Mid-year Market Outlook 2024

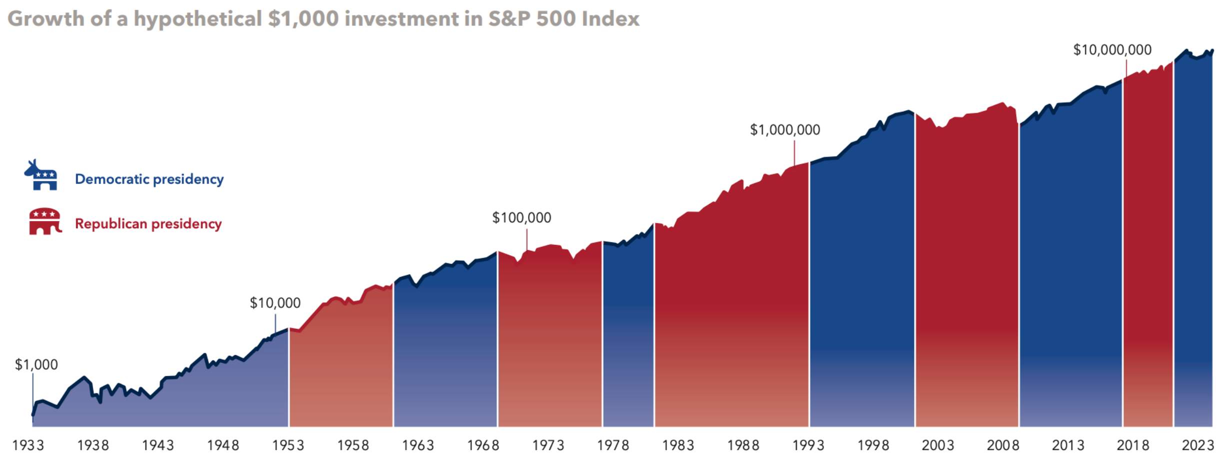
July 22, 2024

Recap

Equity markets have posted significant gains at the start of 2024. Despite concerns about inflation, interest rates, geopolitical tensions, and the upcoming election, investors are focusing on positive developments. Inflation is cooling, rate cuts are anticipated, and growth and earnings remain strong. This year, the continued excitement around Artificial Intelligence has also contributed to market gains. For the first half of 2024, the S&P 500 rose by 14.48%, the Dow Jones increased by 3.79%, and the tech-heavy NASDAQ climbed by 18.13%. The U.S. Aggregate Bond Index decreased -0.71%[1]. The June CPI (Consumer Price Index) report showed a year-over-year increase of 3.0%, the lowest level in over three years. Excluding volatile food and energy costs, Core CPI rose 0.1% monthly and 3.3% annually[1]. Housing costs, a stubborn component of inflation, are showing more optimistic trends.

The current Fed Funds Rate has remained between 5.25% and 5.50% since July 2023[1]. The most talked-about topic is when the Federal Reserve will start cutting interest rates, with opinions shifting throughout the year. Current inflation data suggests that rate cuts may come later this year, though the timing and extent remain uncertain. Overall, the economy, consumer spending, and the labor market continue to show strength.

In an election year, it's important to consider the potential market implications and what can be expected for the remainder of the year. Politics often elicit strong emotions and biases, but investors should maintain a long-term focus. Notably, U.S. stocks have historically trended upward regardless of whether a Democrat or Republican won the White House[2]. Volatility can create buying opportunities, and although investors may feel nervous and consider moving into cash during an election year, it's generally best to stay fully invested. In fact, the S&P 500 index had negative returns in only two of the last 20 election years (2000 and 2008), with both declines largely attributed to asset price bubbles rather than politics[2].



SOURCES: Capital Group, RIMES, Standard & Poor's. Chart shows the growth of a hypothetical $1K investment made on March 4, 1933 (the date of Franklin D. Roosevelt's first inauguration) through December 31, 2023. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale. Past results are not predictive of results in future periods.

Going Forward

For the rest of this year, we anticipate some additional volatility around the time of the election or leading up to it. Political uncertainty often heightens market fluctuations, so it's important for investors to stay the course and not make hasty decisions based on short-term events. We also expect at least one interest rate cut, either in September or December, as the Federal Reserve responds to evolving economic conditions and inflation data.

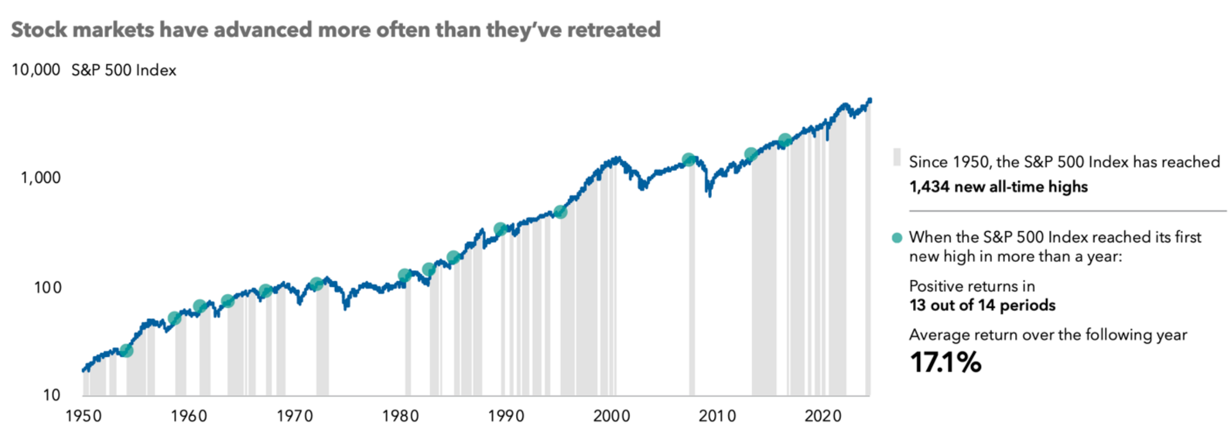
We continue to favor Growth over Value and are increasing our technology exposure, remaining bullish on the sector, especially after the recent rally driven by Artificial Intelligence. The advancements in AI are expected to continue driving innovation and profitability within the tech industry, making it a key area of focus for our investment strategy.

In Fixed Income, we have increased our duration as rate cuts are projected toward the end of the year. By extending duration, we aim to capture potential gains from declining interest rates, which typically benefit longer-duration bonds. Moreover, we are closely monitoring credit markets to identify opportunities in high-quality corporate bonds that offer attractive yields. Alternatives continue to play a crucial role in portfolios, helping to reduce risk and enhance diversification.

SUMMARY

Recently, the markets have continued to climb, reaching all-time highs across all indexes this year. While some may believe the market has peaked, it's important to remember that stocks have historically advanced more often than they have retreated during these high points. When the S&P 500 Index hits a new high for the first time in over a year, there have been positive returns in 13 out of 14 instances, with an average return of 17.1% over the following year. While market pullbacks are inevitable, history suggests that new highs often present a good entry point for long-term investors[3].

Our overall strategy for the rest of this year remains cautious yet optimistic. While we acknowledge the uncertainties and potential headwinds, we believe that a diversified approach, combined with a focus on high-growth sectors and quality investments, will position us well to navigate the remainder of the year. We will continue to monitor economic indicators, corporate earnings, and geopolitical developments to adjust our strategy as needed and capitalize on emerging opportunities.



Source: https://www.capitalgroup.com/advisor/insights/categories/outlook.html

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Sources:

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3. https://www.capitalgroup.com/advisor/insights/categories/outlook.html
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