GRIFFIN ASSET MANAGEMENT

Q2 Market Review

Volatility and the Equity Market

INVESTMENT COMMITTEE

Thomas Famigletti
Company Founder &
Vice Chairman

Douglas Famigletti, CFA
Managing Partner &
Portfolio Manager

Michael Jamison
Managing Partner &
Portfolio Manager

John Carey
Managing Director &
Portfolio Manager

Christopher Liu, CFA
Managing Director &
Portfolio Manager

Carl Morganstein
Managing Director &
Portfolio Manager

Brian Famigletti
Managing Director &
Head of Marketing

Joseph LoBue, CIPM
Head Trader

For the second quarter in a row, a major political event has captured headlines while we were preparing to publish our letter. An attempted assassination on Former President Trump's life shook the news headlines on July 13th. While the case is still under investigation, events of this magnitude inevitably trigger concerns about short-term equity performance and the health of the stock market. In our opinion, we do not believe that this event will have a negative material impact on the stock market, but we will be monitoring our client portfolios closely for any new developments that may arise resulting from this situation.

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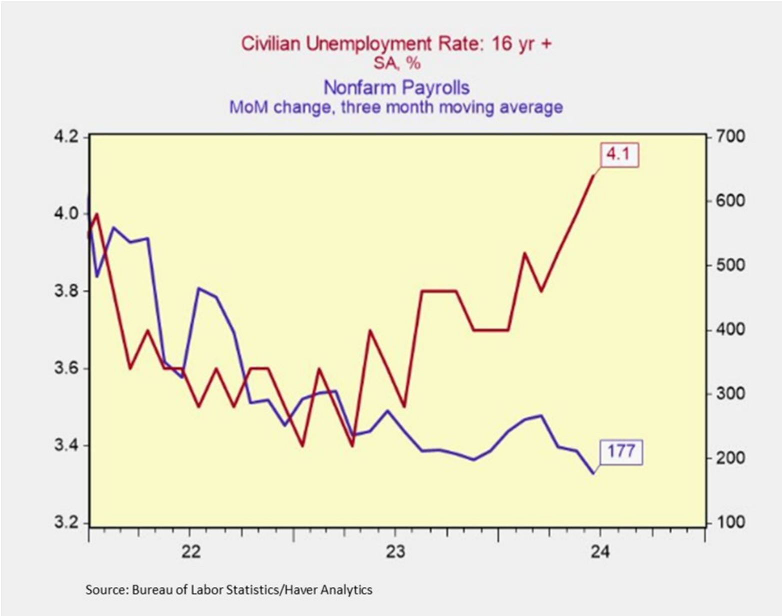
The second quarter was another positive period for equity markets. Higher-than-expected inflation readings in early April led to stocks falling 5.6% from their March highs. A strong jobs report in mid-April, however, contributed to a market rally that allowed stocks to regain their footing by May. The positive momentum lasted through the end of the second quarter resulting in a nearly 24% total return for the S&P 500 over the past 12 months. Mega cap tech stocks continued to capture headlines. According to Morningstar, Nvidia was the biggest winner of the quarter as the chip giant gained 36.7%. The much-anticipated leadership rotation from big tech into other lagging sectors of the market failed to carry over from Q1 as Apple, Microsoft and Alphabet finished as the next three largest contributors of the S&P 500's returns. As we head into the third quarter, we are keeping our eye on several criteria that will influence our investment decisions including signs of a cooling domestic economy, the impact of inflation on consumers' wallets, the timing of the Fed's rate cuts, big tech's continued market leadership, and earnings estimates for the remainder of 2024.

Economic Cool Down

The U.S. economy has begun to show signs that it is cooling off. Data published from the Department of Labor Statistics *(Figure 1)* in June showed that new, non-farm payroll jobs are slowing month over month and the unemployment rate is at the highest level it's been in nearly 3 years (4.1%). Wage growth has also slowed to the lowest level it's been since May 2021. "The June jobs report showed more signs of cooling in the labor market with job growth weaker than expected," said Oxford Economics lead, Nancy Vanden Houten, in a note to her clients. Prior to this jobs report, markets were pricing in two interest rate cuts for the year with the first expected sometime in September. As unemployment continues to rise and the economy shows further signs of cooling, it may be difficult for Chairman Powell to justify keeping rates at their highest levels in over two decades for much longer. While it's hard to say exactly what the Fed will do, we believe that the most recent jobs report strengthens the case for the Fed to begin cutting rates soon.

