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The HBWM Quarterly Roundup

3Q 2024



Market Overview

Soft landing? Hard landing? This airplane metaphor has been widely used by Wall Street professionals for the last few years. Maybe the question should be restated to ask if the plane will just stay in the air indefinitely? The S&P 500 index is up 5.6% for the quarter and 22.1% for the full year. GDP growth in the third quarter was 2.8%. The quarter ended with tight credit spreads and market indices and gold both making all-time highs. Despite higher mortgage rates, U.S. housing is also at an all-time high.

The volatility was so severe that the stock market had both its worst and best days of the year inside of a week and closed up on the week.

Corporate default rates remain low relative to history. Also, overall market performance this quarter began broadening out with the ‘Magnificent Seven’ ceding market leadership to utilities. The utility sector is up 30% for the full year - the most since 2003. The profound growth of data centers, AI, cloud computing, Bitcoin mining, and the trend towards electrification of automobiles are causing market participants to reconsider the magnitude, challenges, and opportunities of growing electricity demand. Market performance for the year and in the 3rd quarter would indicate that despite severe turbulence in August, this plane has no intention of landing anytime soon. Ironically, despite tight credit spreads and all-time highs in markets, the Federal Reserve cut interest rates by .50% in September—the first cut since the Covid pandemic. China announced a large stimulus program in an attempt to jump start their markets after fears of deflation

accelerated. On the back of their measures to stimulate, the Chinese market was up 25% in six trading sessions.

Volatility

A steep market sell off in early August gave whiplash to market participants. This sharp market decline in the beginning of the week of August 5th was followed by a stunning reversal whereby markets ended the week up .5%. The volatility was so severe that the stock market had both its worst and best days of the year inside of a week and closed up on the week. The sudden market drawdown in early August was a stark reminder of the fragility and global interconnectedness of markets. In retrospect, the drawdown was likely caused by a combination of the yen carry trade unwind, growing market consensus of a slowing economy, moderating views on AI growth, and concerns over the lofty valuations of market darlings like Nvidia. These disparate and complex forces came together in early August and almost broke apart the airplane mid-flight. Yet, this market volatility was short-lived.

Economic Strength

Why is the market so strong? Is it because the economy is so strong? Maybe? Perhaps part of the answer is that many households and businesses have lower interest rate sensitivity because of locked-in low interest rates supporting spending. There has also been strong and growing AI spending across many industries. Government spending also cannot be underestimated. Residual Covid benefits and strong fiscal stimulus spending driven by the CHIPS and Science Act, the Inflation Reduction Act (IRA), and the Infrastructure Investment and Jobs Act are likely having a material impact on the economy. Together, these powerful government stimulus programs aim to provide broad investment into our nation's infrastructure including broadband, energy,



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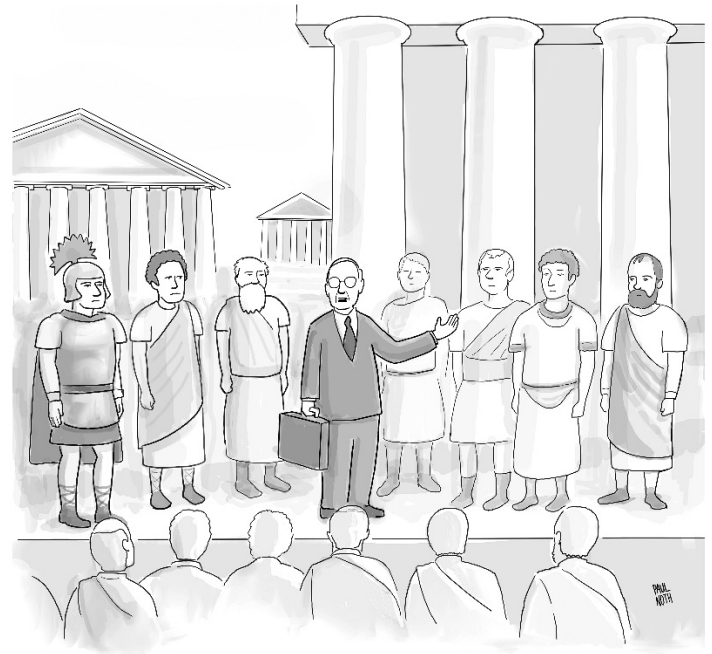
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transportation, and semiconductors. Is the Federal Government stimulating as if the economy is in full blown recession? Is the combination of this government spending with higher stock prices and tighter credit spreads offsetting the discontinuous lags relating to recent monetary policy activities and higher interest rates? Retail sales remained resilient in the quarter. Hotel data remains strong as does movie theater, Statue of Liberty visits and Broadway show attendance. Jobless claims remained low in the quarter and the same for continuing claims. At the moment, in aggregate, public companies (as represented by the SP500) are reporting another quarter of year-over-year (YoY) earnings growth. If this holds up through earnings season it will mark the 5th straight quarter of YoY growth. While there are pockets of weakness in the economy, such as domestic manufacturing, looking at these economic indicators alone would make one think that “things seem fine.”

