July 2024 | Alexis Investment Partners, LLC | 925-457-5258

Alexis Investment Partners, LLC

Practical ✧ Tactical

June 30 marks a major milestone for AIP: the 3-year anniversary of our ETF. We look forward to sharing 3rd party ratings from Lipper and Morningstar when they become available in the coming months.

2024 has been rewarding for most investors despite narrow leadership, geopolitical turmoil, an inverted yield curve, persistent inflation, high interest rates and anticipation of a highly uncertain election at a time of deep political division. The S&P500 gained +3.5% in June, capping off a strong Q2 (+4.4%). The average stock in that index as measured by the total return of the equal weight S&P500 ETF (RSP), however, lost for both the month (-0.5%) and quarter (-2.6%).

Our portfolios have benefited from significant exposure to leading areas like tech and semiconductors. We also benefited by tactically being overweight stocks and keeping our fixed income investments short-term and high quality.

Looking forward, **we remain long-term optimistic, but we believe the next few months may be more challenging.** From a practical perspective, **stocks have come a long way as year-to-date returns have already met / exceeded the 2024 targets for most analysts.** We see potential for leadership changes as leaders pause and laggards play catch up. We also see the potential for a late summer swoon – in part due to election anxiety. We prepare for these possibilities through diversification and by tactically raising our cash allocation.

Tactically, we made significant changes last month, scaling back stock exposure to more closely align with our benchmark. **Tactical and strategic portfolios are broadly diversified with significant global exposure. Fixed income remains short-term, high quality and very liquid.**

Performance reports will be available in a few weeks. Your portfolio is designed to meet your long-term goals based on your resources and preferences. **This is a great time to review your portfolio and discuss potential changes.**

Our models, indicators, and analysis continue to confirm a Bull market. Earnings continue to come in better than forecast, and supply chains are improving. Inflation remains stubborn, as expected, but we continue to believe the next moves from the Fed will be less restrictive.

What to Expect in Portfolios

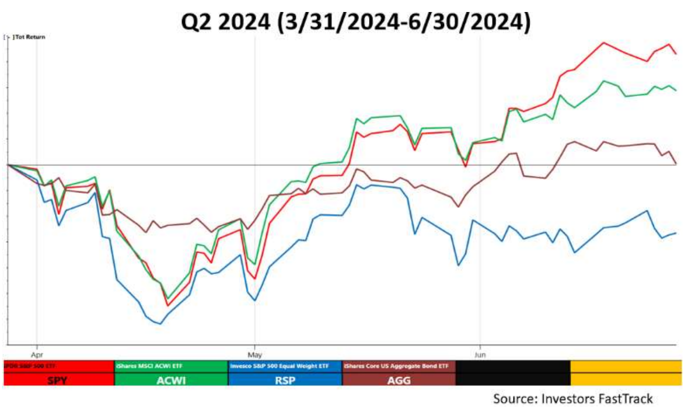
Last month we wrote: "We are now incrementally shifting back to a more neutral allocation. **We expect continued gains but would be surprised if volatility remains tame through the election."**

A more neutral allocation is not the same as being defensive. **Our more aggressive posture these past months allowed us to capitalize on the rebound from last year's correction.**

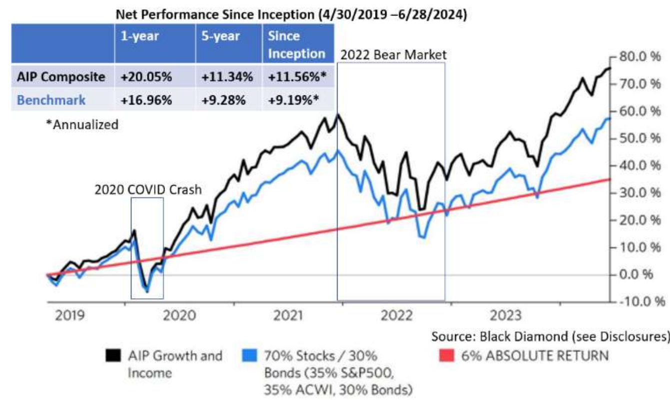
Stocks have come a long way since the 2023 correction lows as reflected in trailing 1-year and year-to-date results. **A more neutral allocation gives us the ability to continue to participate in the bull market while also allowing us to navigate potential near-term turbulence.**

Contents

June was good but uneven, as was Q2. The cap weighted S&P500 (red) gained on the strength of a few key stocks while the equal-weight S&P500 (blue) fell reflecting broader weakness.
Bonds (burgundy) were flat for June and Q2 2024. Our portfolios continue to benefit by limiting duration and focusing on t-bills and cash.