Figure 1

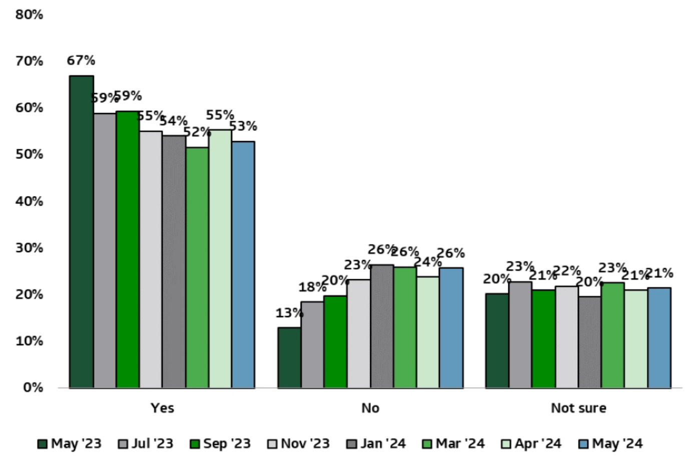


Tightening Consumer Wallets

According to the most recent consumer tracker report published by TD Cowen, roughly 53% of consumers believe we are headed towards a recession in the next 6 months. These numbers (*Figure 2)* have declined over the past year from a high of 67% in May 2023 when recession fears were at their peak. Despite the reduction in recession concerns, an increasing percentage of respondents are tightening their discretionary spending. Data from TD Cowen shows that respondents have reduced expenditures on social events/dining out (64%), travel/transportation (51%), clothing and accessories (49%), and groceries (48%). Consumer savings among lower income households is down as well with roughly 40% of those respondents claiming that they are currently saving less than they were just one year prior while another 29% claimed that they were living paycheck-to-paycheck (*Figure 3*). Year-over-year savings are also down for households in both the $50,000-$100,000 range (43%) and the $100,000+ range (32%). As investors, it is important to note that a retraction in consumer spending can be a warning sign of a slowing economy and possible recession. This is something we are closely monitoring as we head into the third quarter.

Figure 2

Do you believe that the US economy is headed for a recession in the next six months?

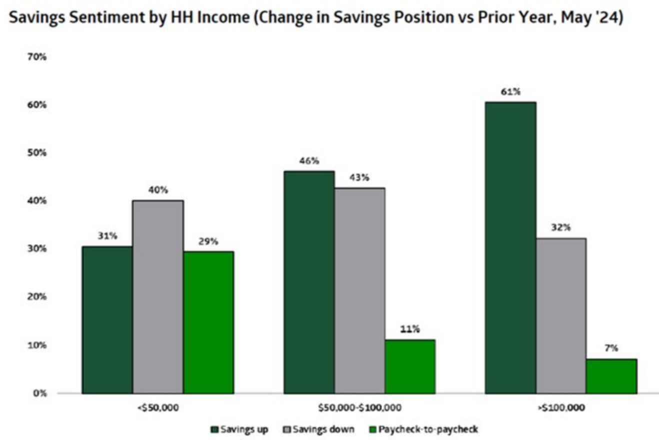


Source: TD Cowen US Internet Consumer Tracker, May '24 (N=~2,500)

Stagnant Market Leadership

We have mentioned in our past few letters that we've been anticipating a continued broadening of economic sector participation beyond Technology and Communication Services. Q1 began to show some promise with the Energy, Financials, Materials, Industrials and Healthcare sectors delivering healthy returns. Q2, however, saw a slowing of this participation. According to CNBC, the Top 10 companies in the S&P 500 accounted for roughly 37% of the index's Q2 total returns - as of June 24, 2024 - with the Magnificent Seven accounting for 31%. In our opinion, the continued outperformance of the Top 10 companies in the S&P 500 can be attributed to the fact that they've been reporting the strongest quarterly earnings growth.