Market Uncertainty

Countering the positive data noted above and strong market performance are a series of complex uncertainties that remain unresolved. In the short term, perhaps first on this list is the too-close-to-call U.S. presidential election. As of this writing, the polling data vacillates between a razor narrow victory for Trump or Harris—it’s a literal coin toss. A series of deadly hurricane storms ravaged the southern United States causing severe damage and over 150 deaths from the Carolinas to South Florida. Hurricane Helene was the deadliest hurricane since Katrina in New Orleans in 2005. The wars in the Middle East and Ukraine continue to have no end in sight and remain very fragile. For example, recently to make matters more complex it has been reported that North Korea has sent soldiers to Russia. Closer to home 30,000 Boeing workers continue to strike, costing the beleaguered aircraft manufacturer \$500 million a week. Port workers at the International

Longshoremen’s Association (ILA) also went on strike last quarter seeking higher wages and longer contracts. Both demands by the port workers were negotiated and settled but these high-profile strikes put further pressure and emphasis on businesses and governments to address worker discontent over rising costs and stagnant wages.



“I have not come to praise Caesar but to reassure the markets.”

Inflation

While inflation appears to be cooling in certain areas, we believe it is too hard to tell if the Fed has won the inflation battle. Historical data indicates we only know the outcome when the history books have been written. Coming into 2024 the market expected several rate cuts. The Fed decided to cut .50% in September. Forward predictions and odds of further cuts are anything but clear given the conflicting data coming out of America, Europe, and Japan. Inflation data has declined from the peak in 2022. Depending



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on the measure, inflation in certain categories is at or below the Fed's 2% bogie. Consumer price info has spoken loudly that inflation has cooled and central banks around the world are reacting by cutting rates—except for Japan which raised rates in July for the first time in decades. Also worthy of note is that the treasury yield curve has been inverted for over two years. An inverted yield curve is generally agreed to be a harbinger of recession. In September, the yield curve un-inverted but has since reinverted slightly. Is it reasonable to believe inflation has been subdued with the Fed lowering rates while the U.S. experiences positive economic growth, low unemployment, and continued government spending?

We are focused on genuine innovation (as opposed to growth with no financial returns) and we favor investments predicated on long-term, prudent capital management, both in companies and financial intermediaries.

US Government Debt

We would be remiss if we did not comment on the U.S. balance sheet. The U.S. national debt stands at over \$35 trillion—a record. Last quarter our friends at Strategas Research noted that the U.S. annual interest payments now exceed the entire defense budget. US government debt is rising by \$1 trillion every 100 days - clearly an unsustainable situation. From \$31 to \$35 trillion in total U.S. debt, each additional trillion dollars has been reached in a little less than six months. Compounding the problems around U.S. debt is that over 55% of America's outstanding treasury debt matures within the next three years. The weighted average cost of the debt

outstanding is at a rate far lower than the yield on most current Treasury securities. Unfortunately, most of the government spending is centered on entitlement programs, such as Medicare and Social Security. Over the years the share of mandatory spending has increased and now comprises 60% of total government spending. Such a high percentage of mandatory spending makes it difficult for Republicans and Democrats alike to achieve a balanced budget.

Investment Outlook & Portfolio Positioning

As of going to print with this letter the US remains in wait-and-see mode until the election. However, interest rates have moved higher recently. Is it appropriate to describe the volatility in rates recently as indicative of 'no one really knows'? Credit spreads remain tight, equities remain expensive vs. history and economic conditions are reasonable in the US but much weaker globally. Given the mixed economic signaling coupled with the starting point of high valuations, our views on the prevailing negative asymmetries have strengthened over the year. We ask ourselves how can both the equity and bond markets be correct? Our asset allocation model appropriately reflects our aggregate views on asymmetries.

