Market Commentary

KMR Financial Advisory, Inc.

3rd Quarter 2024 Market Review & Outlook

3rd Quarter 2024 Market Review

2024	Q1	Q2	Q3	3Q Year-to-Date
Dow Jones Industrial Index	5.6 %	(1.7)%	8.2 %	12.3 %
Nasdaq Composite Index	9.1 %	8.3 %	2.6 %	21.2 %
S&P 500 Index	10.2 %	3.9 %	5.5 %	20.8 %
Russell 2000 Index	4.8 %	(3.6)%	8.9 %	10.0 %
iShares Core US Aggregate Bond ETF	(0.7)%	0.03 %	4.7 %	3.9 %
Price Return, As of 9/30/24				

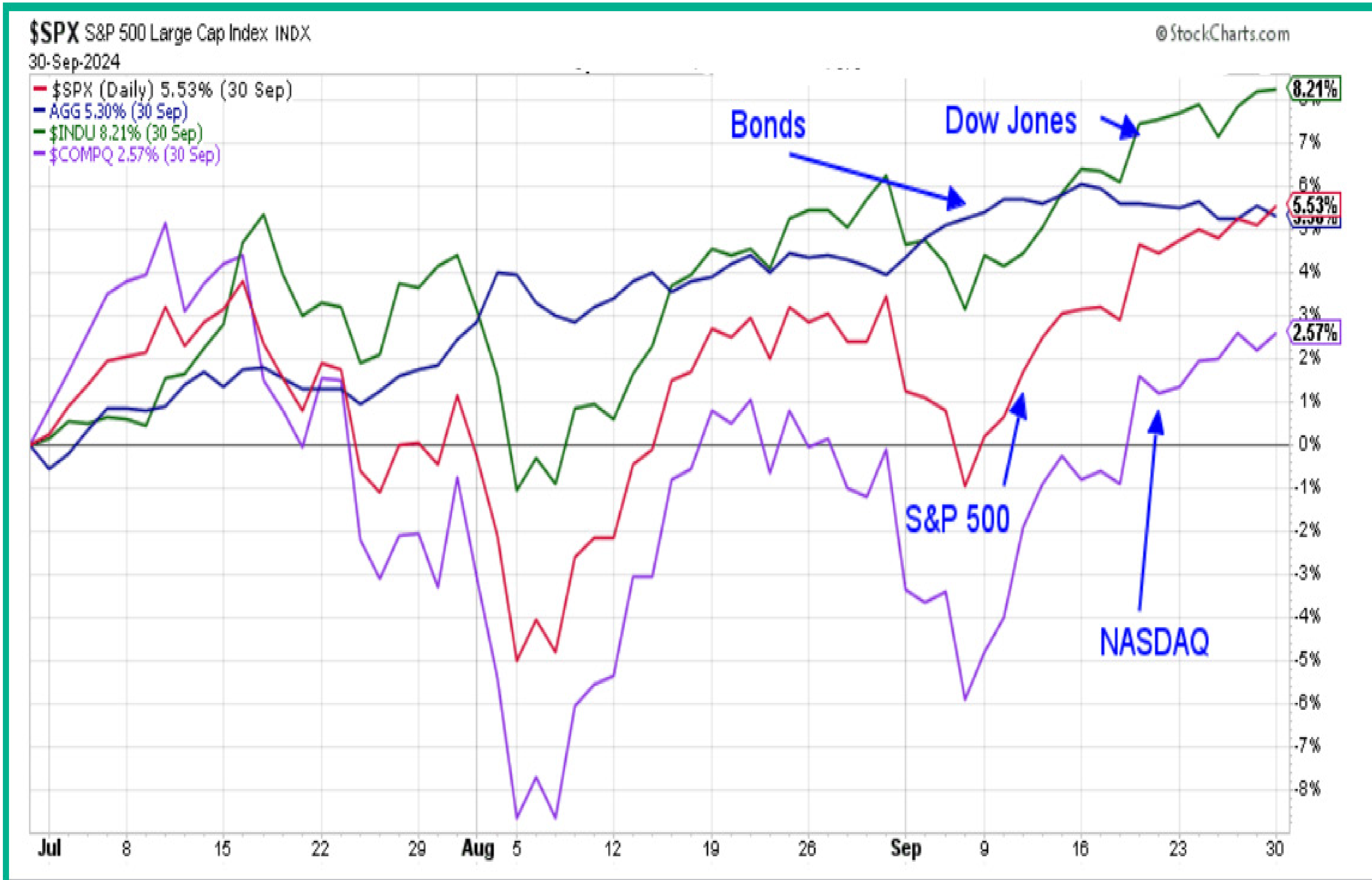
Investors were treated to a white-knuckle ride in the 3rd quarter, including 2 gut-wrenching pullbacks, in early August (which had a pullback of 3% ***in one day***) and September. The brutal selloff in August was sparked by renewed fears of a recession and the sudden unwinding of big bets in Japan. Equities have since clawed their way back into the green and the Dow and the S&P 500 were up 8.2% and 5.5%, respectively for the quarter, and ended the quarter at all-time highs.

