July 2024

Market Update

For June, most headlines were focused on political stories – the election, the debate, and Supreme Court rulings. But the story the market most wanted to see – about falling interest rates – finally happened in June. The 10-year treasury yield dropped to levels (around 4.25%) last seen in March. The market became more confident in pricing in future rate cuts. As a result, the most interest rate sensitive assets had a good month – especially for US large growth stocks which need rates to fall to justify prices that are moving close to the 99th percentile over the last 100 years of valuation history. But for most stocks, prices didn't budge much at all.

For the month the only equity asset classes that were positive were emerging market stocks and US large growth stocks. For the month the S&P 500 was up 3.6%, but all of that return came from growth stocks (+6.7%) as value stocks fell (-1%). Small caps fell –1.%. International developed equities fell –1.6% but emerging markets were up 3.9%. With interest rates falling , rate sensitive assets like bonds (up 1%) and REITS (up 2.2%) performed very well. Commodities and gold were both flat.

As we've noted presidential election years (and the year following them) show no particular pattern of behavior in markets and returns in these years are very close to the average return in all years. Regardless of the party control of the presidency, we expect that spending and subsequent deficits will continue at very elevated levels. This level of spending during an economic expansion is unusual and has very likely has distorted traditional market and economic signals. Ultimately there is no free lunch, and the cost of this spending has been (1) inflation and (2) slower expected future growth as more future production will go towards paying debt rather than providing for standards of living and improving productivity. Interest on the national debt (not including state or municipal) is now estimated at $1T.

AI remains the primary driving force in the US equity market. Investors continue to be willing to pay historic premiums for companies related to AI with expectations of huge future cash flows coming from future iterations of the tool. While no two periods are the same, it is reasonable to compare this period with the late 1990s as investors envisioned fast growth and future profits from the internet and ecommerce. Indeed the following decade of 2000 – 2009 saw the internet become integrated with the economy and produced great cash flows for many companies. However the S&P 500, which had become expensive and heavily weighted to internet hardware, software, and ecommerce companies had a negative return for that decade while the rest of the market was positive. While we think you should have exposure to AI related names we emphasize the need to remain diversified and be cognizant of the prices we pay for assets.

Our base case for 2024 is that GDP(Gross Domestic Product) will slow from 2023's level. While we didn't experience the recession many feared, higher interest rates and higher debt pressure on US households will begin to have a slowing effect on spending and growth. Household net worth will remain bolstered by home values and investment accounts which have remained high. Inflation should continue receding but may not get to the 2% target. The Fed will be under pressure from politicians and large investors to lower interest rates, but we hope they hold to drive inflation lower and disincentivize rampant 2021 style market speculation.

Performance Summary – YTD

The S&P 500 is up 15.3% while small caps are now up 1.7%. Developed international markets are up 5.3%. Growth stocks have outperformed value stocks in the US but the reverse is true internationally. REITs remain the worst performing asset class at –2.2%, but for other real assets, MLPs are up 17.7% and gold is now up 12.6%. Commodities are also positive at 6.7%.

High Yield, TIPs, and short-term bonds along with floating rate notes are positive YTD but core bonds and international bonds are negative.

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All earnings data comes from Standard and Poors' S&P 500 Earnings and Estimates Report as of 6/30/2024. Asset class performance numbers come from Morningstar as of 6/30/2024.

The S&P 500® is widely regarded as the best single gauge of large cap U.S. Equities There is over USD 9.9 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 3.4 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

GDP is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year. GDP growth rate is an important indicator of the economic performance of a country.

REITs, or real estate investment trusts, are companies that own or finance income-producing real estate across a range of property sectors.

A master limited partnership (MLP) is a business venture in the form of a publicly traded limited partnership. It combines the tax benefits of a private partnership with the liquidity of a publicly traded company.

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