As readers of our letters know, we position our portfolios to capitalize on opportunities for meaningful wealth creation caused by long-cycle economic changes. The decade following the Great Financial Crisis of 2008 was characterized by a unique period of low interest rates and continued globalization. We have approached the successful investments of this period with caution because the chessboard today has changed. We believe some successful ideas from the past decade have a place in the portfolio, but not to the dominant



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WEALTH MANAGEMENT

extent of the past. (Narrow market leadership is a warning flag). We are avoiding investments where returns are based on financial engineering (leverage, arbitrage, correlations, etc.). We are focused on genuine innovation (as opposed to growth with no financial returns) and we favor investments predicated on long-term, prudent capital management, both in companies and financial intermediaries. Lastly, we are maintaining adequate drawdown protection in the form of cash, short-term treasuries and gold.

In sum, the economic data before us appears conflicting. The strength of stocks, and gold together with tight credit spreads makes for a solid return environment but adds complex asset allocation and risk control implications for wealth managers like Hollow Brook. Corporate earnings remain resilient. Despite risks related to market volatility, potential for rising inflation, geopolitical uncertainty, and election uncertainty, the consumer remains strong and remains a tried-and-true engine that keeps America out of recession. The macroeconomic question before remains-for how long? The hard landing vs. soft landing debate continues and for now the plane is at a level flight.

The fourth quarter is an opportune time to revisit your investment objectives and to consider your options regarding tax planning, estate planning, year-end gifting, and retirement planning. Our Family Office Services team stands at the ready to help you consider your various year-end options, obligations, and opportunities. We also encourage each client to carefully consider their filing obligations regarding the Corporate Transparency Act.

If we can be of any assistance, please do not hesitate to reach out. We are grateful for your continued trust, and we wish you a wonderful fall season. As ever, please feel free to reach out to any of us with questions, comments, or ideas.

Sincerely,

The HBWM Team

Alan Bazaar

CEO & Partner

Philip E. Richter

President & Partner

Wayne Nordberg

Chairman Emeritus

Equity Indices	Price	MTD	QTD	YTD
S&P 500	5762.48	2.14%	5.60%	22.08%
Nasdaq	20060.69	2.57%	1.46%	19.97%
Dow Jones Industrials	42330.15	1.96%	8.58%	13.93%
Russell 2000	2229.97	0.70%	10.21%	11.16%
Russell 3000	3281.281	2.07%	6.06%	20.63%
S&P 500 Sectors				
Utilities	410.28	6.60%	20.19%	30.63%
Consumer Disc.	1605.412	7.09%	7.02%	13.91%
Telco	314.6	4.63%	1.58%	28.81%
Consumer Staples	887.78	0.90%	9.70%	18.74%
Industrials	1147.06	3.39%	12.79%	20.20%
Technology	4403.72	2.49%	0.31%	30.31%
HealthCare	1796.48	-1.68%	6.67%	14.35%
Materials	607.7	2.63%	11.38%	14.14%
Financials	754.16	-0.55%	10.41%	21.90%
Energy	676.47	-2.68%	-2.33%	8.36%
Real Estate	280.46	3.31%	18.27%	14.31%
US Interest Rates				
3 Month	4.62	-9.68%	-13.81%	-13.42%
2-Year Note	3.64	-7.03%	-23.44%	-14.32%
5-Year Note	3.56	-3.90%	-19.60%	-7.50%
10-Year Bond	3.78	-3.14%	-15.25%	-2.53%
30-Year Bond	4.12	-1.82%	-10.91%	2.25%
Commodities				
Crude (WTI)	68.17	-5.73%	-15.02%	-3.60%
Brent	71.70	-5.95%	-14.95%	-4.40%
N. Gas	2.92	17.01%	-2.63%	-5.44%
Gold	2634.58	5.24%	12.98%	27.71%
Silver	31.16	7.95%	5.80%	30.95%
Currencies				
DXY	100.78	-0.90%	-4.84%	-0.55%
EUR	1.11	0.79%	3.68%	0.81%
CAD	1.35	0.24%	-1.54%	2.16%
GBP	1.34	1.89%	5.73%	5.09%
JPY	143.63	-1.74%	-11.04%	1.94%

Source: Bloomberg as of 9/30/2024

HBMW Quotes of the Quarter

“There is only one success—to be able to spend your life in your own way.

Christopher Morley

“In the next couple of decades, we will be able to do things that would have seemed like magic to our grandparents.

Sam Altman

“Don’t worry about people stealing your ideas. If your ideas are any good, you’ll have to ram them down people’s throats.

Howard Aiken

“Put your mental health first. It doesn’t matter if you’re on the biggest stage; that’s more important than any other medal you could win.

