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INVESTMENT MANAGERS

ECONOMIC UPDATE AUGUST 2024

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Stocks were up in July but returns varied greatly. Large cap stocks in the S&P 500 Index were up 1.22% in the month bringing their year-to-date gain to 16.7%. Small cap stocks in the Russell 2000 were the big winners catapulting 10.16% in July resulting in a return of 12.07% so far in 2024. The MSCI EAFE Index of developed market international stocks saw a 2.93% return in July and the index is up 8.43% for the first seven months of the year. Emerging market stocks had a slight gain of 0.30% for the month and are now up 7.81% year-to-date. The yield on the 10-year Treasury bond fell from 4.5% to 4.1% so the Barclays US Aggregate Bond Index gained 2.34% for July and is now up 1.61% year-to-date.

The GDP growth rate for the second quarter of 2024 was 2.8%, above the consensus estimate of 2.0% and following first quarter growth rate of just 1.3%. Consumer spending continued to show strong results. Full year GDP growth is estimated by many analysts to be around 2%. However, recession concerns are starting to grow again for 2025.

Corporate earnings reports are coming in favorable so far. Of the S&P 500 companies that have reported results, 80% have beaten their earnings estimates and show almost 12% earnings growth from the second quarter of 2023. Full year earnings growth is expected to be 8.7% according to Zacks. We may be seeing some cracks as the number of companies beating revenues was at the low end of the range for the past 5 years. Also, the “magnificent 7” are showing slowing earnings growth so their dominance may be dissipating. Several of the 7 also had a negative reaction to their report as their spending on AI continues to rise.

The inflation rate remains above the Fed’s 2% target. The Fed has said for months that their decision to cut rates will be data dependent. After their July meeting, Chairman Powell emphasized that they were focusing on inflation and the effect that the higher interest rates are having on the job market. The unemployment rate has been creeping up slightly and was 4.1% in June. In early August, reports showed the July unemployment rate reached 4.3%. This rate is higher than the 4.1% the Fed was projecting for year-end which indicates we should be seeing rate cuts soon.

Analysts are projecting that the Fed will cut rates beginning in September. Strategas Research says the market is currently expecting 8 rate cuts by the end of 2025. If that holds true, the Fed Funds rate would be 3.25% - 3.50%. Money market and short-term rates will likely decline similarly. Strategas estimates the 10-year Treasury bond yield will fall to 3.75%.

The market has been wanting the Fed to cut rates to help ensure a soft landing and ward off a recession. Strategas Research points out that on average, the market bottoms 213 days after the first rate cut of an easing cycle, and the average decline is 23%. We continue to encourage investors not to try and time the market by trading in and out and instead invest according to risk tolerance. However, if accounts have risen above risk tolerance targets, now is a good time to rebalance and lock in gains. Strategies such as buffer ETFs and premium income funds can also help provide some protection from downturns while staying invested. If you have questions about the strategy for your account, please contact your advisor.