First Carolina Wealth

July 29, 2024

THOUGHTS TO START YOUR WEEK

Why Everyone Needs a Will

Taking a break from our quest for IRA understanding, we address something today of great importance, that your humble scrivener has recently encountered personally. The heavily used, but not heavily understood or implemented, mantra that "Everyone needs a will" is not simply a business development tool for estate planning attorneys, it is something everyone should do for those they love.

- A Gallup poll indicates that 46% of American adults have a will that describes what they wish to happen with their assets upon their death.
- Accordingly, 54% of American adults have decided to dump a mess on their heirs and descendants, to be handled while they grieve the death of the intestate (no will) deceased.
- No one enjoys considering their mortality, and everyone can list numerous rationales for delaying such consideration:
  - "I do not have enough assets to worry about it."
  - "I am young and invincible."
  - "I love my spouse and she/he will get it all."
  - "I will be dead, someone else can worry about it."
  - "After I am gone, I do not mind if the government takes half of my estate in taxes."
- The crux of estate planning is the ability to direct your assets to whom and how YOU wish, not how the state's intestacy statute dictates.
  - Often, people wish to do so in a way to minimize the friction of fees and taxes, but not always.
  - The government watches over the estate settlement process to ensure your wishes are carried out after you are gone.
  - The government also has detailed statutes as to how THEY will distribute your assets if you shuffle off without a will.
- I am not arguing everyone needs a 25-page will or a 100-page trust, but EVERYONE needs at least a simple will, even if on the back of a napkin.
- The probate process is well established for handling even a rudimentary will and limited assets. It is a simple and smooth experience. The intestate world is incredibly more complex and painful for heirs.
- **You prepare a will for your loved ones, not yourself. It is selfish not to do it.**
- A similar comment can be made for naming your heirs as executor of your will. People do this to avoid fees or honor their friend or family, but it often becomes more of a headache than an honor. Sure, you avoid the fee paid to a professional executor, but my experience has been that the fee is often not worth the time, pain, and suffering of settling an estate.

- This is particularly the case when one makes one child the executor of their siblings' inheritances. This is a recipe for family strife in a period thick with family remorse over your demise.
- Similarly, the friend or family member is unlikely to be as skilled as the professional executor, because they have a normal life that they are productively living—a life not involving the intricacies of estate settlement.

Hopefully, most who are reading this have prepared a will, but all know someone who has not. We have learned to buckle our seat belts while driving, and it is time to learn to prepare a will. You are no more mortal with a will than without one. You just have happier heirs.

Weekly Economic Insights From Our Investment Managers

Major stock indices got off to a good start last week until weaker-than-expected earnings out of Tesla and Alphabet (Google) sent the markets in a tizzy on Wednesday. Yes, Alphabet growing revenues by 15% over the last year wasn't good enough to meet investors' expectations. This demonstrates how the tech space is priced to perfection, with little room for error… That downward momentum continued Thursday morning before sentiment changed as investors embraced the solid Q2 GDP estimate, which came in well above expectations at 2.8% vs. views for 2.0% growth on a YoY basis. Keeping the soft-landing thesis alive, the Federal Reserve's key inflation gauge, Core PCE (Personal Consumption Expenditure Price Index), met expectations Friday morning giving stocks an additional boost going into the weekend.

Treasury yields stayed in a tight range last week, with the 10-year yield closing down just a few basis points at 4.20%. With no surprises and the data largely reinforcing investors' current mantra, the dollar index closed flat, and gold was little changed. The strong GDP report was not enough to help industrial metals, which have been in a free fall the past couple of weeks due to Chinese economic growth concerns.

SYMBOL	NAME	5D PERF	YTD PERF	1Y PERF
$SML	$SML - S&P 600 Small Cap Index	+3.54%	+8.43%	+12.35%
$MID	$MID - S&P 400 Mid Cap Index	+1.98%	+10.55%	+12.73%
$INDU	$INDU - Dow Jones Industrial Average	+0.75%	+7.69%	+14.27%
AGG	AGG - iShares Core U.S. Aggregate Bond ETF	+0.28%	+0.88%	+3.89%
$USD	$USD - US Dollar - Cash Settle	+0.21%	+3.27%	+3.67%
EFA	EFA - iShares MSCI EAFE ETF	-0.18%	+7.23%	+10.43%
GLD	GLD - SPDR Gold Shares	-0.50%	+15.41%	+20.37%
$SPX	$SPX - S&P 500 Large Cap Index	-0.83%	+14.45%	+19.54%
$GNX	$GNX - S&P GSCI Commodity Index - Spot Price	-1.18%	+2.55%	-6.14%
$COMPQ	$COMPQ - Nasdaq Composite	-2.08%	+15.63%	+22.87%
DBB	DBB - Invesco DB Base Metals Fund	-3.15%	+1.58%	+7.27%

