ABUNDANCE

WEALTH COUNSELORS

Market Intelligence

August 2024

Executive Summary:

Stocks Higher in 2024: Most major market indicies are continuing last year's positive gains.

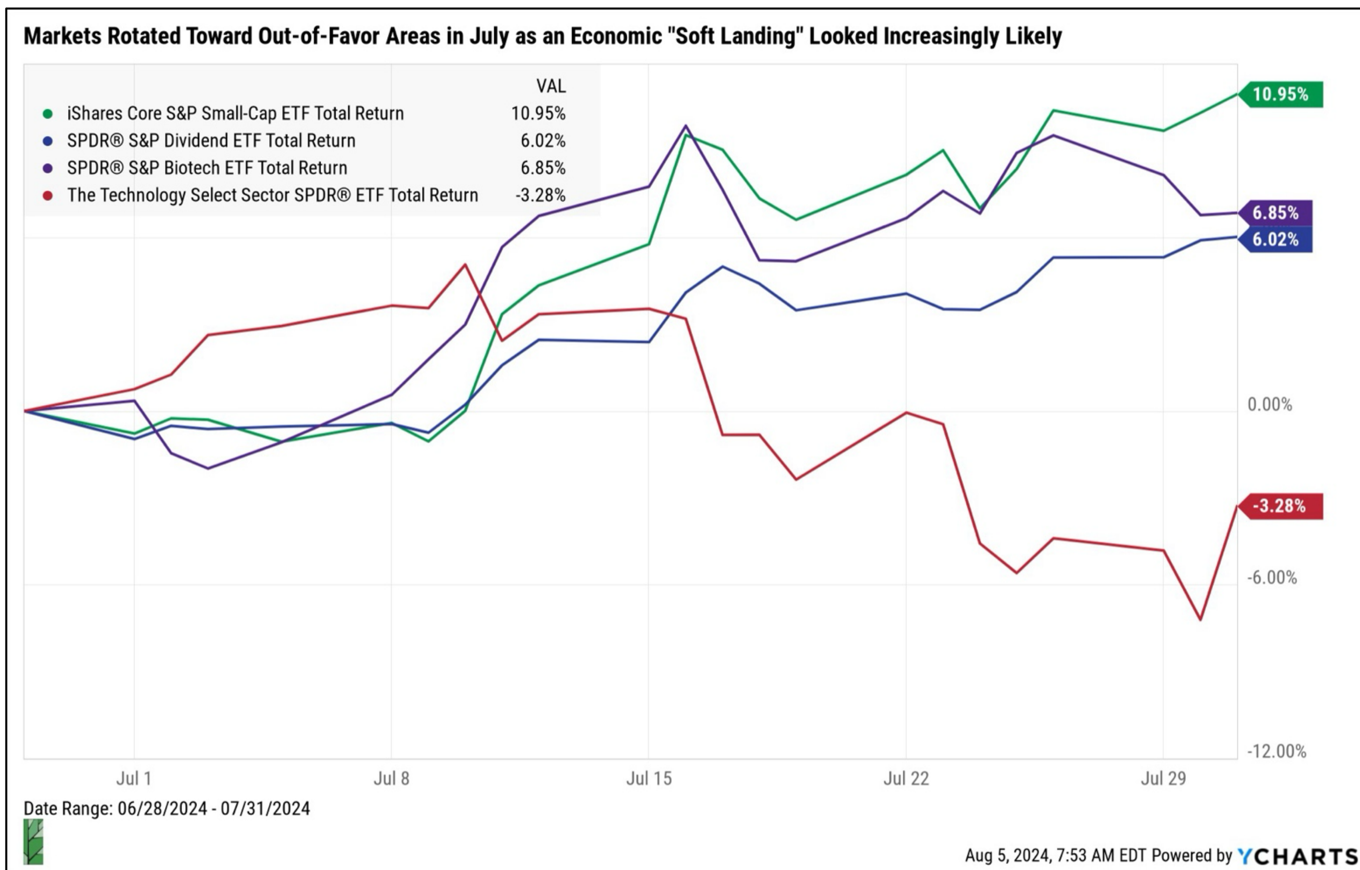
Inflation Moderating: The year-over-year increase in prices has ranged 3-4% every month for the past year, and further signs have emerged of the potential for softening prices.

Economy: The labor market has shown signs of normalizing, with fewer job openings and fewer employees voluntarily quiting their jobs in pursuit of better terms elsewhere. However, layoffs have been low and the unemployment rate remains at just 4.3%.

