THIRD QUARTER 2024

NORTHWEST NEWS

NORTHWEST INVESTMENT COUNSELORS LLC

What's New at Northwest?

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Please contact us: (1) If there is a change in your financial situation, investment objectives, or risk profile, (2) For questions about your portfolio or to set up a quarterly review, (3) If you are not receiving statements from your custodian, (4) If you want to impose reasonable restrictions on the management of your portfolio, or (5) if you just want to say Hello!

2024 PRESIDENTIAL ELECTION

2024 is a presidential election year, and as such, we have been receiving questions about our views on the election's potential impact on markets and client portfolios. Of course, our crystal ball is no better than anyone else's when it comes to predicting the outcome. However, we can offer guidance, when it comes to managing through a range of outcomes and how we can help you feel more assured given market volatility from any origin, not just an election.

It's not controversial to say that the current degree of political polarization in this country has many on edge. Our best guess is that, yes, in the months leading up to, and days, weeks, and months following the election, the market may experience some enhanced level of volatility. But volatility is a normal part of investing, especially for stock investing. In the last two decades, US large capitalization stocks had double digit negative or positive returns in 14 of those years. A better question than, "Will my portfolio experience volatility in an election year?" would be "Do I have upcoming cash needs?" (in which case that portion should not be in stocks) or, "Am I nervous that I can't handle volatility due to my age, risk disposition, etc?" (in which case it may be a good opportunity to revise the ongoing target allocation).

What is our recommendation for what to do in your financial life regarding the election? 1) Stay focused and tune out the noise. Your financial goals are likely to stay the same no matter the outcome. In the face of potential volatility it is important to stay the course with your existing investment allocation. Or, perhaps this is a good time to reassess if your goals have changed for any number of reasons. If so, an allocation change or discussion about sources of income in retirement may be warranted. 2) Maintain your investment strategy based on factors such as your age/time horizon, career stage, level of risk tolerance, and short-term cash needs. If you still have concerns about election-based volatility, it may be because one of these other factors has changed meaningfully from when you began investing. 3) Be cognizant of policy changes that may impact investment strategies or sources of income in the future. These changes won't happen on day one, and policies tend to change over time anyway. As a firm we do our best to stay on top of the legislative changes that impact our clients and how we manage money on their behalf. It is always a good time to assess your financial situation with your portfolio and wealth management team.

WHAT IS NEW AT NORTHWEST?



We are moving! After ten years on Meadows Road, we will be moving in mid-September across Kruse Way to 5 Centerpointe Drive. We are excited about our new space; it is a larger, ground floor office, with plenty of parking for all. We look forward to meeting you in our new location later this fall.



Northwest Calendar

Sep 2 - Labor Day - Office Closed

Sep 14 - Moving Day

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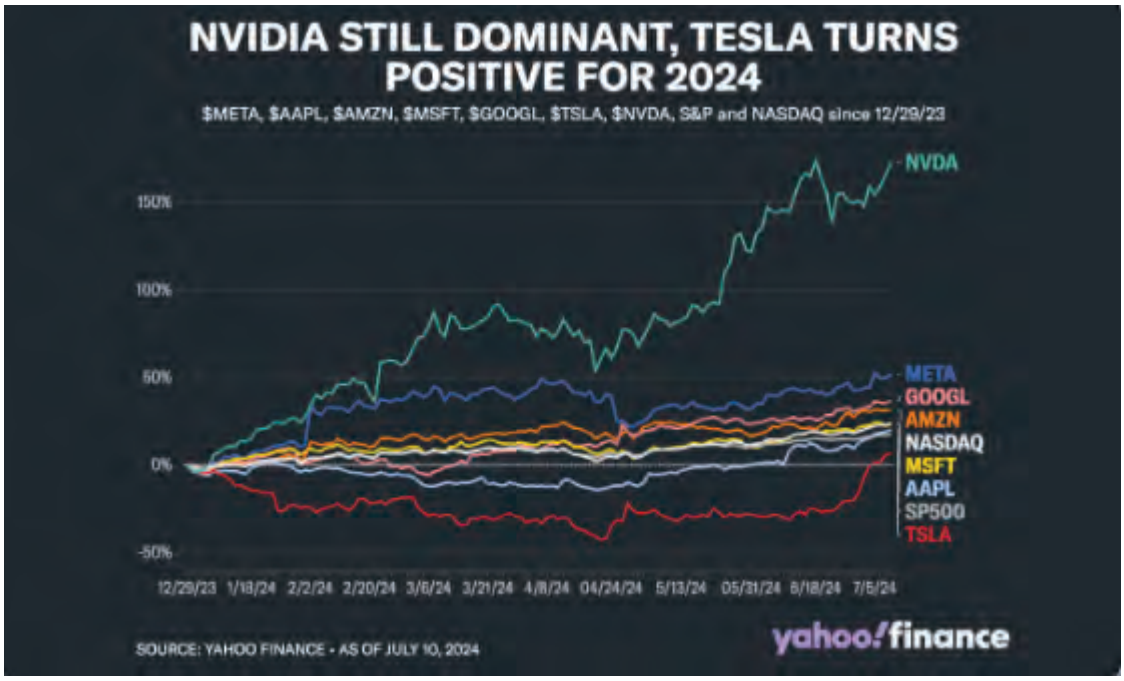
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STOCKS