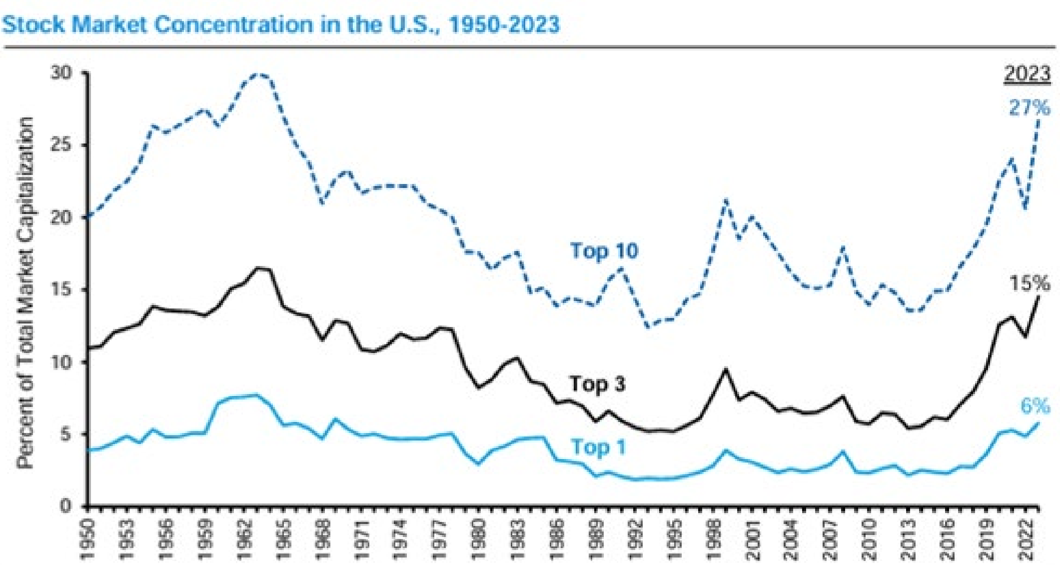
Figure 3



Source: TD Cowen US Internet Consumer Tracker, May '24 (N=~2,500)

Since they are cash-generating machines, it allows the companies' leadership teams to buy back large amounts of their outstanding stock while continuing to invest in corporate growth. Additionally, these companies are already benefiting from the broad and significant spending underway for generative Artificial Intelligence. According to Morgan Stanley's Michael J. Mauboussin and Dan Callahan, "the top 10 stocks in the S&P 500 – by the largest market capitalization – accounted for 27% of the index at the end of 2023, nearly double the 14% share a decade earlier." When you look at *Figure 4*, we are currently surpassing historic levels of market concentration which are accelerating at a rate that has not been seen since the 1950's. There are several possible reasons to explain why market leadership has failed to expand including a resilient U.S. economy and the Fed's pared back expectations for rate cuts in 2024. We believe that these factors have pushed off the projected benefits to other industries, beyond Tech and Communication Services, that will occur when the Fed begins to reduce interest rates. We are hopeful that we will see a "much anticipated" broadening out of market leadership during Q3 and Q4 but, as investors, it is important to continually remind ourselves why we remain well-diversified.

Figure 4



Source: FactSet; Compustat; U.S. Securities and Exchange Commission, Annual Reports, see www.sec.gov/reports; Counterpoint Global.
Note: Universe includes companies listed on the New York Stock Exchange, NASDAQ, and NYSE American stock exchanges, excluding American depositary receipts; Market capitalizations reflect calendar year-end.