The biggest news of the quarter was the run-up to the Fed's long-awaited first rate cut since it started raising rates in March of 2022. With inflationary pressures easing, the Fed reduced its target rate by half a percentage point at its September meeting, and investors now expect the central bank to continue pushing rates lower at a fast clip (though that forecast seems to change daily). This additional clarity helped push bond markets further into positive territory during the quarter.

The broad market rose throughout July, despite tech stocks running out of steam and turning lower. That cleared the way for value stocks and small caps to shine amid a long-awaited rotation, as investors shifted out of the rally's winners and into the laggards. Gone is the first half of 2024, when investors' passion for artificial intelligence drove the market skyward even as stubbornly high inflation dashed hopes that the Federal Reserve would begin cutting interest rates. The 3rd quarter brought a new order to markets. Investors began to look warily at big tech companies' heavy spending on AI. In the 3rd quarter, broad swaths of the market, from utilities to industrials to financials, trounced the powerful technology sector. Value stocks beat growth stocks. Small-capitalization stocks emerged from their stupor to surpass their large-cap peers. The small-cap index grew 8.9% for the quarter.

The yield curve un-inverted as bond yields fell. Oil prices fell 16%, which helped bring down overall inflation pressures. Meanwhile, gold prices rose more than 11%. And Bitcoin ticked up roughly 5%, while Ethereum (another cryptocurrency) plummeted more than 20%.

Q3 2024 Price Performance for Major Indexes



Q4 2024 & Beyond Market Outlook

All things considered, the economy is going well. After hitting 3.2% growth in the last half of 2023, and dropping a bit in Q1 of 2024, the rate of economic growth has been surprisingly strong at 3% in Q2 with another 3% forecast by the Atlanta Fed for Q3. The unemployment rate was at 4.1% in September, still historically at a good place and certainly not looking recessionary. And regarding inflation, CPI dropped to 2.4% in September-how far we have fallen from over 9% in 2022!

The Q3 earnings season is upon us, and of course we are finally nearing the end of this endless election season. **Blackrock**, which I use as an information source for stock evaluations and model selection, says:

"While the economy has struggled to recalibrate post-COVID, spiraling into a series of 'mini rolling recessions'-first in technology, then in housing-we find that the stock market, and the companies that comprise it, have managed to adapt to what we see as a return to more 'normal' conditions.

They, and I believe as well, see ample room for the AI (artificial intelligence) theme to run. Its buildout is still in its early stages. The adoption of AI should boost productivity, increase economic growth, and put downward pressure on inflation.

As treasury yields hover at there recent highs, much will be reflected in rates on the expectations of future rate cut from the Fed. After an unexpectedly large cut of 50 basis points in September, and strong economic reports continue to come out, all the multiples of future cuts predictions may not be realized. Bond income may continue to be good, but bond prices may still have some problems for a while.

And finally, the ultimate question-what will the outcome of the election next week be to investing? I'm not going to make any predictions there (I'm not that stupid!), but these are times of uncertainty and is best to not be making many changes in investing direction. I try to be an optimist, and think that whatever happens, our blessed country will continue to thrive and be the envy of the world. But let us pray for it now, and that we will, as the American people, continue to believe we all have more in common than not, and have so much to be thankful for.

Thanks for listening, and be sure to vote!