Interest Rates: Softening inflation and economic activity will likely give the US Federal Reserve cover to normalize (lower) interest rates later this year.

Market Rotation: The potential for lower interest rates and a US economy that avoids recession was very positive for asset classes like small cap and dividend stocks in July, though some of those gains have been given back in early August.

Volatility: In August, market volatility has increased significantly as concerns of a US recession has seemingly reentered the calculus of investors. A US recession is not our base case expectation at this point.



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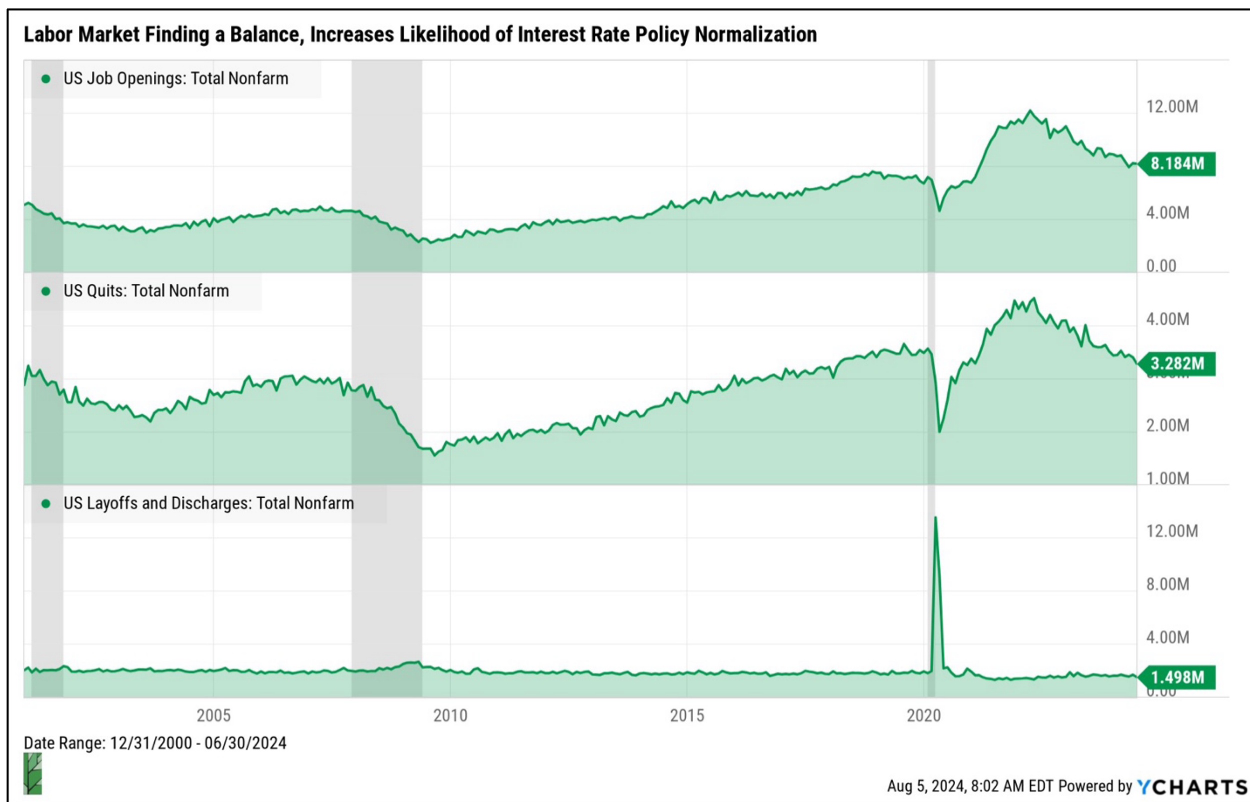
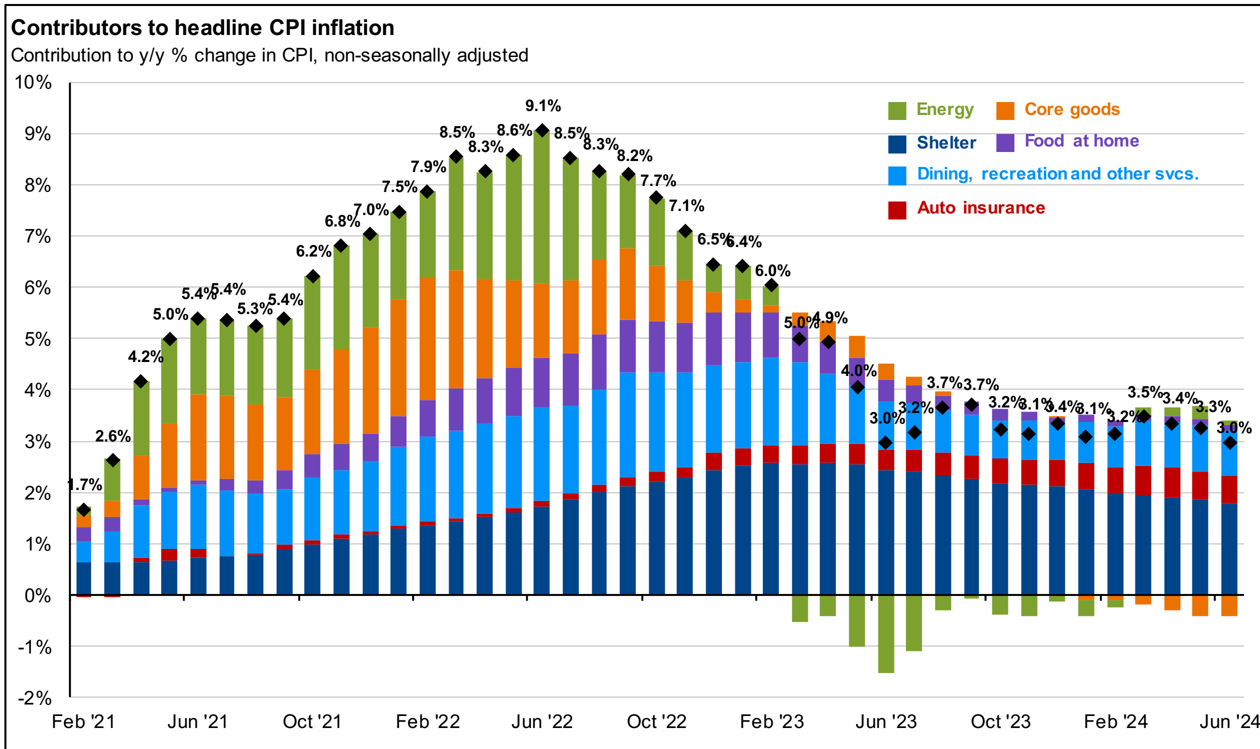
In July, we witnessed a healthy market rotation toward asset classes that are perceived to be more cyclical (e.g., exposed to the economic cycle) and / or more sensitive to the prevailing interest rate environment. For example, small cap stocks, which arguably are both more cyclical and interest rate sensitive than large cap stocks given their greater levels of borrowing, on average, and increased weight to sectors such as consumer discretionary, energy, materials, and industrials, led the way. The S&P Small Cap 600 Index advanced nearly 11% in just one month as it appeared increasingly likely that the US Federal Reserve would begin to reduce interest rates later this year. Other interest rate sensitive areas such as high dividend paying stocks and bonds performed well also. In August, small cap stocks have given back much of these gains as concerns regarding recession increased (see "Volatility Spike Hits Equity Markets" section).

