Market Perspectives

August 2024

Soft landing optimism allows stocks to erase early August meltdown

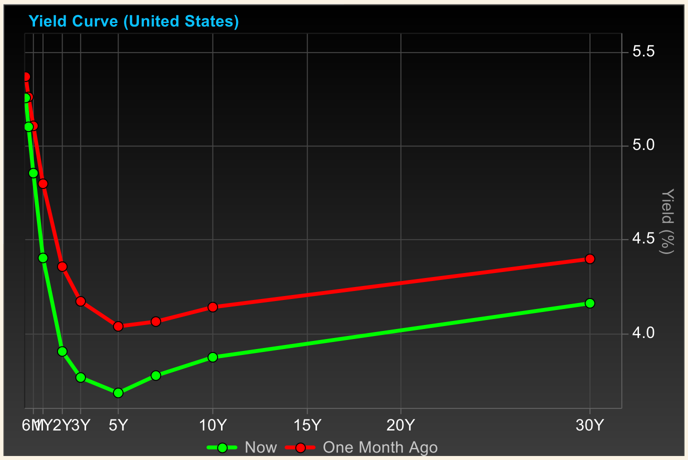
Index	MTD	QTD	YTD	1 Year	2023
S&P 500	2.43	3.67	19.53	27.14	26.29
Dow Jones Industrial Average	2.03	6.64	11.75	22.06	16.18
Russell 2000	-1.49	8.51	10.39	18.47	16.93
NASDAQ Composite	0.74	0.00	18.57	27.15	44.64
Europe, Australia, & Far East (EAFE)	3.26	6.30	12.42	19.99	18.85
MSCI Emerging Markets	1.65	2.02	9.86	15.52	10.27
Bloomberg Barclays U.S. Aggregate Bond	1.44	3.81	3.07	7.30	5.53

As of 8.31.24; Returns in percent

ASSET CLASS PERFORMANCE

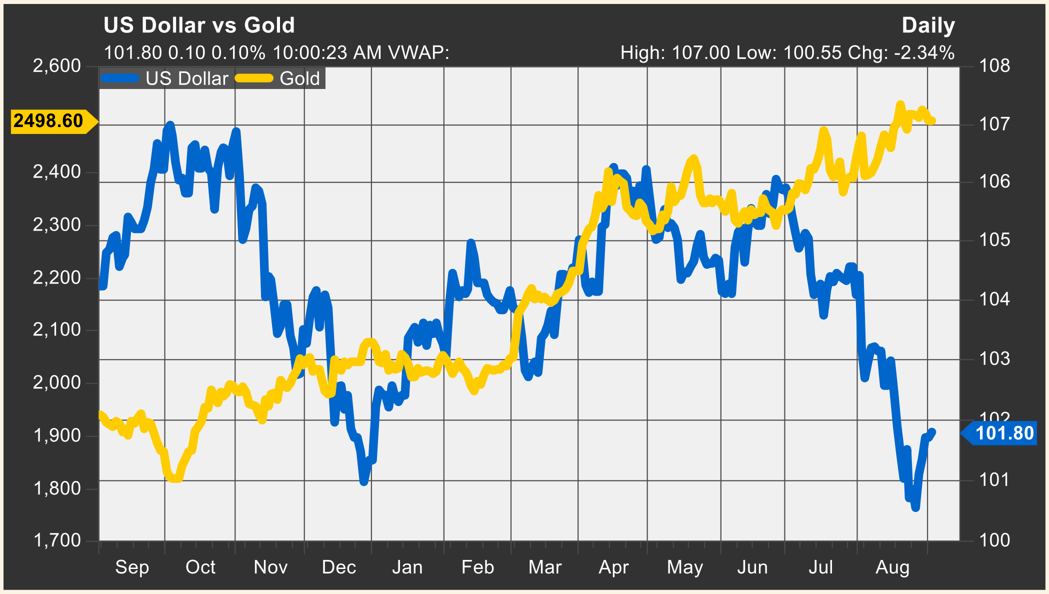
The major averages were mostly higher this month, with the S&P 500 up for a fourth-straight month while the Dow Jones Industrial Average and the Nasdaq Composite also produced gains. Small caps, as measured by the Russell 2000 Index, fell during the month after producing strong gains in July. Importantly, performance was more broadly distributed as the equal-weighted S&P 500 outpaced the market cap-weighted index and hit a fresh record high. Such a trend is healthy and positive for the sustainability of the stock market rally. This trend was evidenced by the fact that the month's best performers were in more defensive industries, such as insurance, pharma, and tobacco, while large cap tech was a laggard.

