



June 7, 2024

Dear Friends and Clients,

April showers brought May flowers as markets placed greater importance on economic growth and corporate profits than the “higher for longer” interest rate messages from the Federal Reserve (Fed). In fact, the S&P 500 ended May above where it ended March. So, as you prepare for summer vacations, how much should you worry about your stock portfolios?

First, based on history, stocks tend to do just fine between Memorial Day and Labor Day, with the S&P 500 rising 1.8% on average between holidays with gains 70% of the time (source: Bespoke). Also consider stocks tend to do better the rest of the year when they rise in May, with an average June–December gain of 5.4% with positive returns 73% of the time. Seasonality is not particularly worrisome.

Investing involves much more than seasonality. Looking at the U.S. economy, slower growth in the first quarter of about 1.3% is expected to be followed by a slight pickup in the second quarter. Consumer spending did slow in April as inflation remains elevated and may slow further now that excess savings from the pandemic have generally been spent. However, business investment — particularly in artificial intelligence — is helping pick up the slack. The Fed’s preferred inflation measure held steady in April at 2.8% annually but is likely to come down further over the balance of the year as the economy slows and higher interest rates continue to impact big-ticket purchases.

Corporate America has done its part in keeping the stock market well-supported, even underneath elevated valuations. Earnings for S&P 500 companies in aggregate grew about 10% during the first quarter, excluding losses incurred by a Bristol Myers Squibb acquisition. Guidance was mostly upbeat. Some retailers, such as Walmart and Target, even announced price cuts, helping fight inflation.

Political uncertainty has ratcheted higher following former President Donald Trump’s conviction. The potential market impact of the election is extremely difficult to predict, but we do know the differentiation between Trump and President Biden is widest in foreign policy, immigration, regulation, taxes, and trade, so stocks tied to those issues could see big swings. We also know from history that volatility tends to pick up in the early fall before rallying after the results, and that the economy is usually the deciding factor, so watch inflation, employment, and consumer confidence closely.

We continue to follow global headlines. The possibility of China’s military aggression toward Taiwan remains perhaps the biggest potential geopolitical shock to the global economy, given Taiwan’s strategic importance to global semiconductor production. Tariff increases are likely no matter who wins in November. Finally, we cannot dismiss potential oil shocks as the war in the Middle East rages. These risks seem manageable for the diversified global economy and financial markets at this point.

As always, please reach out to me with questions.

Best regards,

Victor



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All index data from FactSet.

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