The interesting dynamics of the S&P 500 continued in Q2. While this is perhaps the most quoted index, keep in mind that most people should not compare the entirety of their portfolio to it as there are other opportunities outside of the S&P 500. The three largest stocks – Microsoft, Apple, and Nvidia – make up over 20% of the S&P 500. The top five accounted for over 25%, and the top ten over a third. In Q2, as the large technology companies pushed the S&P 500 up over 4%, small and mid-cap stocks declined over 4% as measured by the Russell 2500 index. Nvidia alone accounted for nearly a third of the first half return of the S&P (see the chart below). It's interesting to think back to March 2008 – we had entered a recession and the '08-'09 financial crisis was upon us. The US stock market as a whole at the time accounted for less than 40% of the total capitalization of the world's markets; it now accounts for over 60%. We account for just over one-quarter of world GDP. It's enough to make your head spin sometimes.

What does all this slicing and dicing mean for investors? Well, it perhaps means that there is more risk in the S&P than there usually has been. Technology and Financials make up 42% of the index; in the 1970's that number was 13%. So the index is now beholden to a small number of companies that have significant sway over the performance of the index. Meanwhile, outside of the Magnificent Seven (Microsoft, Apple, Nvidia, Meta, Amazon, Alphabet, and Telsa), there are 493 stocks that perhaps don't get the attention they deserve. Will the market leaders for the next five to ten years be found in that group? It's a good question. A look at the P/Es of some of these shows the high expectations built in (and we've added Ford and GM to highlight the exaggerated difference with Tesla. *Reference chart on the next page*).

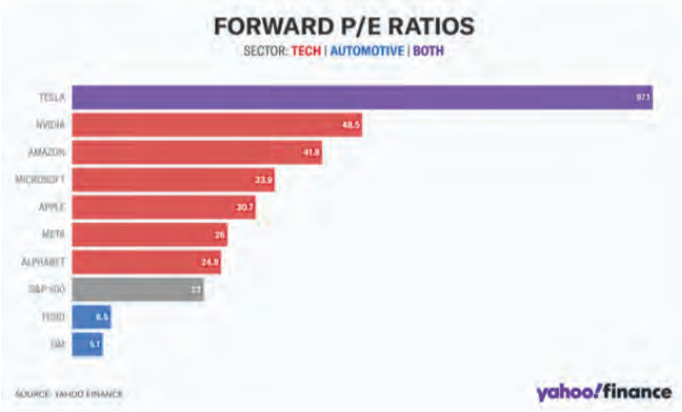
No doubt there is a significant daily focus on artificial intelligence (AI) that has pushed up the value of some of these stocks. Is there a bubble here? They certainly appear expensive by a lot of measures, but investors also seem to be saying that the opportunities are so large that it's worth paying for that for fear of missing out. We've had exposure to a number of these companies for quite some time and continue to update our valuation models and analyze the risk-return tradeoffs.



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From a broader perspective, much of the macro focus lately is on interest rates and economic growth. A handful of months ago, it appeared the Federal Reserve was headed toward several interest rate cuts in 2024. Here we are, halfway through the year, and we haven't had one yet. The current expectation is one or two cuts to head off slowing growth. A decline in inflation appears to provide a reasonable opportunity for the Fed to do so. Ceteris paribus, lower interest rates would argue for higher stock prices. But the interconnectedness of many macro and micro-economic factors can influence prices either way.

In the Smaller Companies Portfolio, you may see a small holding of GRAIL, which was a spin-off from Illumina. GRAIL, Inc., a biotechnology company, focuses on developing technologies for early cancer detection. The company has developed Galleri, a cancer blood test for asymptomatic individuals over 50 years of age; and DAC, a diagnostic aid for cancer tests to accelerate diagnostic resolution for patients for whom there is a clinical suspicion of cancer. It is also developing minimal residual disease and other post-diagnostic tests.