Interest rates fell and bonds rallied, with the 2-year yield down over 30 bp to the lowest levels since early 2023 (see below). The bond market has begun to price in the likelihood of a Fed Funds rate cut at the September Fed meeting as economic data, including the unemployment rate, has deteriorated enough to give the Fed justification to begin the rate cutting cycle. The Bloomberg US Aggregate Bond Index has gained 3.9% thus far in the 3rd quarter, vs 3.7% for the S&P 500, and continues to be an attractive place to invest.



Source: FactSet; As of 9.03.24

Also consistent with a somewhat softening economy, the US dollar fell 2.3%, off for a second-straight month and touched the lowest level since July 2023, while Gold was up 2.2%, hitting a fresh record high this month. Also, WTI crude oil fell 5.6% during the month. It's interesting to note that in a year where stocks are up roughly 20%, the best performing major asset class year-to -date has been Gold.

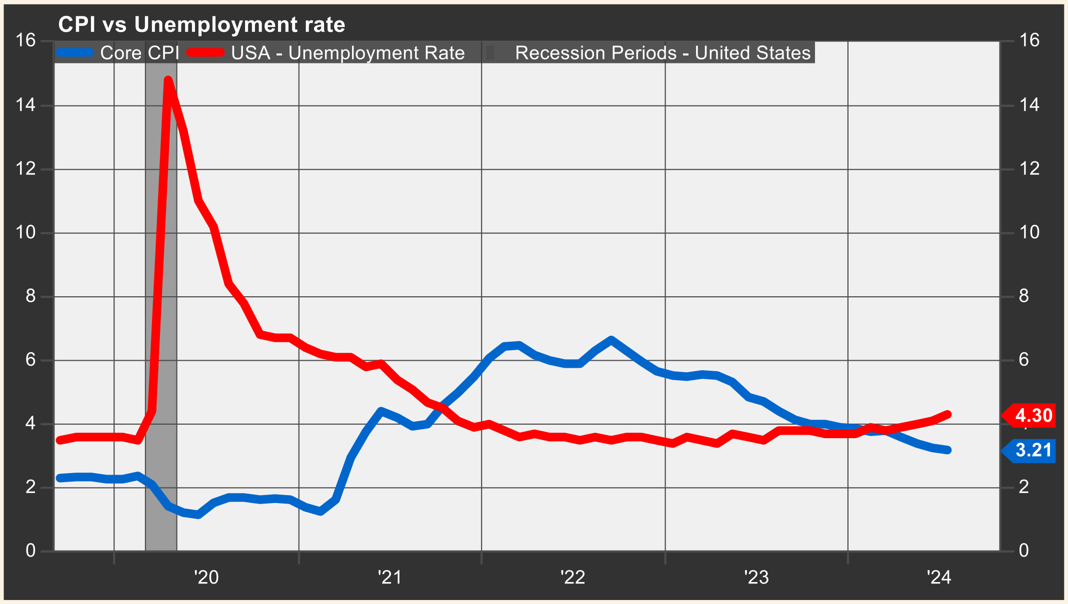


Source:FactSet; As of 9.03.24

AUGUST MARKET DRIVERS

August began with a sharp selloff, with the S&P 500 shedding more than 6% in the first three trading days of August and Magnificent Seven off nearly 10% in the first week of the month. The selloff was driven by growth fears after a weaker than expected July employment report raised concerns that the Fed is behind the curve with regard to rate cuts. The unemployment rate ticked higher to 4.3% causing fears that the job market was rapidly deteriorating and that a recession may be on the horizon. Following the report, Fed rate cut expectations spiked, with the market pricing in a ~70% chance of a 50 bp cut in September at one point.

However, the equity market quickly rebounded and erased the early month declines as soft-landing odds rose over the month and recession risks remained low. Notably, July core CPI was in line with consensus, and the three-month annualized core CPI pace of 1.57% was the slowest since February of 2021, while other economic data was consistent with a slowing, but not collapsing, US economy. Also, Fed Chair Powell confirmed at the annual Jackson Hole economics conference that the Fed is now more concerned with rising unemployment, stating that upside risks to inflation have diminished, thus effectively forecasting a September rate cut.

