



Normalizing by Robert Sokolowski

As anyone who lived through it can attest, the pandemic and post-pandemic periods were far from normal economically. Millions of jobs were lost, and the economy switched from service-based to goods-based almost overnight. The federal government responded by spending trillions on several rounds of fiscal stimulus, the first of which likely saved us from the direst economic outcomes and the last of which probably sent the economy into overdrive- creating the inflation we all detest.

As abnormal as the post-COVID period was, the economy appears to be normalizing on all fronts. This can be seen across an array of economic indicators.

- Goods shortages are mostly behind us, and business inventory growth is back to normal levels.
- The labor market looks much healthier:
 - The unemployment rate is up slightly due to higher labor force participation.
 - The quits rate and the wage gains for job switchers are lower.
 - Wage inflation is lower.
 - Initial Jobless Claims are slightly higher but at very normal levels.
 - Companies appear to have switched from hoarding labor to trying to right-size their payrolls.
 - Job openings more closely match the number of unemployed.
- Inflation continues to fall across all the main indices (CPI, Core CPI, PCE, and Core PCE).
- Corporate balance sheets and earnings appear healthy.

For many, the post-COVID era was economically fantastic. What could be better than stimulus checks from the government, ultra-low interest rates, rapidly rising stock portfolios and home values, and massive salary bumps for job switchers? Perhaps we should have expected a dour national mood on the economy in the hangover from this period even without inflation because whatever happened next wouldn't be as good. Nevertheless, feelings about the economy continue to belie the data- which remain fairly strong and far more normal than 2-3 years ago. *Continued on page 2*

Index	Q2 Total Return	YTD Total Return	1 Year Total Return
S&P 500	4.5%	15.3%	24.6%
DJIA	-0.7%	4.8%	16%
Nasdaq Comp	8.4%	18.6%	29.6%
MSCI EAFE	0.1%	5.1%	11.1%
Russell 2000	-2.3%	1.7%	10.1%
US Aggregate Bond	0.8%	-0.7%	2.6%

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SPECIAL POINTS OF INTEREST

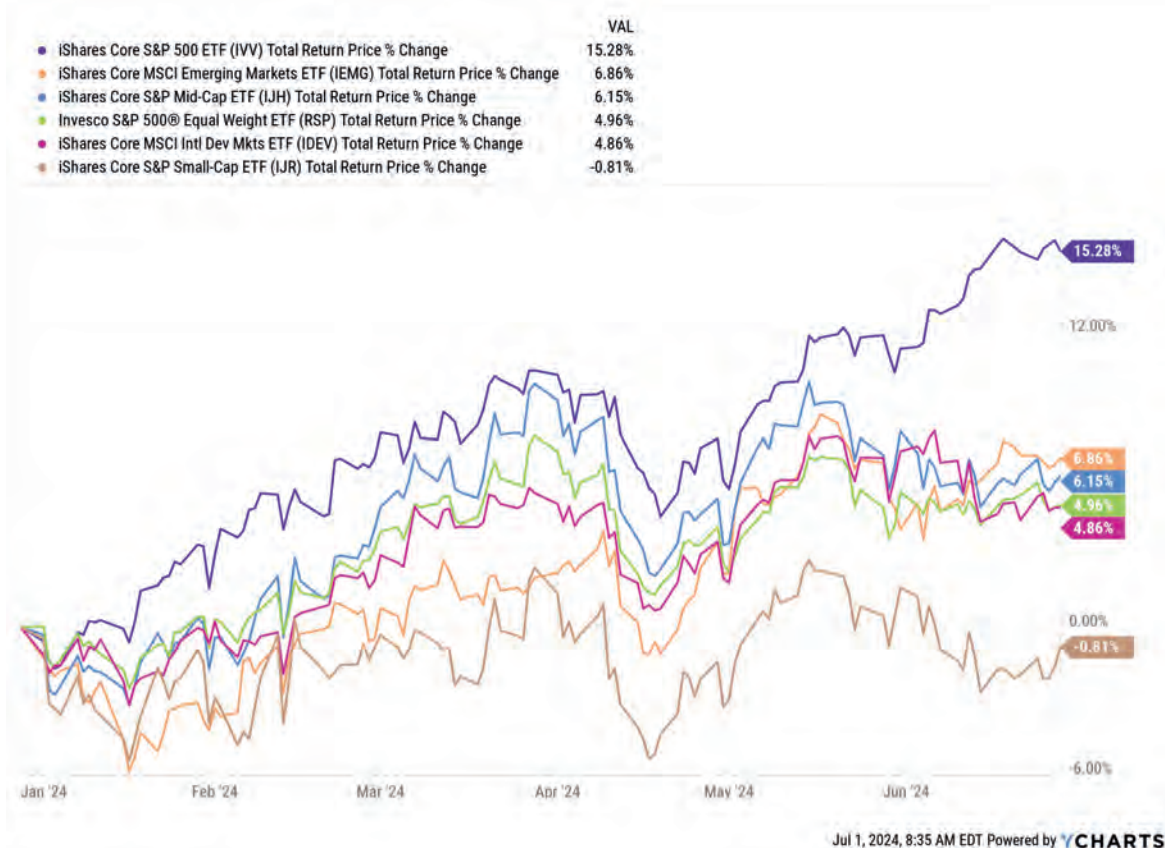
- Our office will be closed the following days for market holidays this quarter:
 - July 4th-5th, 2024
 - September 2nd, 2024
- If you would like to schedule a meeting for planning or portfolio questions, don't hesitate to contact us!