In Blue Chip, the final piece of GE's restructuring occurred in April when we received shares in GE Vernova. GE Vernova Inc., an energy company, engages in the provision of various products and services that generate, transfer, orchestrate, convert, and store electricity in the United States, Europe, Asia, the Americas, the Middle East, and Africa. We now hold for many client accounts all three remnants of General Electric, and are continuing to evaluate the stand-alone merits of each.

NOTES FROM THE PLANNING DESK

At NWIC, we can run a financial plan for you. Although commonly called financial planning or retirement planning, the process should focus primarily on conducting a full assessment of your financial situation. You may or may not walk away with an actual "plan," akin to something you will follow like a road map, but it is more important to come away with a sounder understanding of your financial landscape. In fact, describing the process as a personal financial audit is a more accurate representation.

Financial planning can begin at NWIC with our software tools and guidance, but it can and should also start as a thought exercise at home. Think about, or better yet, list all your expected sources of income in retirement (e.g. social security, pensions, and rental income) and then think about, or list, all of your future spending needs and goals. For most people in retirement, there will be a shortfall between what you earn and what you need to spend. That difference will be made up by properly utilizing the assets you have accumulated over your working and retired life. A comprehensive understanding of these inflows and outflows, paired with a well formulated and executed financial plan, can help you maximize those assets in the earlier stages, and in your later stages can guide you on how to deploy them most effectively.

During the financial planning process, we will look at every aspect of your financial life to gain a better vantage of where you currently stand and begin to forecast the potential trajectory. Again, the assessment of your big picture is more crucial than an actionable plan because your situation is bound to change in unforeseen ways. Rather than planning on a particular source of income to fund your life at a specific age, it may be more useful to understand the types of accounts at your disposal and the tax benefits or ramifications you will encounter based on the order you take distributions. The process may even uncover opportunities you have now to diversify your investment buckets or future income sources (e.g. changing current savings from a traditional 401k to a Roth 401k, or saving excess cash flow in an individual, brokerage, or joint account). (*Continued on Page 6)*

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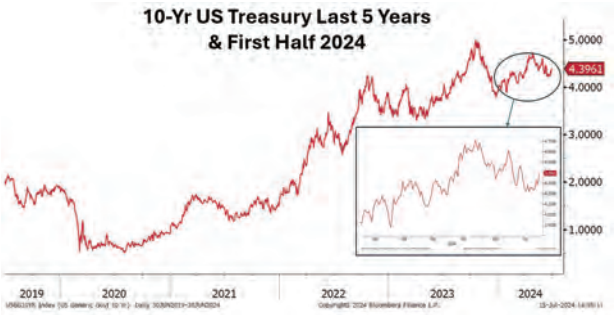
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BONDS

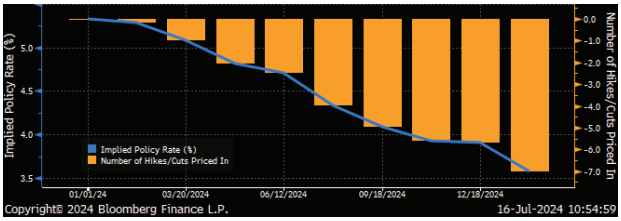
In the second quarter of 2024 the benchmark for our intermediate fixed income strategy returned just under one percent, bringing the total return for the first half of 2024 to just under half a percent. The total return of a bond fund or index, which measures the overall gain or loss for a period, includes interest income and price changes of the underlying bonds. From a return standpoint, 2024 has been unremarkable for bonds. However, zooming out a bit to look at the last 5 years of interest rate levels paints a different picture of the current environment for bond investors.



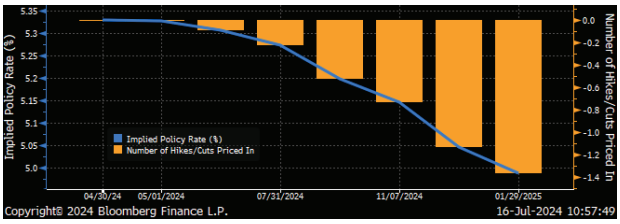
As of the end of Q2, the 10-yr US Treasury, which is an important barometer for economic health and determinant of borrowing costs, had a yield of approximately 4.40%, higher than where it started the year, but below the near-term cyclical peak of October 2023. Objectively, compared to any point in the last five years, interest rates are still at attractive levels for fixed income investors, with the exception being if one expects rates to rise significantly from current levels. Even so, at current starting levels, interest rates have room to rise further before investors incur a negative total return. This concept, known as escape velocity, is the idea that when a bond's coupon, or the income component of its total return, is sufficiently high, the bond's total return can remain positive even in the face of rising rates.