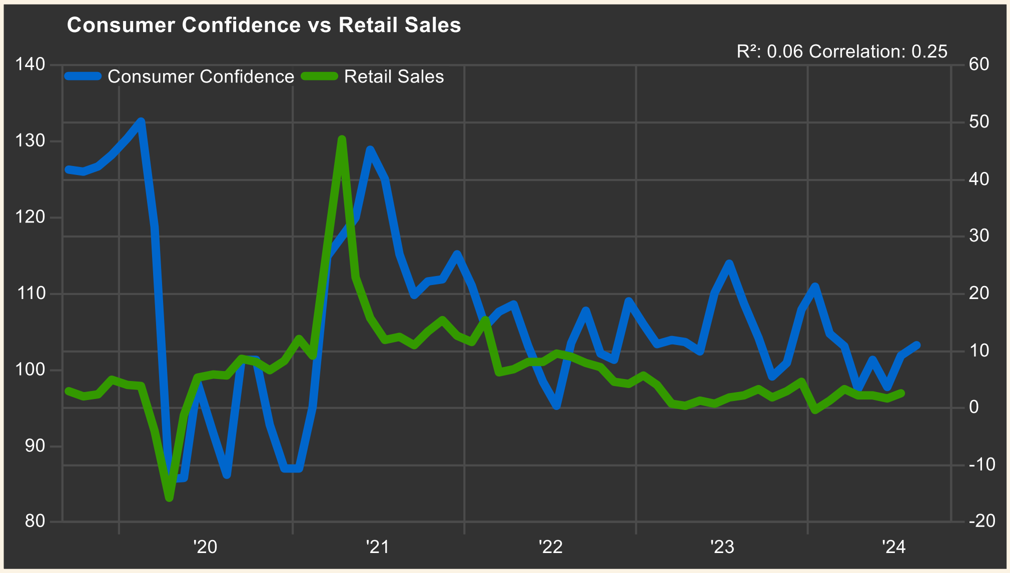


Source: FactSet; As of 9.03.24

To be clear, rate cut optimism was a key piece of this month's bullish sentiment, with strategists noting that Fed rate cuts in a non-recession scenario historically push the S&P 500 higher by 18% in the year after a rate cut (and just 2% if cuts come amid recession). However, as economic growth fears eased during the month, Fed rate cut expectations also came down, with the market now pricing in just a ~30% chance of a 50 bp cut in September, and around 100 bp of cuts by year-end, which is consistent with a steady "normalization" of interest rates. We believe that a 25 bp cut in September is appropriate, and anything more than that could spook investors who may see it as a sign the Fed is panicking because they fear an oncoming recession.

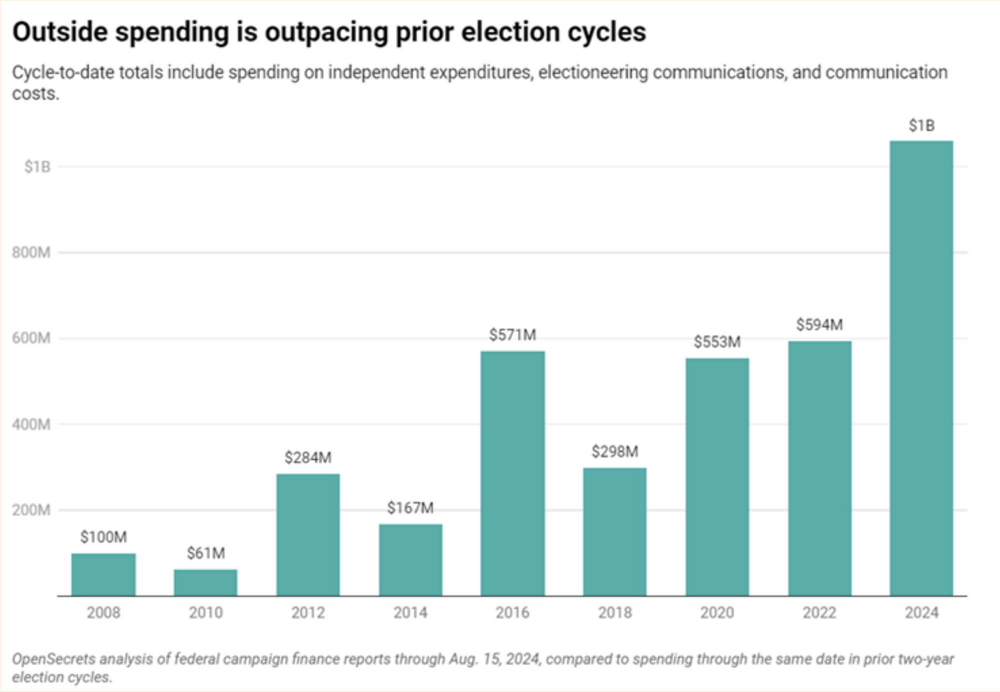
IMPACT OF THE PRESIDENTIAL ELECTION

The rapidly approaching US Presidential election continues to be a factor driving consumer and investor sentiment. With campaign promises of higher taxes, price caps in the food industry, and housing subsidies from one party, while the other party promising lower taxes and steeper tariffs on imported goods, investors are likely confused as to how they should invest. However, consumer confidence and retail sales have continued to plug along at levels consistent with historical averages. This is important because consumer spending accounts for 70% of the US economy.