Source: [*www.stockcharts.com*](http://www.stockcharts.com)

Key Takeaway:

The rotation out of tech and into other areas of the market was apparent all week and is evidenced by the fact the "tech heavy" NASDAQ and S&P 500 were the biggest losers, while small and mid-caps stole the show. The Dow Jones Industrial Average, which is not as heavily influenced by the technology sector, showed impressive gains for the week after revisiting the previous technical resistance level around the 40,000 mark. Revisiting a key level after a breakout is a textbook move, and one might expect momentum to build now that this level has offered new support.

The past couple of weeks' heavy price action has thus far essentially brought the S&P 500 back down to its 50-day moving average, which coincided with an upwardly sloping trendline. Price action tends to overshoot targets such as these by a small amount to push out the weak hands and, in this case, it did just that.

I firmly believe the AI trade has years left to run; however, one can expect some unwinding of said trade along the way when it gets a little too frothy. Recent economic data supports the more cyclical sectors of the market, and with lower rates expected in the future, one might anticipate the higher dividend paying stocks of defensive sectors to begin looking more attractive as well. A market with many sectors driving positive returns is a much healthier market than one being led by just a handful of stocks.

The Week Ahead:

It's jobs week, and investors will be looking for insights into the current employment situation, as the unemployment rate recently ticked above the 4% level; however, the "event of the week" will be the Federal Reserve's press conference, since an interest rate change is not seen as likely this time. The ISM Manufacturing PMI, which has been in contraction territory for a while, will also be closely watched and earnings season comes into full swing with several of the Magnificent 7 stocks reporting.

Tidbits & Technicals: (New developments will be denoted in *italics*)

Current Headwinds:

- Valuations seem frothy given the current rate environment, leaving the markets subject to a potential swift pullback
- "Higher for Longer" – Risk that the Federal Reserve waits too long to begin lowering rates and threatens economic growth
- Very narrow market participation, apparently driven primarily by mega cap tech and AI-related companies, has dominated the indices; however, over the last couple of weeks, we have witnessed a significant broadening effect with "the rest of the market" showing stronger returns

Current Tailwinds:

- Optimism surrounding Artificial Intelligence (AI)
- Fed potentially cutting in the future
- Strong labor market
- Solid economic growth
- Continued earnings growth (the pace of which may be slowing)
- Momentum
- 10-year Treasury yields continue to hover near their lowest levels since March of this year

Sentiment:

- Credit spreads remain tight, hitting their lowest levels since peaking in 2022, signaling the bond market (aka "smart money") is not worried about a recession in the near future.
- The VIX (CBOE Volatility Index) moved higher in the past couple of weeks on mixed earnings reports out of the tech sector.
- The CNN Fear & Greed Index has remained in Neutral for the past couple of weeks.

Intermarket Trends:

- The major indices (Dow Jones Industrial Average, S&P 500, and NASDAQ) recently posted new highs, signifying a positive trend.
- Interest rates have been volatile lately but appear to be retreating at the present time.
- The US Dollar is trading near the upper end of this year's trading range due to foreign central banks being the first to cut rates.
- Gold recently broke out of its trading range to record highs.
- Industrial metals, which raced higher recently, have retraced all recent gains and are back in the middle of the large consolidation zone of the last year.
- Oil futures are in the middle of their one-year trading band and appear to be stuck in a trading range.

Tying it all together:

Four main factors have seemingly been supporting the markets: strong growth, falling inflation, expectations of Fed rate cuts, and AI enthusiasm. These drivers remain intact; however, some key economic data points, like rising unemployment, are flashing warning signals at the present time. While the economy is not weak, some of the data suggests a weakening trend, and this is a concern given the equity markets are not acknowledging the possibility of any sort of economic contraction. Current valuations have certain equities priced for perfection, so it would be fair to say that any type of growth scare could result in rather extreme volatility in the short run.

The past couple of weeks' rotation into sectors of the market that have underperformed is a welcomed sight. Markets need broad-based participation to be "healthy," so we will want to keep an eye on this potential new trend, as it could lead to much higher prices in the future and provide insights into expectations of future economic expansion.

In the long term, economic growth is the primary driver and, while growth remains robust, we must remain vigilant for signs of a slowdown, as this could end the current bull market we are all currently enjoying. For now, the positives meaningfully outweigh the negatives and as long as these conditions persist, the environment remains favorable for risk assets.

Historically, the best approach in such environments is to ensure that one's overall portfolio aligns with their risk tolerance and long-term goals.

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