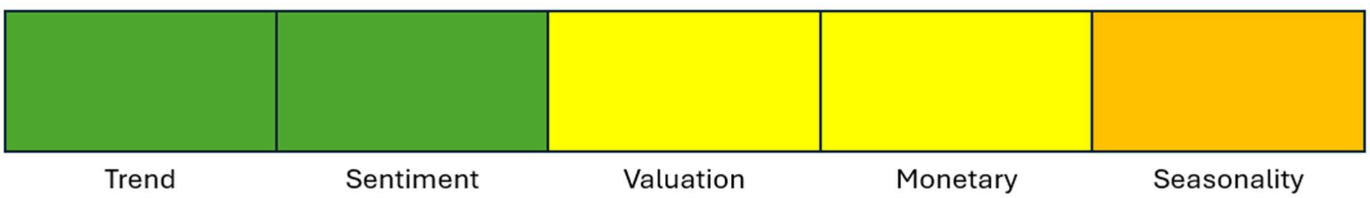


The chart below shows the net performance of our most popular composite since inception (120 accounts – see disclosures on page 4).
The last five+ years have included the COVID crash and 2022 bear market. **Our strategy and discipline led to greater participation in gains than declines, allowing us to add value through this volatile time.**



Insights and Commentary

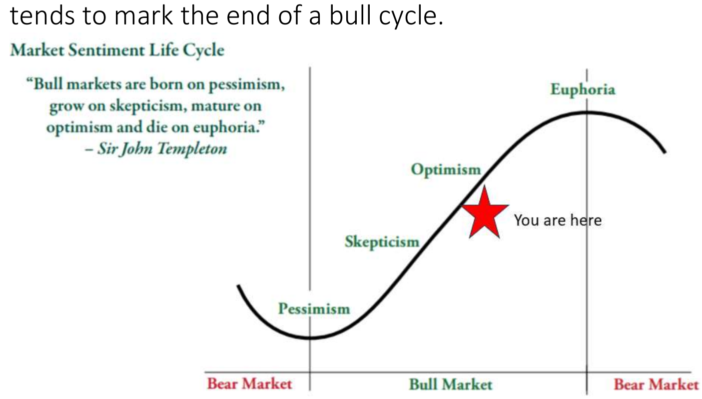
Investing can be an emotional roller coaster leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants, (Don't Fight the Fed, Don't Fight the Trend, Follow Sentiment Except at Extremes) summarized in the chart below:



Risk / Return is more balanced after a strong start to 2024:

Despite narrow leadership, **stocks are clearly in an uptrend** after a very strong start to 2024. **Sentiment remains constructive** due to healthy skepticism in part attributable to election related concerns.
Monetary conditions are tight (Fed policy remains restrictive as evidenced by an inverted yield curve) but we continue to believe the Fed is close to softening its stance – markets also don't seem overly concerned about current interest rates.
Valuations are elevated for the major indexes, but this is largely reflective of strong growth from leading tech companies that have an outsized weighting to the indexes. If we look at the S&P500, for example, the average P/E on an equal weight basis is closer to long-term averages.
Seasonality is a concern – not immediately, but **from late July through October.** This is especially true following a strong start. The good news is that seasonality has had a mixed record, especially in the last decade.

Noting that stocks suffered a bear market only 2 years ago in 2022, **it would be highly unusual for the current bull cycle to end this year.** The AI craze has led to some excess optimism, but the wall of worry still seems to be holding investors back from the reckless performance chasing that tends to mark the end of a bull cycle.



That said, **pullbacks and corrections happen in both bull and bear markets.** Many investors have missed out on much of this year's gains, perhaps having been scared out of stocks in the 2022 bear market, or for many, due to reluctance to embrace AI focused leaders as the rest of the market has been more subdued.

Update, Observations, Indicators and Outlook:

In terms of our Market Pulse (right), **the Bull Market case remains intact.** In bull markets, we anticipate and manage pullbacks and corrections, but our focus is to participate in the growth potential of various investment that trend higher.

Election years tend to be positive for stocks regardless of the outcome, with some important historical exceptions that remind us to remain vigilant. **We understand that this election is causing anxiety for both democrats and republicans,** with each fearing that a "negative" outcome will have dire implication for their portfolios.

Elections are important and we acknowledge that the parties involved have a **different vision in terms of social priorities, tax policy, and regulations.** The debate over tax policy is likely to continue beyond the election, especially as **the 2017 tax cuts expire in 2025.** As a percentage, these cuts had the greatest impact on tax rates for corporations and families with income under $315,000.