Frank Brannon, CFP®
October 27, 2024

Latest Model Portfolio Changes - Target Allocation ETF Models

Blackrock just made changes to their **Target Allocation ETF** models on 9**/5/24**. Below is Blackrock's commentary explaining the changes made to their **Target Allocation ETF** models, and charts showing their current allocations and position changes for their models:

Key Takeaways:

- **Reduce equity overweight to 1%; seeking to tactically preempt seasonal and potential election-related volatility, with an eye toward potentially re-risking post-election**
- **Neutralize regional equity tilts, moving closer to benchmark weighting across US, Developed Market, and Emerging Market stocks amidst shifting relative trends in corporate earnings**
- **Recalibrate tech and growth/value factor bets, maintaining a growth bias but tactically pruning exposure following significant outperformance and rising short-term macro uncertainty**
- **Harvest gains on 'inflation fade' and duration-sensitive trades, adjusting fixed income sleeve positioning after a sharp fall in interest rates and in preparation of a regime transition to Fed easing**

Asset Class Views as of 9/05/24

▲ Overweight ▼ Underweight – Neutral

Equities vs. Fixed Income

View	Asset Class	Commentary
▲	Equities vs. Fixed Income	We cautiously moved from 4% to 1% overweight equities and shortened duration after a fall in rates, seeking to tactically preempt potential seasonal and election-related volatility.

Equities

View	Asset Class	Commentary
▲	U.S. Equities	We are overweight U.S. stocks, leaning into the earnings prowess of the megacap tech and growth-cohort juggernauts, who have continued to defy even the most elevated analyst earnings expectations.
▼	Non-U.S. Developed Equities	We increased exposure to international Developed Markets (DM) stocks, moving closer to benchmark weighting and expressing a more balanced growth/value preference, but maintaining a modest underweight position.
–	Emerging Market Equities	Maintain a neutral view on Emerging Markets (EM) stocks; as signs of accommodation from both the Fed and EM central banks has become more visible.
▲	Factors	Recalibrated growth/value factor bets, maintaining a growth bias but tactically pruning exposure as short-term macro uncertainty rises.

Fixed Income

View	Asset Class	Commentary
–	U.S. Treasuries	We are generally neutral on U.S. treasuries, but trimmed exposure to short- and long-term issues after a noteworthy fall in rates and the start of a regime transition to Fed easing.
–	U.S. Investment Grade Credit	We hold close to benchmark exposure to investment grade credit and mortgage-backed securities, with a targeted preference for issuers with quality balance sheets and attractive valuations.
▼	High Yield Credit	We are underweight U.S. high yield bonds given relatively tight spreads, with exposure to speculative grade issues primarily though actively managed income-focused strategies and exposure to convertible bonds.
–	Emerging Market Bonds (USD)	We maintain exposure to emerging market government bonds due to elevated relative yields that tend to have attractive risk/reward profiles during periods of easing monetary policy and falling inflation.

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Target Allocation ETF Models - Latest Allocations as of 9/5/24

Latest Holdings (%)