Over brief time intervals, bond prices will rise and fall, leaving investors with positive or negative performance. However, our view is that a five-to-ten-year laddered bond portfolio, purchased at the writing of this piece, and generally held until maturity, should produce annual returns in line with current yield levels over the long-term. That idea, that yields are attractive today, is the primary message we wish to convey, but continue reading for a more in-depth discussion of Fed policy, inflation, and the changes we have made to our bond strategy around the margins.

As of January 1, 2024, the market believed the Fed's New Year's resolution was to cut rates furiously over the course of the year. The chart below shows the expectation (as of 1-1-24) that the Fed would cut approximately 6 times, resulting in a Fed Funds rate below 4%, down from its current upper bound of 5.50%.



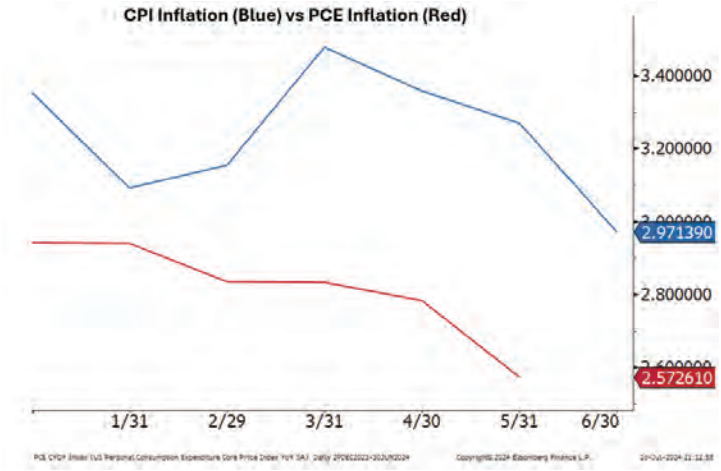
Unexpectedly, despite the Fed's comments about sticky inflation and the historical precedent of difficulty getting the last mile of inflation under control, higher than desired inflation remained embedded in the economy, eroding confidence in Fed rates cuts. By midway through the quarter (the chart below is as of 4-30-24), expectations for cuts decreased dramatically, with the market pricing in just one interest rate cut by year's end, and a Fed Funds rate of 5%.



The Fed's preferred measure of inflation is the US Personal Consumption Expenditure Core Index (Core PCE), which in the chart below can be seen steadily decreasing during the first half of the year. The Fed prefers the Core PCE because it 1) views

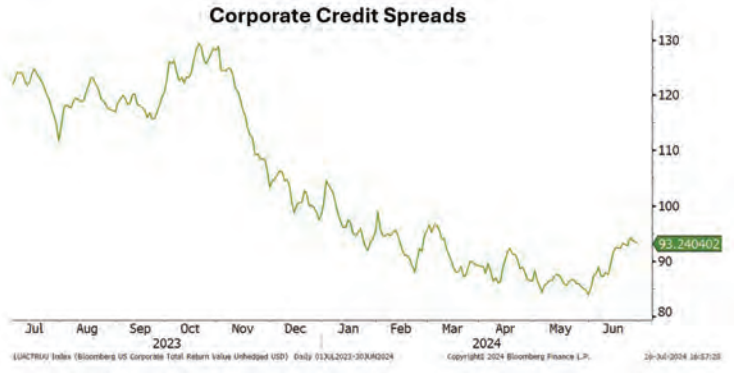
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the data as more comprehensive and 2) the weights in the PCE are updated more frequently, making it better at accounting for purchasing substitutions and shifting consumer patterns. The Consumer Price Index (CPI), also known as the headline inflation number, rose unexpectedly for two consecutive months in the first half of 2024, decreasing market expectations for the number of interest rate cuts since higher inflation requires a higher Fed policy rate. The 10-Yr US Treasury yield increased, almost in lock step (from 3.88% to 4.40%), with the decreasing expectations of rate cuts (i.e., yields increased as expectations for a lower policy rate abated). During the first half of 2024, the market seemed out of step, or even to ignore Fed guidance, instead making up its own mind on rate cuts and preferred gauges, validating the adage that you shouldn't *fight the Fed.*



We have not changed our intermediate fixed income strategy materially in response to any of the shorter-term events described in the preceding paragraphs. Instead, we prefer tweaks to our process, such as extending maturities when appropriate, using zero coupon and deep discount bonds in tax-advantaged accounts, and assessing the suitability of Treasury inflation protected securities (TIPS). Of course, each client's needs are different, and as such we may target shorter or longer bond ladders based on the different time horizons and cash flow needs of each client.