July also saw the release of GDP growth figures for the second quarter, showing a stronger-than-expected economic expansion. The U.S. economy grew at an annualized rate of 2.8%, exceeding market expectations and signaling resilience amid global uncertainties. This positive economic data bolstered investor confidence, leading to broad-based gains across the stock market. Small-cap stocks, often viewed as more sensitive to domestic economic conditions, outperformed their large-cap counterparts as investors anticipated that a strong economy would drive growth in smaller, domestically-focused businesses. The consumer discretionary sector also saw a significant boost, reflecting increased consumer spending driven by a healthy economic backdrop.

July was a pivotal month for corporate earnings, with many companies reporting their quarterly results. The earnings season revealed a mixed bag of results; however, many major companies exceeded profit expectations, which supported overall market sentiment. Noteworthy was the performance of companies in the energy and industrial sectors, which reported robust earnings driven by higher commodity prices and strong demand for goods. The overall market reaction was positive, as the S&P 500 posted 5% year-over-year growth in revenue and 11% growth in earnings with both metrics exceeding market expectations.[1]



[1] As of August 5, 2024, source: Bloomberg.



Source: J.P. Morgan Asset Management.

Volatility Spike Hits Equity Markets

In early August, markets have experienced a significant spike in volatility and we have seen the Nasdaq and Russell 2000 market indices move into correction territory, down more than 10% from recent levels. This volatility has not been contained to US markets – for example, Japan's Nikkei index declined 12.4% on August 5th, its worst single day performance since 1987.