Source: FactSet; As of 9.03.24

One thing we do know for sure is that a lot of money is being poured into this election. In fact, more cash is being deployed to promote each candidate than we've seen since at least the 2008 election.



Source: Federal Election Commission

For certain, the next President must address the ever-expanding level of US debt, which is a function of annual budget deficits over the past few years in the $2 Trillion range. It's clear that the growth in US debt we've seen recently is not sustainable, and at some point, we will be faced with higher taxes and lower government spending in order to reign in the growth of debt demonstrated in the chart below.

Time Required to Reach Total U.S. Debt Levels

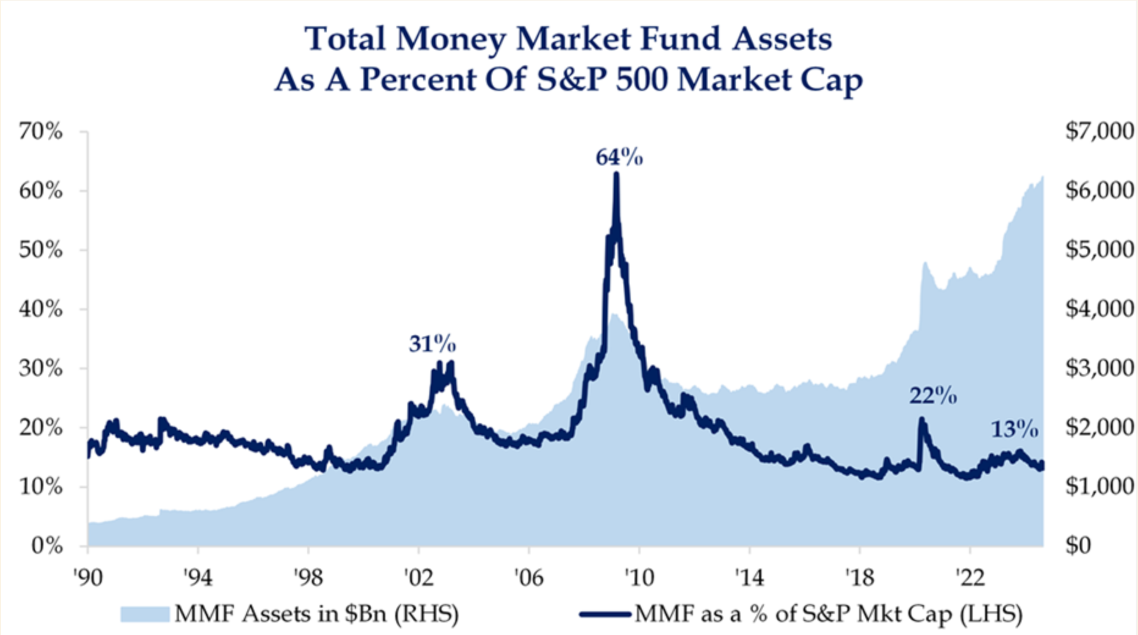
Of:	
$10 Trillion	232 Years
$20 Trillion	9 Years
$30 Trillion	4.5 Years
$31 Trillion	8 Months
$32 Trillion	8 Months
$33 Trillion	3 Months
$34 Trillion	3 Months
$35 Trillion	7 Months
Latest Level	***$35.21 Trillion***

From $30-$35 trillion Uncle Sam has amassed debt at the rate of $1 trillion at a little less than every six months.

Source: Strategas; As of 9.03.24

INVESTMENT PORTFOLIO IMPLICATIONS

We were pleased to see the equity market performance continue to broaden in August as stocks outside of the mega cap Tech space led the major indices. As a result, we continue to believe it is prudent to own a diversified portfolio of equities, including foreign equities and mid/smaller cap companies, in order to benefit from the strong growth and better valuations available in these asset classes. In addition, we continue to believe with Fed rate cuts coming soon, the opportunities in both taxable and tax-free bonds are as good as they've been in years. Cash, in the form of money market funds, also appears to be a viable asset class for the near term. In fact, the growth in money market fund assets, demonstrated in the chart below, is not likely to abate as long as cash yields are above 3%.



Source: Strategas; As of 8.30.24

It's also encouraging to see, based on the level of money market fund assets as a percent of the S&P 500, that investors appear to be making strategic allocations to cash, not "hiding out" in cash due to fears of a stock market selloff.

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