Q3 and Q4 Earnings Outlook

Wall Street strategist, Ed Yardeni, President of Yardeni Research, recently raised his S&P 500 price target from 5,400 to 5,800. He is bullish on the S&P 500 for the second half of the year for several reasons that include:

- Anticipating a very strong Q2 earnings season
- Hopeful that the Fed will cut rates in September
- Envisions non-tech companies describing how they're effectively implementing AI
- Sees normalization in the labor market
- Does not believe inflation is sticky

Yardeni is estimating (*Figure 5*) Q3/Q4 year-over-year earnings growth for the S&P 500 to be at 7.9% and 15.5% respectively versus the analysts' consensus of 8.3% and 14.1%. Both sets of forecasts are bullish and project that the S&P will achieve record earnings and end 2024 on a high note. More importantly, many analysts and strategists are anticipating a rotation from the current leaders to many of the laggards by the end of 2024. In their most recent forecast (*Figure 6*), JP Morgan has projected earnings growth for the Magnificent Seven and the remaining 493 companies in the S&P 500 to be even at 17% by the end of Q4. If this turns out to be the case, we believe it bodes well for diversified investors (like us) who have been patiently waiting for a rotation and further broadening in the equity market to take place.

Figure 5

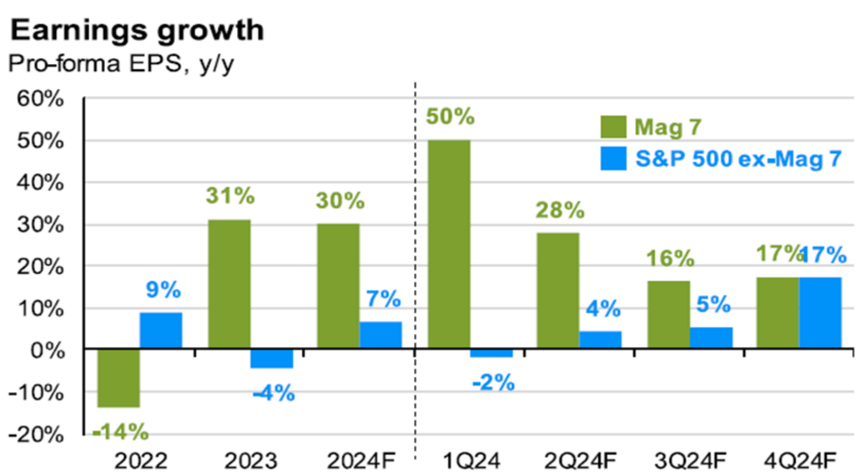
S&P 500 EARNINGS FORECASTS: YRI VS ANALYSTS' CONSENSUS (6/28/24)

Year / Quarter	a / e *	Yardeni Research - Level	y/y%	Analysts' Consensus - Level	y/y%
2021	a	208.1	49.0	208.1	49.0
Q1	a	49.1	48.3	49.1	48.3
Q2	a	52.6	87.9	52.6	87.9
Q3	a	53.7	38.8	53.7	38.8
Q4	a	54.0	26.7	54.0	26.7
2022	a	218.1	4.8	218.1	4.8
Q1	a	54.8	11.5	54.8	11.5
Q2	a	57.6	9.6	57.6	9.6
Q3	a	56.0	4.3	56.0	4.3
Q4	a	53.2	-1.5	53.2	-1.5
2023	a	221.4	1.5	221.4	1.5
Q1	a	53.1	-3.1	53.1	-3.1
Q2	a	54.3	-5.8	54.3	-5.8
Q3	a	58.4	4.3	58.4	4.3
Q4	a	57.2	7.5	57.2	7.5
2024	e	250.0	12.1	244.1	10.3
Q1	e	57.0	7.4	56.6	6.6
Q2	e	61.0	12.4	59.2	9.1
Q3	e	63.0	7.9	63.3	8.3
Q4	e	66.0	15.5	65.2	14.1
2025	e	270.0	8.0	278.7	14.2
2026	e	300.0	11.1	317.2	13.8