Corporate bonds remain attractive with yields, further out the yield curve, rivaling the ample yields on short Treasuries and T-Bills, but allowing investors to extend duration. Corporate bond spreads narrowed slightly (meaning the additional yield earned by taking on the credit risk of a corporate bond versus a Treasury decreased), but still compensate investors an average of almost one percentage point more than a comparable Treasury (based on the Bloomberg's US Corporate Investment Grade Index).



In accounts with required minimum distributions (RMDs), we will prioritize the yield to maturity over coupon income, meaning we may accept lower current income in exchange for more of the yield coming in the form of a gain at maturity. In IRAs, once you have reached RMD age, your distributions from the account will be taxed at ordinary income tax rates, making the distribution strategy more important than the individual income producing component of the stocks or bonds. For this reason, we are more likely to use zero coupon bonds, deep discount bonds, or TIPS in these accounts.

A zero-coupon bond will not pay income over its life, but instead will pay the equivalent of a market annualized rate of interest at maturity. During the second quarter, some zero-coupon government bonds, including Treasury bonds, traded at 60-75 cents on the dollar and also traded at positive spreads to their interest-bearing contemporaries. If timed to correspond with future RMDs, zero-coupon bonds make a useful planning addition to a bond portfolio. Additionally, zero-coupon bonds are more tax efficient when held in tax deferred or tax-exempt accounts.

Similarly, on the occasion we purchase a Treasury inflation protected security (TIPS), we prefer to hold this type of bond in a tax advantaged account. In a rising inflation environment, TIPS may experience an adjustment to principal that is taxable, despite the holder not receiving anything more than the coupon payment (which is often negligible). Again, the strategy here is to hold a type of bond in an account where it will be more tax efficient and attempt to time the return of principal (which will be higher than the purchase price if inflation continues to rise) so that it will correspond to future RMDs.

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Beware the Cash Trap

Lastly, for clients sitting on cash, either in money market funds, high interest-bearing savings accounts, and certificates of deposits (CDs) held at their primary banking institution, it may be a good time to consider locking in today's interest rates for longer. At present, there exists the danger of a cash trap, which is to say, that some investors have moved funds earmarked for the long-term into money market funds which currently pay around 5%. This is an excellent rate of return for cash reserves and funds earmarked for short-term purposes. However, funds in excess of those reserves, or for long-term goals, will be at risk of earning less when the Fed lowers the policy rate that guides the rates on money market funds, high interest savings accounts, and short-term CDs. Building a ten-year bond ladder with excess funds or rolling those funds into your existing overall investment allocation is likely to be more beneficial in the long term.

If you want to discuss any of the investment strategies mentioned above, or for more information specific to your individual portfolio, please reach out to set up a portfolio review.

NOTES FROM THE PLANNING DESK CONTINUED

Traditionally, the sources of income for most retirees were thought of as a three-legged stool, comprising social security, a 401k, and a pension. Since pensions are largely a thing of the past, and since we are first and foremost a wealth management firm, when we picture the stool, in addition to social security, we think of the legs being 1) a taxable account (which is often utilized first, especially when bridging the gap between retirement and social security), 2) a tax-deferred account (e.g. a traditional IRA, 401k, IRA rollover, or SEP IRA, which are accounts that grow free from taxes on capital gains, dividend, and interest, but are subject to mandatory distributions that count as ordinary income past a certain age), and tax-exempt accounts (mainly Roth IRAs and Roth 401ks, which are funded with post-tax dollars and are not subject to taxes either while growing or when distributed). The financial planning and assessment process can be useful, in conjunction with an understanding of your future sources of income and spending goals, to identify opportunities to set up one or more of these types of accounts, set an investment allocation that is appropriate and tax-efficient, and layout potential strategies to best utilize income and principal as available and needed.

