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2024 Mid-Year Newsletter Moreno Dye Cervantes Wealth Management Group of Wells Fargo Advisors

The 2nd quarter of 2024 felt a lot like the end of 2023 with technology related, large-cap growth stocks outperforming, while almost every other major asset class took a breather from the strong start to the year. We were happy to see that international equities are performing well despite a stronger U.S. dollar but struggles in Mid Cap and Small Cap stocks bear watching. The following performance summary shows in greater detail how some of the major market indices have performed thus far.

	2 nd Quarter	2024 Year-to-Date
Dow Jones Industrial Average	-1.3%	16.0%
Russell 1000 Growth Index	8.3%	20.7%
Russell 1000 Value Index	-2.2%	6.6%
NASDAQ Composite Index	8.5%	18.6%
Russell Mid Cap Index	-3.3%	5.0%
Russell 2000 Index (Small Cap)	-3.3%	1.7%
MSCI EAFE – Intl Index	-0.2%	5.7%
Bloomberg US AGG Bond	0.1%	-0.7%

*Wells Fargo Advisors Monthly Major Index Returns

You have probably noticed our apprehension or more conservative stance towards the economy in recent conversations and previous letters. We feel that inflationary pressures continue to present the biggest challenge to future economic growth as the Federal Reserve has had to keep interest rates at higher levels for longer than anticipated. The progress towards lower inflation stalled in the 2nd quarter primarily due to continued increases in housing prices and rents. We still believe that the worst of the inflation is behind us and that the rate of inflation should continue to gradually slow in the second half of the year as growth in wages moderate and housing prices finally succumb to the highest mortgage rates in over 15 years. Still, the level of uncertainty around Federal interest rate policy for the balance of 2024 and into early 2025 is investor's primary concern.

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Yet, we also need to acknowledge that the U.S. economy has continued to grow at a better-than-expected pace through the first half of the year. Economic growth has been powered by continued consumer strength and a strong labor market due to a surge in immigrant labor. We have continued to see unexpected positive surprises in both consumer and investment spending that has helped to support the economy.

It seems that the entire economic community underestimated how long people's Covid pandemic savings would propel consumer spending. Yet, there are signs that it appears consumers are becoming more selective with their purchasing decisions due to a loss of purchasing power from higher prices and excess savings evaporating. The strong labor market has also helped support consumer spending as higher interest rates have not led to a significant increase in unemployment. Additionally, investment spending has also exceeded our expectations in the face of higher interest rates and financing costs. There is plenty of evidence of a resilient economy, but we have to wonder if these trends will continue with the Federal Reserve's higher for longer interest rate policy.

As we enter the second half of the year, we fully expect the 2024 Presidential Election to dominate the daily headlines and add a layer of uncertainty to the financial markets. It is important to note that whatever your political ideology, you not let the outcome of the election alter your long-term investment discipline. No matter who is elected the next President of the United States, we are still very likely to have virtual gridlock in Congress, which greatly limits any one party from making significant changes or new laws. Throughout the next few months, we will hear many bold promises to enact major change, but the reality is that real policy change is rarely straightforward or easy. Remember, the most important long-term influences on financial markets will remain the Federal Reserve's interest rate policy and corporations ability to grow earnings.

Turning to the stock market, performance has been skewed over the first half of the year by recent interest in Alternative Intelligence (AI) technology stocks. Currently, seven technology companies account for approximately 30% of the entire S&P 500 Index and because their performance has been quite strong this year, we have seen significant outperformance in your large-cap, growth related investments. The rest of the stock market performance has been positive, but no where near as positive as the large-cap tech companies as you can see from the performance table at the beginning of this newsletter. This has led to some investors feeling that they are lagging the market, which in turn causes them to chase these high-flying stocks even higher due to a fear of missing out (aka FOMO). We believe that the pendulum will swing back away from the technology stocks as valuations become too high, but we just don't know when. Predicting the future is impossible and why we always stress the importance of diversification even amongst equities. We vividly remember in 1999 when technology stocks greatly outperformed all other stock market sectors only to then fall approximately 35% in 2000 when other areas of the stock market were up 5% or more. It is not a matter of if, but when will we see a correction within the tech sector.

As for the international financial markets, we are keeping an optimistic outlook. The impact from both geopolitical issues and COVID have been lessening and economic prospects are improving as some central banks outside the U.S. have begun lowering their interest rates. The Eurozone has been experiencing an increase in consumer confidence and stabilization in their manufacturing sector. India has been experiencing strong growth momentum as economic reforms continue to greatly benefit their economy. China, which has been the biggest laggard, has significantly reduced their COVID restrictions in the last twelve months and has been injecting stimulus into their economy. We would anticipate that these trends should continue into the second half of 2024.

The fixed income market has remained stubborn as we continue to wait for inflation data to soften enough for the Federal Reserve to start considering cutting interest rates. The fear of higher for longer interest rates has put some pressure on bond performance this year after last year's 4th quarter rally. Ultimately, we believe that both the economy and inflation will continue to ease in the back half of the year. Therefore, at current yields, bonds appear very attractive from both a risk and return standpoint. For this reason, that we have been extending bond duration to take advantage of the higher levels of income and the potential for the FED to begin lowering interest rates either later this year or early next year.

In general, we are pleased with the overall progress in both your accounts and the financial markets since interest rates peaked last October. Even though we remain cautious over the near-term due to elevated uncertainty around inflation and the upcoming Presidential election, we do believe that the FED will need to start lowering interest rates in the relatively near future. We are continuing to broaden exposure within equities as well as extending bond duration this year. One of the most significant benefits of the Federal Reserve keeping interest rates higher for longer has been that it allows us to continue to improve your portfolio cash flow. The improved income generation has greatly benefited the ability to absorb

higher inflation induced costs. Nevertheless, we are constantly considering additional adjustments to portfolio allocations and risk as new information warrants.

We trust that your summer is off to a great start and that you are experiencing some wonderful vacations. As always, please do not hesitate to call with any concerns or questions. We are truly blessed to have such great clients and we cannot ever thank you enough for the continued referrals of your family and friends. We look forward to speaking with you all very soon and hope you have a wonderful rest of your summer!

Sincerely,



Jose A. Moreno, CFP®
Managing Director – Investments



Michael B. Dye, CRPC®
Managing Director – Investments



Oliver A. Cervantes, CFP®, CRPC®, RICP®
Managing Director – Investments

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Investing in fixed income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high yield bonds, which have lower ratings and are subject to greater volatility. All fixed income investments may be worth less than original cost upon redemption or maturity.

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The Dow Jones Industrial Average is a price-weighted index of 30 “blue-chip” industrial U.S. stocks.

The S&P 500/Barra Growth Index is an unmanaged capitalization-weighted index stocks in the Standard & Poor’s 500 index having the highest price to book ratios. The Index consists of approximately half of the S&P 500 on a market capitalization basis.

The S&P 500/Barra Value Index is an unmanaged, market-capitalization-weighted index of the stocks in the Standard & Poor’s 500 Index having the lowest price to book ratios. The index consists of approximately half of the S&P 500 on a market capitalization basis.

The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.

The S&P Midcap 400 Index is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market, and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P Small Cap 600 Index in size: between \$1-4 billion.

The S&P Small Cap 600 Index consists of 600 domestic stocks chosen for market size, liquidity (bid-asked spread, ownership, share turnover and number of no trade days) and industry group representation. It is a market value-weighted index (stock price times the number of shares outstanding), with each stock’s weight in the index proportionate to its market value.

The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australia, and the Far East, excluding the U.S. and Canada.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market

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