Allocation as of 9/05/24

		As of Date	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
Net Expense Ratio (%)		9/30/24	0.12	0.13	0.14	0.14	0.15	0.15	0.16	0.17	0.17	0.18	0.19
Gross Expense Ratio (%)		9/30/24	0.13	0.14	0.15	0.15	0.16	0.16	0.16	0.17	0.17	0.18	0.19
US Equities			**-**	**7.5**	**14.5**	**21.5**	**29.0**	**36.0**	**42.0**	**48.5**	**56.0**	**63.0**	**68.0**
DYNF	BlackRock U.S. Equity Factor Rotation ETF		-	2.5	3.5	4.5	5.5	6.0	6.5	8.0	8.5	9.5	10.0
IVE	iShares S&P 500 Value ETF		-	-	1.0	2.0	2.5	3.0	4.5	4.5	5.0	5.5	6.0
IVV	iShares Core S&P 500 ETF		-	2.0	5.0	7.5	11.0	15.0	16.0	19.5	23.5	26.5	29.0
IVW	iShares S&P 500 Growth ETF		-	1.5	2.5	4.0	5.0	6.0	8.0	8.5	10.0	11.0	12.0
QUAL	iShares MSCI USA Quality Factor ETF		-	1.5	2.5	3.5	5.0	6.0	7.0	8.0	9.0	10.5	11.0
International/Global Equities			**-**	**3.5**	**5.5**	**8.0**	**10.5**	**13.0**	**15.5**	**18.5**	**20.5**	**23.5**	**25.0**
EFG	iShares MSCI EAFE Growth ETF		-	1.0	1.0	2.5	3.5	4.5	5.5	6.0	7.0	8.0	8.5
EFV	iShares MSCI EAFE Value ETF		-	1.5	2.5	3.5	4.0	5.0	5.5	7.5	8.0	9.0	9.5
EMXC	iShares MSCI Emerging Markets ex China ETF		-	-	1.0	1.0	2.0	2.5	3.0	3.5	4.0	4.5	5.0
IEMG	iShares Core MSCI Emerging Markets ETF		-	1.0	1.0	1.0	1.0	1.0	1.5	1.5	1.5	2.0	2.0
Sector Equities			**-**	**-**	**1.0**	**1.5**	**1.5**	**2.0**	**3.5**	**4.0**	**4.5**	**4.5**	**5.0**
IFRA	iShares U.S. Infrastructure ETF		-	-	-	-	-	-	1.0	1.0	1.0	1.0	1.0
IYW	iShares U.S. Technology ETF		-	-	1.0	1.5	1.5	2.0	2.5	3.0	3.5	3.5	4.0
US Fixed Income			**95.0**	**84.5**	**74.5**	**65.0**	**55.5**	**45.5**	**36.0**	**27.0**	**17.0**	**7.0**	**-**
BINC	Blackrock Flexible Income ETF		10.0	9.0	8.5	6.5	6.0	5.0	3.5	2.5	-	-	-
GOVT	iShares U.S. Treasury Bond ETF		6.0	5.0	4.5	4.5	2.0	2.0	-	-	-	-	-
ICVT	iShares Convertible Bond ETF		4.0	3.5	3.0	3.0	1.5	-	-	-	-	-	-
IGEB	iShares Investment Grade Systematic Bond ETF		6.0	5.0	4.5	4.0	3.5	2.5	-	-	-	-	-
IUSB	iShares Core Total USD Bond Market ETF		49.0	44.5	38.5	34.0	31.5	26.5	24.0	19.0	14.0	6.0	-
MBB	iShares MBS ETF		15.0	13.0	11.5	9.5	8.0	7.0	6.0	3.5	2.0	-	-
TLT	iShares 20+ Year Treasury Bond ETF		5.0	4.5	4.0	3.5	3.0	2.5	2.5	2.0	1.0	1.0	-
International/Global Fixed Income			**3.0**	**2.5**	**2.5**	**2.0**	**1.5**	**1.5**	**1.0**	**-**	**-**	**-**	**-**
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF		3.0	2.5	2.5	2.0	1.5	1.5	1.0	-	-	-	-
Cash & Cash Alternatives			**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
CASH-USD	UNITED STATES DOLLAR		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Latest Model Portfolio Changes - Target Allocation Tax-Aware ETF Models

Blackrock last made changes to their **Target Allocation Tax-Aware ETF** models on **6/6/24**. Below is Blackrock's commentary explaining the changes made to their **Target Allocation Tax-Aware ETF** models, and charts showing their current allocations and position changes for their models:

KEY TAKEAWAYS

- **Add two-percent to equities as our bullish thesis has continued to play out**
- **More, more, more growth,** seeking to further amplify exposure to earnings-beaters
- **Close short position in emerging market (EM) stocks;** a successful but now mature trade potentially vulnerable to reversal as signs of accommodation from both the Fed and EM central banks has become more visible
- **Increase allocation to an active factor rotation ETF,** adding dexterity to help navigate turning tides in the market and take advantage of its recent strong performance

Trade Rationale:

"When the facts change, I change my mind."

For the most part, the facts haven't changed since our last trade, so neither have our minds (or our forecasts). Stocks over bonds. US over international. Mega-cap over small-cap. Growth over value.

That's been our anthem the last year plus and we haven't detected any compelling evidence to materially adjust our tune (at least at this time).

Stocks have continued to blossom in the face of adversity. Interest rate volatility, hawkish Fed talk, election scuttlebutt, and an escalating conflict in the Middle East have been no match for the earnings prowess of the megacap tech and growth-cohort juggernauts, who continues to defy even the most elevated analyst expectations. We expect the impact of the AI renaissance on capex spending and economic productivity to be a long-term structural tailwind for the US economy, further fortifying its position as the economic growth engine of the world.

Some may have been surprised by the stubbornness in inflation prints the last few months, but that's more so an indictment of the amount of noise in the complex corpus of inflation data. Based on some problematic seasonal adjustments loaded into the first half of the year, our understanding of the Consumer Price Index (CPI) components and their lagged effects (which, as we have illustrated in the past, can potentially be estimated using alternative data sources as real-time proxies), the observed bumps in reported inflation were to be reasonably expected. Thus, for us, there hasn't been any unforeseen information on the inflation front to warrant a change of mind.