Recent Drivers of Volatility

Many parts of the equity markets had experienced a significant run up in the year to date period, and more recently around enthusiasm the Federal Reserve would begin cutting interest rates at their September meeting. This was in the context of a "soft landing"; an economy that has continued to grow, a healthy labor market, with moderating inflation. Weaker economic data on August 1st and 2nd related to manufacturing and employment have quickly increased the focus on a "hard landing" and increased risk of economic recession. Japan's sell-off was amplified by the fact that their central bank is increasing rates into what could be a global economic slowdown. More economic data will continue to be released and we believe if it is significantly softer than expected the Fed has the opportunity to respond accordingly. Currently there does not appear to be enough evidence to strongly signal a recession versus soft landing outcome.

Historical & Portfolio Context

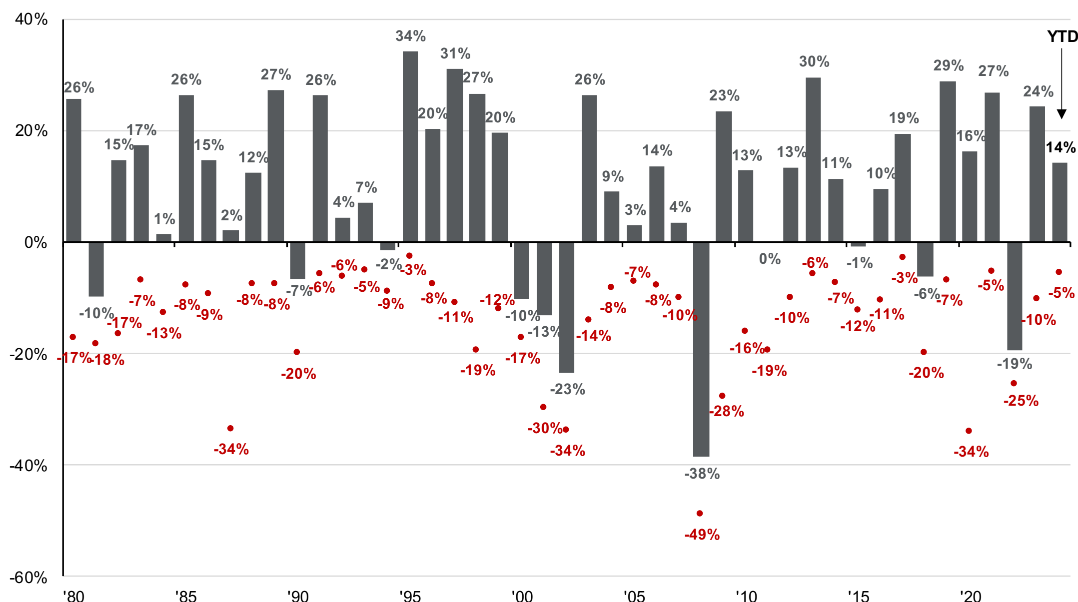
Market volatility can come as surprise and it's a good time to remember periods of market volatility are not unusual. If anything, the long period of historically low volatility we have experienced, is somewhat unusual. We believe that client portfolios are well diversified and are designed with long-term outcomes and objectives in mind. In addition, market volatility reduces valuations and can create opportunities in areas where the selling pressure may not be reflective of market fundamentals.

Another quote that sprung to mind: Nathan Rothschild's "buy on the sound of cannons and sell on the sound of trumpets". It has historically often been better *not* to sell during a panic, at least based on an analysis of the VIX® and future equity returns. In the past 3-decades-plus, we have seen a range of outcomes for 30-day forward S&P 500 returns that was much wider, and with a much fatter "left tail" in high volatility regimes than in low volatility regimes. More encouraging, the 30-day average forward return the U.S. bellwether has historically delivered subsequent to a VIX reading above 40 was 3.9%, well above the average levels in lower volatility environments.

