In the Markets Now

What to expect after a strong first half?

We believe in the old saying: a picture is worth a thousand words. Here, we aim to recap recent market action and provide some perspective to investors.

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July 2023

TAKING STOCK OF THE MARKET AFTER AN UNEXPECTED FIRST HALF RALLY

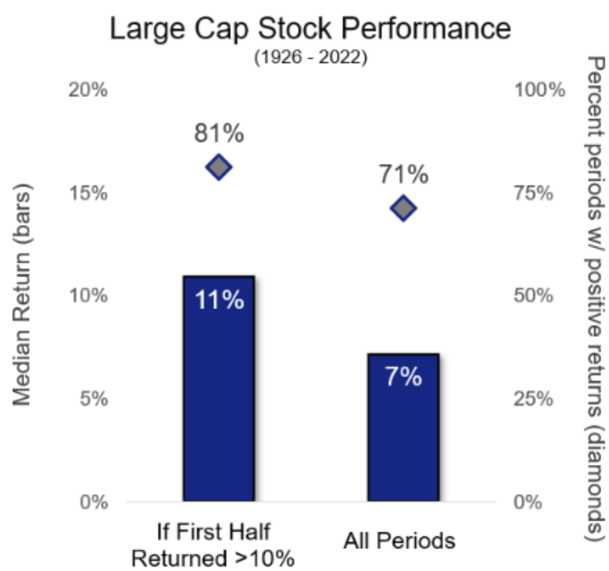
If the first half was one of the more "un-believed-in" rallies in recent memory, the view that it might continue into year-end seems even less expected. The headwinds projected to weigh on the market this year have not abated, and some have even accelerated (e.g., bond yields spiking amid solid economic data and a hawkish Fed). But there's also something to be said for the rally's momentum and resilience. Despite many challenges, the S&P 500 finished June at a fresh bear market high, putting the cap on three straight quarters of a 7%+ gain.

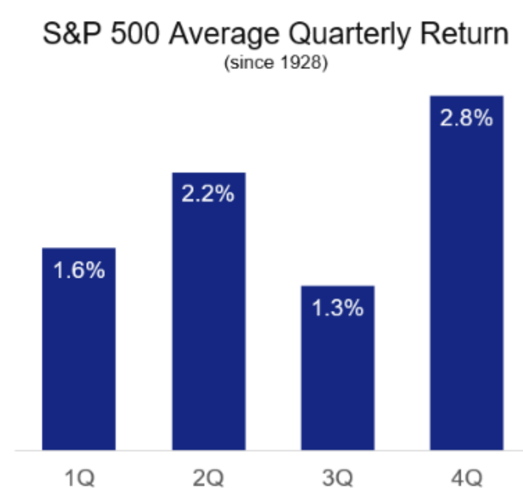
So, in thinking about what to expect from here, we turn to history as a guide. How does the market tend to perform after a strong first half to the year? More broadly, how do forward returns look after a strong six months, calendar constraints aside? Just how powerful is momentum?

The answer should be encouraging for those now somewhat skittish sitting atop a big rally. Going back to 1926, if the first half return was 10% or greater, the median return for "July – December" was 11% (well above the all-period median). Zooming out, we see a similar result. When any rolling six month period had a return of 10% or greater, the median return over the next six months was 8% (again, above the all-period median of 6%). While perhaps a surprising result, this phenomenon can be best summed up by a common turn of phrase from our partners at Strategas: **momentum begets momentum.**

Of course, the path to Dec. 31 is rarely a straight line. In fact, the third quarter is historically the softest among the four calendar quarters for the S&P 500 (with Aug. and Sept. typically the worst months). And despite the noisy start to the year – bank failures, debt ceiling, etc. – the second quarter was actually quite calm (e.g., it was the first quarter without a +/-2% daily move since 2019). **So, while first half strength does bode well for the full year performance, we wouldn't expect the second half to be without a step up in volatility.**

Regardless of how much volatility we end up seeing, given the year-to-date strength and the macroeconomic challenges, we'd expect the calls for second-half underperformance to get even louder. Amid the noise, **just remember that a strong start to the year is a bullish signpost – not a bearish one – and has preceded solid second half performance far more often than not.**





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