However, we do expect those 'sticky' inflation prints to weaken and perhaps even surprise to the downside sometime late summer/early fall (provisioning the Fed with the requisite dove-bait to follow-through on their projected rate cuts before year-end). Out-of-favor trades like long duration, long EM stocks, and short dollar (among others) could potentially benefit in this scenario, so we're starting to nibble. If this forecast doesn't come to fruition, all else equal, then maybe the facts have changed and we may need to humbly heed the wisdom from John Maynard Keynes above. 'Til then, our song remains the same.

Target Allocation Tax-Aware ETF Models - Latest Allocations as of 6/6/24

Latest Holdings (%)

Allocation as of 6/06/24

		As of Date	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
Net Expense Ratio (%)		5/31/24	0.07	0.08	0.09	0.10	0.12	0.13	0.14	0.16	0.17	0.18	0.18
Gross Expense Ratio (%)		5/31/24	0.07	0.08	0.09	0.10	0.12	0.13	0.15	0.16	0.17	0.19	0.19
US Equities			**-**	**11.0**	**16.5**	**24.0**	**30.5**	**37.5**	**44.0**	**52.0**	**59.0**	**65.5**	**68.5**
DYNF	BlackRock U.S. Equity Factor Rotation ETF		-	2.5	2.5	4.0	4.5	5.5	6.5	8.0	9.0	10.0	10.0
ESGU	iShares ESG Aware MSCI USA ETF		-	-	-	1.5	2.0	3.5	5.0	5.5	5.5	6.5	6.5
IVV	iShares Core S&P 500 ETF		-	5.0	9.5	11.5	15.5	18.5	22.5	26.0	30.0	33.5	36.5
IVW	iShares S&P 500 Growth ETF		-	1.0	2.0	3.0	3.5	4.5	4.5	6.0	7.0	7.5	7.5
OEF	iShares S&P 100 ETF		-	1.0	1.0	2.0	2.5	3.0	3.0	3.0	3.0	3.5	3.5
QUAL	iShares MSCI USA Quality Factor ETF		-	1.5	1.5	2.0	2.5	2.5	2.5	3.5	4.5	4.5	4.5
International/Global Equities			**-**	**2.0**	**5.5**	**7.5**	**10.5**	**13.0**	**15.5**	**17.5**	**20.0**	**22.5**	**23.5**
EFG	iShares MSCI EAFE Growth ETF		-	-	2.0	2.5	3.5	4.0	5.0	6.0	6.5	7.5	8.0
EFV	iShares MSCI EAFE Value ETF		-	1.0	1.5	2.5	2.5	4.0	4.5	4.5	5.5	6.0	6.0
EMXC	iShares MSCI Emerging Markets ex China ETF		-	1.0	2.0	2.5	3.5	4.0	5.0	5.5	6.5	7.0	7.5
HEFA	iShares Currency Hedged MSCI EAFE ETF		-	-	-	-	1.0	1.0	1.0	1.5	1.5	2.0	2.0
Sector Equities			**-**	**-**	**1.0**	**1.5**	**3.0**	**3.5**	**4.5**	**4.5**	**5.0**	**6.0**	**6.0**
IXC	iShares Global Energy ETF		-	-	-	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0
IYW	iShares U.S. Technology ETF		-	-	1.0	1.5	2.0	2.5	3.5	3.5	4.0	5.0	5.0
US Fixed Income			**98.0**	**85.0**	**75.0**	**65.0**	**54.0**	**44.0**	**34.0**	**24.0**	**14.0**	**4.0**	**-**
MUB	iShares National Muni Bond ETF		71.0	65.0	57.5	50.5	43.0	37.0	29.0	20.0	12.0	4.0	-
SUB	iShares Short-Term National Muni Bond ETF		15.0	9.5	8.0	6.5	4.5	2.0	-	-	-	-	-
TLH	iShares 10-20 Year Treasury Bond ETF		12.0	10.5	9.5	8.0	6.5	5.0	5.0	4.0	2.0	-	-
Cash & Cash Alternatives			**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
CASH-USD	UNITED STATES DOLLAR		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Latest Model Portfolio Changes - Target Income ETF Models