Markets

The stock market has been remarkably calm to start the year. The volatility index has averaged 13.9 year-to-date, compared with a long-term average of 19.5. We have only seen one significant pullback this year in the S&P 500 (-5.4% in April) and we haven't even seen a 2% pullback since then. With this in mind, we would not be surprised to see another correction between now and yearend.

Pullbacks of -10% or more happen in about 63% of years and historically the largest correction of each year averages about -13.6%. It's impossible to predict when or if this will happen, though the seasonally weak September – October months wouldn't be bad bets. In light of this expectation, we have been focused on rebalancing portfolios throughout the year to avoid being overweight stocks and we will raise cash levels if necessary.

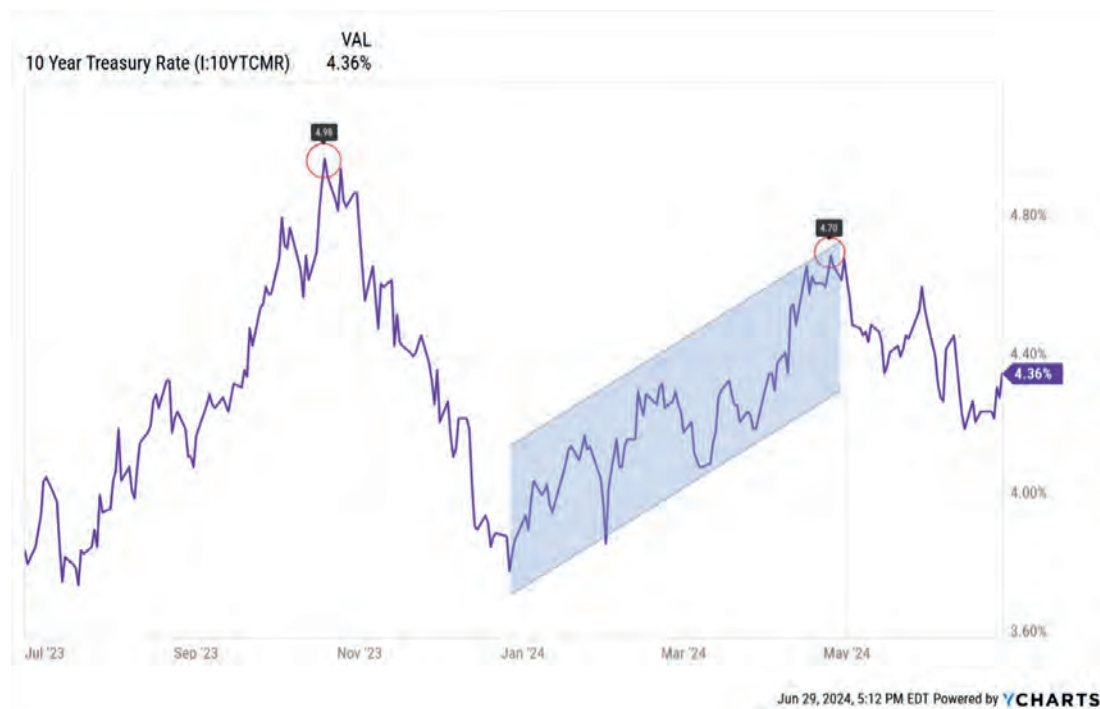
The performance of the S&P 500 has been very strong year-to-date (+15.3%), led by the giant technology and communications services companies. However, the returns of smaller and international stocks have not quite kept pace. As you can see in the chart below, the S&P 500 has been the far and away winner with most other indices and geographical regions seeing still very good, but more modest gains.