An open mind is often the most useful tool in the planning tool bag. If, several years into retirement, the trajectory of your finances is different than you expected, being open minded about spending goals may help prolong the assets at your disposal, or you may find there is excess cash flow beyond what you planned for. Similarly, being open minded about the term "savings withdrawal" can be valuable when it comes to delaying social security until age 70. Savings withdrawal often carries a negative connotation, but what it really means is that you put yourself in the position to self-fund while your social security benefits accrue an additional 8% per year plus inflation. Being open minded may also mean a tweak or adjustment to your investment allocation either to achieve certain goals or to be more comfortable given your tolerance for risk. The only precursor to being able to successfully employ an open mind during financial planning is to begin with a full assessment, or audit, of current and future income, current and future spending, and the assets that will be the backbone of your retirement journey, or perhaps even your legacy.



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NW BLUE CHIP GROWTH STOCKS

Top 10 Stocks	% of Total
Microsoft	8%
Apple Inc	8%
Oracle Corp	6%
Alphabet	5%
Carrier Global Corp	3%
Amazon	3%
Honeywell	3%
Accenture	3%
Walmart	3%
Pepsico	3%

NW EQUITY INCOME STOCKS

Top 10 Stocks	% of Total
Caterpillar Inc.	11%
Emerson Elec.	8%
Cisco	6%
McDonalds	6%
Procter & Gamble	6%
Bank New York Mellon Corp	5%
Blackrock	5%
Lockheed Martin	5%
Paychex	5%
Home Depot	4%

NW SMALLER COMPANIES STOCKS

Top 10 Stocks	% of Total
Fair Isaac Co.	12%
Expeditors Intl Wash Inc	6%
Equifax	5%
Waters	5%
Allegion	5%
Broadridge	4%
Simpson	4%
Insperity	4%
Generac	4%
Mettler Toledo	3%

NW INTERMEDIATE FIXED INCOME

Top 10 Bonds	Coupon/Maturity
Federal Home Loan Banks	4.750% Due 12-10-32
United States Treas NTS	2.000% Due 11-15-26
Federal Farm CR BKS	2.080% Due 12-02-30
Federal Farm CR BKS	1.720% Due 10-20-31
Johnson & Johnson	2.950% Due 03-03-27
United States Treas NTS	2.250% Due 11-15-25
United States Treas NTS	2.250% Due 11-15-24
United States Treas NTS	2.250% Due 11-15-27
United States Treas NTS	3.500% Due 02-15-33
Federal Farm CR BKS	3.540% Due 03-29-32

MARKET INDEX DATA

Alternatives	1 Year	3 Years	5 Years	10 Years
Timber	12.1%	-1.3%	7.3%	6.0%

Equity Indices	1 Year	3 Years	5 Years	10 Years
Large Stocks (S&P 500)	26.6%	10.1%	15.0%	12.8%
Income Stocks (Dow Jones Sel Div)	12.5%	4.8%	7.9%	8.4%
Midcap Stocks (Russell Midcap)	14.6%	2.2%	9.3%	8.9%
Small Stocks (Russell 2000)	11.8%	-2.8%	6.8%	7.0%
International Stocks	12.2%	2.6%	6.5%	4.3%

Fixed Income Indices	1 Year	3 Years	5 Years	10 Years
Intermediate G/C (Barclays Int.)	3.6%	-1.3%	0.5%	1.4%

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Disclosures

Please read this Disclosure section for a summary of changes made to our Form ADV Parts 2A & 2B, which we recently filed with the Securities and Exchange Commission (SEC). As a reminder, Registered Investment Advisers, like us, make at least annual filings with the SEC regarding changes in our business practices and how we manage money for our clients. It is the summary of these changes that you will find below in Disclosures. Should you want a complete copy of our Form ADV, please do not hesitate to contact anyone here at Northwest Investment Counselors.

Material Changes
Christel Turkiewicz left employment with NWIC on October 31, 2023. She is no longer a member.

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• We will provide notice of changes in our information sharing practices. If, at any time in the future, it is necessary to disclose any of your personal information in a way that is inconsistent with this policy, we will give you advance notice of the proposed change so you will have the opportunity to opt out of such disclosure.
• We maintain a secure office and computer environment to ensure that your information is not placed at unreasonable risk.
• For non-affiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors, we also require strict confidentiality in our agreements with them and expect them to keep this information private. Federal and state regulators also may review firm records as permitted under law.
• We do not provide your personally identifiable information to mailing list vendors or solicitors for any purpose.
• Personally identifiable information about you will be maintained during the time you are a client, and for the required time thereafter that such records are required to be maintained by federal and state securities laws. After this required period of record retention, all such information will be destroyed.

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