Simone Biles

“When the financial system works as it should, it helps American households finance home purchases and save for their children’s educations. It enables businesses to get the capital they need to grow and hire and to invest in new innovations. It allows households and businesses to manage their risks so that they’re prepared for the future.

Janet Yellen

3Q 2024: What Happened and What Mattered

Supreme Court Grants Former Presidents Immunity

The U.S. Supreme Court ruled in a 6-3 decision that former presidents are entitled to absolute immunity for official acts that rely on core constitutional powers executed while in office.

Giuliani Disbarred

The state of New York announced it had disbarred Rudy Giuliani after his efforts to attempt to overturn the 2020 election.

EPA Fines General Motors

In July, the EPA fined General Motors over \$145 million for excess emissions discovered in almost 6 million GM vehicles.

Luxury Stores Merge

Saks Fifth Avenue's parent company, Hudson's Bay Company, finalized its merger and acquisition of Bergdorf Goodman and Neiman Marcus for \$2.6 billion.

Boeing Pleads Guilty

Airline manufacturing giant Boeing pleads guilty to a criminal fraud conspiracy charge related to two fatal 737 MAX crashes and pays over \$240 million.

Attempted Assassinations on Trump

In July, a man shot at and attempted to assassinate former President Trump at a campaign rally in Butler, PA. In September, another man attempted to assassinate Trump at his golf course in Florida.

Software Impacts Airlines

IT Giant, CrowdStrike, accidentally launched a faulty software update which caused software system outages worldwide, impacting airlines, financial institutions, and businesses across the globe.

Biden Steps Down

President Biden announced in late July he would be withdrawing from the 2024 presidential election and Vice President Kamala Harris stepped in as presumptive nominee.

Paris Olympics

Paris hosted the 2024 Olympic Games this summer. America won the most medals totaling 126 with favorites Simone Biles, Katie Ledecky, and Noah Lyles all earning gold medals.

International AI Treaty Signed

In September, the US, EU, UK, and several other countries signed an AI safety treaty. This is the first legally binding international agreement that aims to tackle the issue of AI.

P. Diddy Arrested

Rapper, Sean "P. Diddy" Combs, was arrested in Manhattan on charges of sex trafficking, racketeering, and transportation to engage in prostitution. Since his September arrest, over 100 people have come out accusing the rapper of rape and abuse.

LA Dodgers Player Makes History

Baseball phenom, Shohei Ohtani, of the LA Dodgers made history when he became the first MLB player in history to join the 50-50 club by staling over 50 bases and hitting over 50 home runs in one season.

Hurricane Helene Leaves Catastrophic Damage

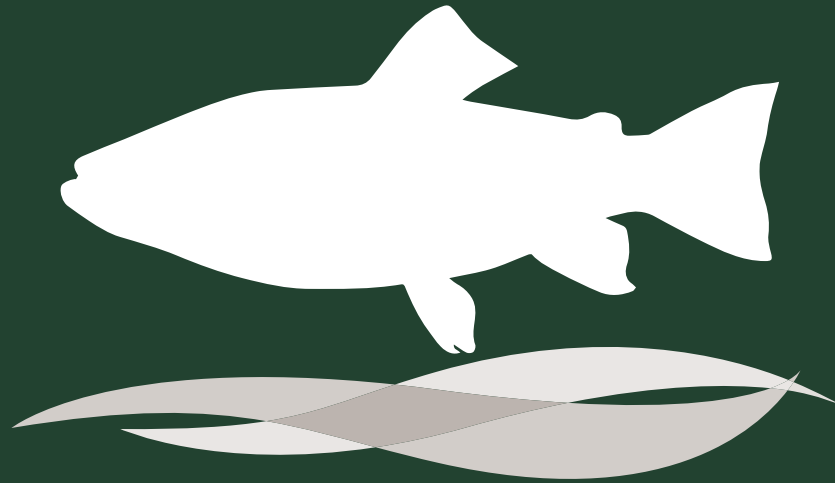
In September, Hurricane Helene made landfall in the southeast region of America leaving hundreds dead and missing.

Sinner and Sabalenka Win US Open Titles

The US Open this year saw two Americans make it to the men's and women's finals for the first time in over 20 years. Unfortunately, each American fell to their foreign opponent with Italian, Jannik Sinner defeating Taylor Fritz and Aryna Sabalenka of Belarus edging out Jessica Pegula for the top prize.

Skydance and Paramount Announce Merger

Skydance Media and Paramount Global announced an agreement to merge in a deal worth \$8 billion and is expected to close in early 2025.



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