One of the issues facing international markets is the lack of exposure they have to the tech and communications services sectors. There are really only two large leading edge tech companies domiciled outside the US- the Dutch company ASML and Taiwan Semiconductor. The relative underrepresentation of technology stocks in international indices and small and mid-cap US indices has no doubt contributed to their underperformance in this AI and technology boom period.

US large tech's dominance is largely deserved. These companies have shown strong earnings growth and their future prospects look great as well. While there has no doubt been a tremendous amount of hype around AI and next-generation data center buildouts, this hype has so far translated into actual increased sales and earnings.

In the bond market, interest rates had been moving higher since the beginning of the year- a move which accelerated in April and helped incite the stock market volatility we saw during that month. This was largely caused by a belief that the progress on inflation was starting to stall out and that the Fed may have to keep rates higher for longer than anticipated at the end of 2023. The runup in rates can clearly be seen in the chart below.



The pattern of higher highs and higher lows for bond yields appears to have been broken around the beginning of May. This makes sense given the better inflation data we've observed since that time.

A Normal Election Year (In the Markets, Anyway)

We wrote in our January newsletter that perhaps surprisingly, stock and bond returns tend to be good, and volatility tends to be lower than normal around presidential elections. So far that is exactly what we have seen. Furthermore, when you look at the seasonal patterns of election year returns, this year has roughly followed the average seasonal pattern. As strange as the election season has felt thus far, in the markets it's been very normal- which tends to be good for investors!

We have continued to diligently rebalance client portfolios as stocks have done well. We have also taken great care to pare back individual positions so they don't grow to be too large. As the future trajectory of interest rates becomes clearer, we have started to buy bonds with shorter durations again. We believe this will position us for a nice total return if and when the Fed starts to cut rates. We have been pleased with both our stock and bond strategy and performance relative to our benchmarks continues to look very good for most clients.

We are paying attention to the election in the US and many others around the world this year. We understand that clients will have concerns as we get closer to November. Please do not hesitate to reach out if you'd like to talk!