* a = actual / e = estimate

Source: LSEG Datastream and Ed Yardeni Research

Figure 6



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management

Second Half 2024

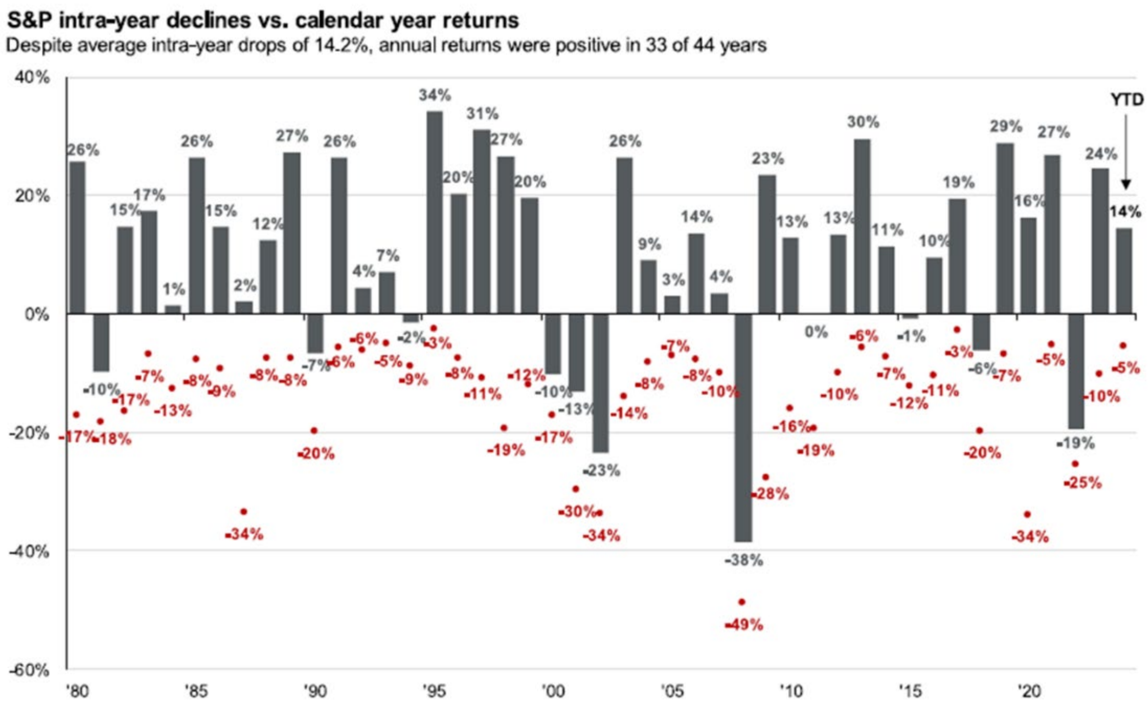
We anticipate that the economy will continue to expand – albeit at a slower rate - through the third and fourth quarters and for earnings to grow as well. Like many investors, we're hopeful that we'll begin to see some parity in returns between the market-capitalization version of the S&P 500 and the equal-weight version. It is difficult to say if - and when -

the Fed will be able to lower rates in step with market expectations but, unless they raise rates, any move(s) will likely not have a significant influence on our investment decisions. We also believe that the Presidential Election will offer little as far as market impact but will make a lot of noise. Election years have historically been good for markets – regardless of which party gets in office – with average yearly returns of 10-12% since 1928 according to JP Morgan.

Volatility

Volatility is a key component and integral part of investment management. An investor must accept more volatility to earn the higher historical and projected total returns from stocks compared to money market funds, bonds and other asset classes. We thought it would be insightful to show the short-term, intra-year (during the year) declines versus the full calendar year returns of the S&P 500 for the past 44 years. Per *Figure 7*, you can see that despite

Figure 7



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management

average intra-year drops of -14.2%, the annual S&P 500 returns were positive in 33 of the last 44 calendar years (or 75% of the time). At this time, our recommendation is for our clients to remain fully invested and continue to bear the fruits of this approach. Nevertheless, we will keep a close eye on the events at play and make any adjustments deemed necessary in our client portfolios.

Disclosures

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All returns are in U.S. dollars and are displayed Gross and Net of Investment Management Fees and include reinvested dividends and capital gains. Gross of Fees performance calculations are presented Gross of Investment Management Fees and Net of Trading Fees. Net of Fees returns are presented Net of Trading Fees and Net of Investment Management Fees.

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*GIPS Composite Data and Verification Information Available Upon Request