July 12, 2024

Dear Friends and Clients,

Stocks finished the first half of the year the same way they started — with solid gains. Strong rallies from big tech names, combined with somewhat softer economic and inflation data, helped propel the S&P 500 to its seventh monthly gain in the past eight months and set dozens of new record highs along the way. As we close the book on a strong first half for the stock market, we celebrate America's 248th birthday.

But America isn't the only birthday we're celebrating in July. The Federal Reserve's (Fed) interest rate "pause" turns one year old — the Fed's last rate hike came on July 23, 2023. Fed pauses (neither rate hikes nor cuts) have generally been good for stocks, especially the longer ones, with gains for the S&P 500 lasting about eight months in five of the last six pauses. In what is currently the second-longest pause since the 1970s, the S&P 500 is up about 20% and nearing the 22% gain registered during the longest pause in 2006–2007. This means the current bull market has already captured the average historical gain for year two of a bull market, a few months before its two-year mark on October 12.

So, what might the second half of 2024 have in store for stocks? If history is a guide, then more gains are possible, as strong first halves have historically been followed by above-average second half returns of about 6.0%. When first-half gains were 10% or greater, the index averaged a 7.7% advance in the second half. S&P 500 companies in aggregate are expected to deliver double-digit earnings growth in the upcoming second quarter earnings season, which may offer near-term support for stock prices — particularly AI beneficiaries.

However, bull markets are not linear, and pullbacks or a correction should be expected in the second half. Political and geopolitical risks are rising. The AI trade could fizzle. Inflation data, including the Fed's preferred measure for May, has cooperated of late, but that could reverse and push yields up again.

Furthermore, this market's advance has been quite narrow. In fact, technology and internet stocks have driven 70% of the year-to-date advance, with about 30% of it coming from NVIDIA. That's a big gap to fill in a possible tech sell-off. Rotating into more attractively valued areas of the market, potentially industrials or energy, might help limit downside, but that is no sure thing.

I hope everyone had a safe and enjoyable July 4th holiday. Happy birthday America!

As always, please reach out to me with questions.

Best regards,

Victor

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All data is provided as of July 3, 2024.

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All index data from FactSet.

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