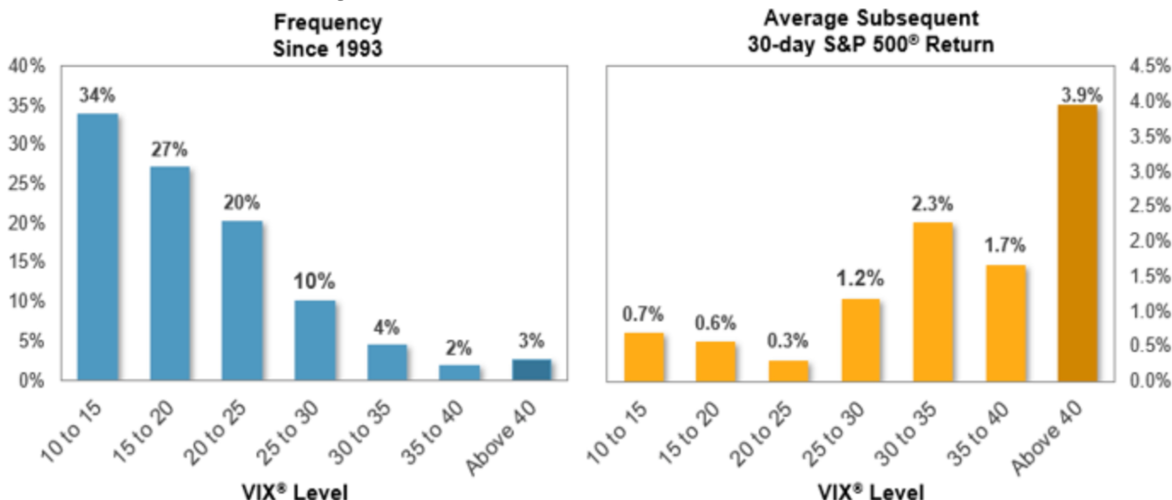
As always, we appreciate your trust in our firm as we navigate the complexities of today's investment landscape. We remain committed to making prudent, impactful decisions on your behalf, and we look forward to continuing our partnership in the years to come.

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 33 of 44 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only.
Returns shown are calendar year returns from 1980 to 2023, over which time period the average annual return was 10.3%.
Guide to the Markets – U.S. Data are as of August 1, 2024.



Source: S&P Dow Jones Indices, CBOE. Based on daily closing from April 13, 1993 through August 2, 2024. Past performance is no guarantee of future results. Chart is provided for illustrative purposes only.

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Asset Class Returns

Category	Representative Index	YTD	2023	2022	2021	2020
US Large Cap Stocks	S&P 500 Index	16.7%	26.3%	-18.1%	28.7%	18.4%
US Large Cap Stocks	S&P 500 Equally-Weighted Index	9.6%	13.9%	-11.5%	29.6%	12.8%
US Dividend Stocks	WisdomTree US High Dividend Index	13.3%	0.2%	8.4%	24.8%	-6.2%
US Small Cap Stocks	Russell 2000 Index	12.1%	16.9%	-20.4%	14.8%	20.0%
Foreign Developed Stocks	MSCI EAFE Index	8.5%	18.2%	-14.5%	11.3%	7.8%
Emerging Market Stocks	MSCI Emerging Markets Index	7.5%	9.8%	-20.1%	-2.5%	18.3%
US Bonds	Barclays Aggregate Bond Index	1.7%	5.5%	-13.0%	-1.5%	7.5%
10-Year US Treasury Yield	Current 10-Year Rate / Value at Year-End	4.11%	3.88%	3.88%	1.52%	0.93%

Source: YCharts as of July 31, 2024. Annualized returns for data longer than 1 year

Outlook & Positioning Summary

Economy

- ✓ Economic Growth — 2.8% US Gross Domestic Product (Q2 2024)[1]
- ✓ Employment — Solid, but showing signs of slowing
- • Households — Low fixed rate mortgages, unemployment low, wages growing, but debt / delinquencies rising, savings declining
- • Financial Conditions — Inflation Remains Above Target, Interest Rates Elevated, Bank Lending Declining
  US Government Spending on Infrastructure

Markets

- ✓ Valuation — Many Assets Trading At-or-Below 15-20 Year Averages
- ✓ Earnings — Outperforming expectations but relatively modest growth
- • Trend — Equity markets are being driven by the anticipated direction of interest rates
- • Investor Sentiment — Near Long-Term Averages

Past performance may not be representative of future results. All investments are subject to loss. Forecasts regarding the market or economy are subject to a wide range of possible outcomes. The views presented in this market update may prove to be inaccurate for a variety of factors. These views are as of the date listed above and are subject to change based on changes in fundamental economic or market-related data. The ETFs presented above are not intended to be benchmarks for performance. Rather, they are intended to be demonstrative of a particular sector or segment the investment universe discussed. Each ETF was selected as opposed to an index to more accurately reflect what an investor might experience. There are other ETFs or indices that might be representative of the same spaces. However, we believe the ones shown are sufficiently representative to assist us in explaining our investment thesis.
Please contact your Advisor in order to complete an updated risk assessment to ensure that your investment allocation is appropriate.