Blackrock also made changes to their **Target Income ETF** models on **9/5/24**. Below is Blackrock's commentary explaining the changes made to their **Target Income ETF** models, and charts showing their current allocations and position changes for their models:

Key Takeaways:

- **Broadly trim risk amidst election uncertainty, focusing on income while holding out for attractive opportunities to open up**
- **Stick to the belly and short end of the curve, buying short duration investment grade corporates and treasuries after the recent run-up in longer tenor bonds**
- **Lower credit sensitivity, awaiting more enticing spreads and greater economic clarity**

Trade Rationale:

Shaky markets and recession worries are the talk of the town with all eyes on the Fed and election this fall. Higher anticipation of Fed cuts in 2024 fuelled a bond rally in the summer months, causing longer tenor treasuries to rip. Although most economic activity has persisted, Fed officials have made it clear that a softening labor market and the surprise in July's unemployment data are reasons to cut. Despite these cuts potentially weakening the dollar, we believe that markets generally priced them in, giving the greenback an opportunity to regain lost ground in the coming months after its recent dip. We are proceeding with caution and derisking amidst heightened uncertainty and the volatility that it brings.

Our broad view is that it is an appropriate time to lower risk and have patience for opportunities to open up after the election. We believe that duration benefits from Fed cuts have fully played out during the recent bond rally. To potentially avoid significant rate sensitivity, we are buying into the belly and short end of the curve with investment grade corporate bonds and treasuries until duration becomes more attractive to us. We are also lowering credit risk amidst historically tight spreads by selling high yield in favor of investment grade corporates, muting our exposure to a possible recession.

KMR Financial Advisory, Inc.

Target Income ETF Models - Latest Allocations as of 9/5/24

Latest Holdings (%)

Allocation as of 9/05/24

		As of Date	Core	Moderate	High	Aggressive
Net Expense Ratio (%)		9/30/24	0.15	0.19	0.29	0.33
Gross Expense Ratio (%)		9/30/24	0.15	0.20	0.31	0.35
US Fixed Income			**98.0**	**94.0**	**87.5**	**82.5**
BFRIX	BlackRock Floating Rate Income Fund Institutional shares		-	1.0	-	7.5
BHYIX	BlackRock High Yield Portfolio Fund Institutional Shares		-	5.0	15.5	8.0
BINC	Blackrock Flexible Income ETF		-	3.0	3.0	3.0
FALN	iShares Fallen Angels USD Bond ETF		3.0	3.0	19.0	23.0
FLOT	iShares Floating Rate Bond ETF		16.0	13.0	5.0	-
HYDB	iShares High Yield Systematic Bond ETF		-	-	3.0	4.0
IEI	iShares 3-7 Year Treasury Bond ETF		7.0	3.0	2.5	1.5
IGEB	iShares Investment Grade Systematic Bond ETF		15.0	15.0	10.0	15.0
LQD	iShares iBoxx $ Investment Grade Corporate Bond ETF		-	9.5	-	-
LQDH	iShares Interest Rate Hedged Corporate Bond ETF		-	-	6.0	8.5
MBB	iShares MBS ETF		5.0	8.0	-	-
SHV	iShares Short Treasury Bond ETF		15.0	8.5	-	-
SHY	iShares 1-3 Year Treasury Bond ETF		17.0	9.0	6.5	-
TFLO	iShares Treasury Floating Rate Bond ETF		20.0	16.0	17.0	12.0
International/Global Fixed Income			**-**	**4.0**	**10.5**	**15.5**
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF		-	4.0	6.0	5.0
EMHY	iShares J.P. Morgan EM High Yield Bond ETF		-	-	4.5	10.5
Cash & Cash Alternatives			**2.0**	**2.0**	**2.0**	**2.0**
CASH-USD	UNITED STATES DOLLAR		2.0	2.0	2.0	2.0

About KMR Financial Advisory, Inc.

KMR Financial Advisory is an independent, fee-only registered investment advisor specializing in the development of comprehensive financial plans and developing & managing investment portfolios.

Frank R. Brannon, CFP ®, is the president of KMR Financial Advisory, Inc. Frank's educational background includes:

- The Lovett School
- Tulane University, BA, Economics
- Georgia State University, Master of Decision Sciences

Frank is a Certified Financial Planner™ professional and achieved his license in 1996. Frank has worked most of his career in corporate financial planning for a Fortune 200 company. He has lived his entire life in Atlanta.

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