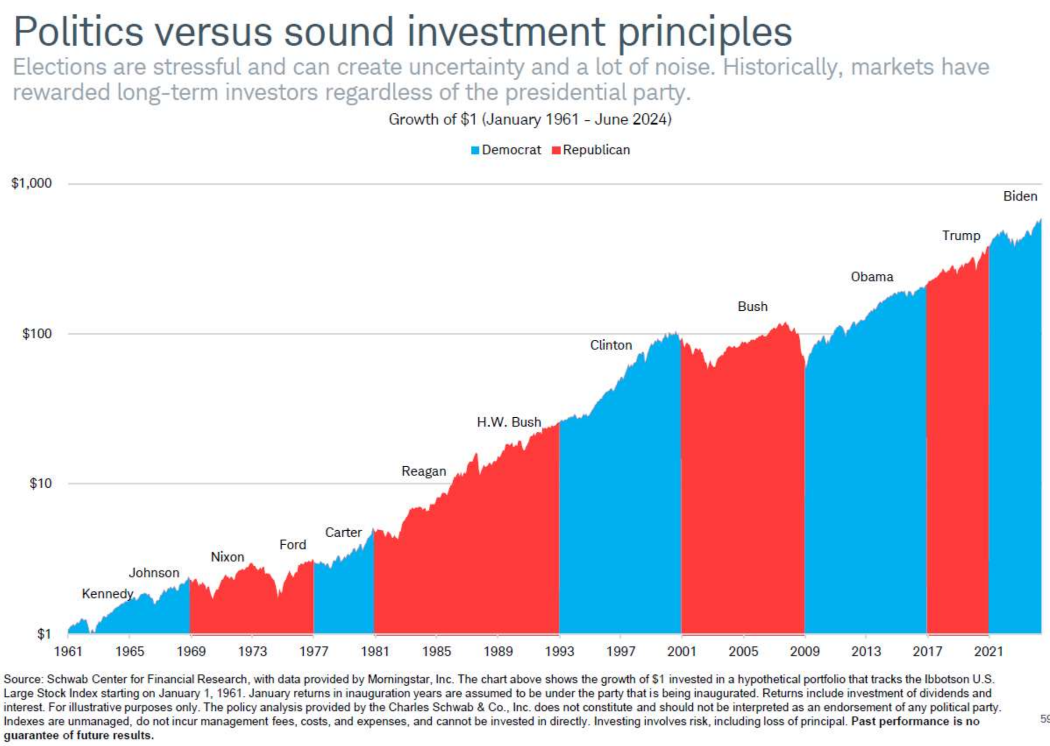
POSITIVE	NEGATIVE
• Inflation Concerns Diminishing	• Ongoing Wars in Ukraine and Middle East
• Fed Policy Working	• Widening Conflict Threatens Global Supply Chain
• Fed Rate Cuts 2H 2024	• Restructuring of Global World Order
• Resilient Growth	• M2 Money Supply Growth Negative/Monetary Tightening Lag
• Economy still in slow and steady mid-cycle	• Recession Still a Threat
• AI & Technology Investment Spending Boom	• US National Debt at Record High Level ($35T), @1.24x Greater than Nominal GDP

Politics, the Election and the Chevron Doctrine

As we write, a few days after the attempted assassination of President Trump, the markets seem to be adjusting, rightly or wrongly, to the increasing likelihood of a second Trump presidency. We are reminded that there are over 100 days to the election and, as we learned by the events of the last weekend, anything can happen. But it is noted that a Trump presidency could have a dramatic impact on the markets with particular respect to taxes; IPOs, mergers and acquisitions; and government regulation. The latter, regulation or more precisely deregulation, could be particularly impactful under a Trump presidency given the recent Supreme Court decision eliminating the Chevron doctrine. The 1984 Chevron decision took power from the

Judicial branch and gave Federal administrative agencies unchecked powers to interpret the regulatory language and laws. With the Chevron doctrine, courts had to follow the agencies' interpretations. Over the 40 years of the doctrine, unelected Federal administrators were able to craft and enforce their own agendas without regard to the courts.

In overturning the Chevron decision, the court noted that the doctrine violated the separation of powers, requiring judges to give up constitutionally endowed powers, and allowing the executive branch to exercise power not given to it. Through Chevron, administrative agencies and government increasingly expanded its reach into the daily lives of Americans, small business, and American institutions. Justice Gorsuch said in his concurring decision, "Today, the court places a tombstone on Chevron no one can miss." This is important because a new president and Congress will have an opportunity to dramatically roll back a heretofore unchecked administrative state. This decision could present a once in a lifetime chance to change American enterprise and economic activity in what might turn out to be remarkably productive and liberating ways. Over time it could help return the American economy to a more level playing field and more favorable environment for small and mid-sized businesses and main street, rather than the dominance of big government and big corporations.



Notable Quotes

"There has been some progress bringing inflation down, but there are still multiple inflationary forces in front of us: large fiscal deficits, infrastructure needs, restructuring of trade and remilitarization of the world, therefore, inflation and interest rates may stay higher than the market expects." – Jamie Dimon

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"Any great power that spends more on debt service (interest payments on national debt) than on payments on national defense will not stay great for very long." – Historian Niall Ferguson

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John Chambers, former CEO of Cisco, on Artificial Intelligence *"The implications in terms of the size of the market opportunity is that of the internet and cloud computing combined. The speed of change is different, the size of the market is different, the stage when the most valuable company was reached is different."*