5 Red Cedar St., Suite 201
Bluffton, SC 29910
Phone: (843) 271-6088
www.metiswealthllc.com



Jenn Sokolowski, CFP®
Owner & Financial Planner
jenn@metiswealthllc.com

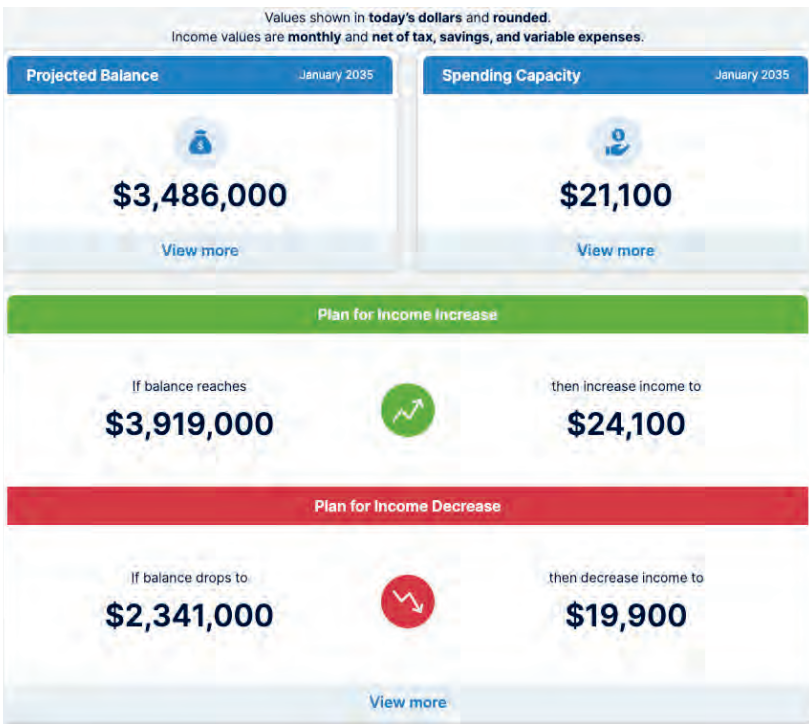
Robert Sokolowski, CFP®
Owner & Investment Manager
rob@metiswealthllc.com

Last year we added a piece of financial planning software to our arsenal called Income Lab. Income Lab is specifically geared toward those already in retirement or just a few years away. We continue to use Right Capital and Monte Carlo simulations for clients who are more than 5 years from retirement and depending on the question we are trying to answer we may still use Right Capital with retired clients. This new software helps us determine how much can be spent in retirement based on the level of financial assets and retirement income like social security.

What Does Income Lab Tell Us?

Monte Carlo simulations return a percent chance that someone will be successful in retirement. If a client has a 90% chance of success in retirement that means that they have a 10% chance of failure. This leads people to believe that they have a 10% chance of being homeless and down their last dollar before death. The reality is that people will adjust and make changes if their financial situation starts to decline. Monte Carlo simulations don't allow us to plan for the fact that people will adapt before they run out of money.

Income Lab provides guardrails and a recommended monthly post-tax retirement "income" or withdrawals from financial accounts. The guardrails tell us when the portfolio reaches a certain dollar amount that income can be increased and give us guidelines for when spending needs to be reduced. We can collaborate with clients and make changes to the plan if the recommended amount of income is too high or low. If changes are made to increase the amount of income, the chance that a reduction in spending will occur increases. For people who are willing to be flexible in retirement, there is the opportunity to spend more. This level of flexibility is something that we don't get from most financial planning software.



Simplified Planning Process

One of our favorite things about using Income Lab compared to other financial planning software is that we need less information from clients to produce accurate plans. We don't need any spending information. We can incorporate it, and for some plans it's helpful, but it's not required. All we need is to know what financial assets are available (usually we have this already) and other sources of income in retirement like pensions or social security.

Plan Monitoring

The last thing we love about Income Lab is the ability to monitor plans. For management clients who are retired and have done a plan with us, we check up on the plan monthly. If any changes to income (up or down) need to happen, we will proactively communicate that and make the change to account distributions if we agree that is appropriate.

This adds another level of peace of mind to our financial plans that clients have appreciated. We would love to craft a retirement plan or update existing plans for anyone interested. Contact us today to get started!

Important Disclosure: Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this newsletter, will be profitable, equal any corresponding indicated historical performance levels, or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of or as a substitute for, personalized investment advice from Metis Wealth Management & Planning. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request. Metis Wealth Management may discuss and display, charts, graphs, formulas which are not intended to be used by themselves to determine which securities to buy or sell, or when to buy or sell them. Such charts and graphs offer limited information and should not be used on their own to make investment decisions.