Prior Law					Tax Cuts and Jobs Act				
Taxable Income ($)					Taxable Income ($)				
Single Filers		Married Couples Filing Jointly		Tax Rate (percent)	Single Filers		Married Couples Filing Jointly		Tax Rate (percent)
Over	But not over	Over	But not over		Over	But not over	Over	But not over	
$0	$9,525	$0	$19,050	10.0%	$0	$9,525	$0	$19,050	10.0%
$9,525	$38,700	$19,050	$77,400	15.0%	$9,525	$38,700	$19,050	$77,400	12.0%
$38,700	$93,700	$77,400	$156,150	25.0%	$38,700	$82,500	$77,400	$165,000	22.0%
$93,700	$195,450	$156,150	$237,950	28.0%	$82,500	$157,500	$165,000	$315,000	24.0%
$195,450	$424,950	$237,950	$424,950	33.0%	$157,500	$200,000	$315,000	$400,000	32.0%
$424,950	$426,700	$424,950	$480,050	35.0%	$200,000	$500,000	$400,000	$600,000	35.0%
$426,700	and over	$480,050	and over	39.6%	$500,000	and over	$600,000	and over	37.0%

Sources: Gale, William G., et al. June 2018. Effects of the Tax Cuts and Jobs Act: A Preliminary Analysis. Washington, DC: The Urban-Brookings Tax Policy Center; Internal Revenue Service. *Revenue Procedures*. Various years.

The benefit of a larger government is the ability to fund social programs, direct investments into areas that are inconsistent with supply and demand but reflect the goals and needs of society at large, and the ability to enforce laws and increase oversight. One challenge is that non-productive government spending (re-directing funds that would have been used to create goods and services to fund social programs and bureaucracies) feeds inflation.

The benefit of smaller government is a more balanced economy, where investment is focused on meeting consumer demand. A stronger business environment creates a need for higher paying jobs and promotes innovation. **Competition and innovation tend to increase productivity and hold down inflation.**

We have our personal preferences and respect the individual and divergent preferences of each of our clients. From an investment perspective, our job is to align with prevailing conditions and invest opportunistically based on the environment we're in, regardless of how that aligns with our personal preferences. **We are confident that we will find attractive investment opportunities regardless of the election outcome.**

Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline). **We can expect periodic pullbacks and corrections, but these should be relatively short and shallow – followed by resumption of the up-trend.**

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks.

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3-6 months. **The market has proved resilient over the trailing year, recovering from corrections in SEP/OCT 2023 and APR 2024.**

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18-24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from.

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery.

Alexis Investment Partners, LLC

103 Casterly Green Ct
Montgomery, TX 77316
925-457-5258
jason@alexisinvests.com

Find us on the Web:
www.alexisinvests.com
www.LEXIetf.com

Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor.

We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Although our focus is on financial planning and investments, we also have relationships and resources to help with life and LTC insurance and annuities.

Jason acts as a 3(38) Fiduciary Advisor to 401k plans and has been able to help several small business owners reduce costs, significantly improve their plans and offload some of their liability as plan sponsors while creating a better experience for employees.

Please call and/or email me personally for most of your account servicing needs and especially when you have questions or concerns.

Disclosures

This material is for informational purposes only. Statements of future expectations, estimates, projections, and other forward-looking statements are based on available information and Jason Browne's view as of the time of these statements. Accordingly, such statements are inherently speculative as they are based on assumptions that may involve known and unknown risks and uncertainties.

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Mutual funds and other securities may distribute taxable dividends and capital gains to investors. Taxes on such items can affect the returns realized from such investment income received from certain investments may be subject to the Alternative Minimum Tax (AMT). Please consult with your tax advisor before making any investment and consider the effect that taxes may have on returns.

Rebalancing assets in a portfolio can have tax consequences. Selling assets in a taxable account may result in a taxable gain. Alexis Investment Partners, LLC. is neither a law firm nor a certified public accounting firm and no portion of this newsletter should be construed as legal or accounting advice.

AIP Composite Performance is calculated by Black Diamond based on the performance of all discretionary managed accounts with a Growth and Income objective that are assigned a 70/30 benchmark. Performance is net of all fees and expenses. From April 30, 2019, until Alexis Investment Partners, LLC registered with the SEC as an investment advisory firm in May 2021, Jason Browne offered advisory services using Alexis Investment Partners, LLC as a trade name through Sowell Management, LLC an SEC Registered Investment Adviser. Alexis Investment Partners, LLC and Sowell Management, LLC are independently owned and operated.

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