REMAINING BULLISH, FOR NOW

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Welcome to September! Every month, we like to impart some perspective on the financial markets or shed light on a current headline or two, all to help our clients sift through the noise and become slightly more educated investors. We welcome your comments and suggestions, and as always, we invite you to share this piece with anyone you believe may find it of interest.

RECAPPING AUGUST

In August, the markets showed a mostly positive trend, with the S&P 500 extending its winning streak to four consecutive months. The NASDAQ, while underperforming, still managed to close the month with a modest gain. The month kicked off on a shaky note as one of several employment reports significantly missed expectations, raising concerns that the Federal Reserve might be too late in lowering interest rates to avert a recession. This triggered a sharp sell-off, with the S&P 500 dropping over 6% in just the first three trading days and the high-flying "Magnificent Seven" stocks declining more than 10%[1].

However, the market showed resilience, rebounding and erasing those losses as optimism about a "soft landing" grew throughout the month. By the end of August, Fed Chairman Powell's comments all but confirmed that interest rate cuts are likely at the next Federal Reserve meeting scheduled for September 18th.

LOOKING AHEAD

The U.S. economy can be likened to an aircraft carrier that takes miles and miles to turn and change course. Despite this, early August's disappointing employment report had many believing that the economy could pivot on a dime. Such a rapid shift has only happened once in modern times: during the initial COVID-19 lockdowns in March 2020, so we were skeptical.

There are two takeaways here. First, now more than ever, the financial markets are inundated with noise – whether from microeconomic data, social and political events, or mere rumors. Most of this noise is just that: inconsequential and best ignored. Second, the bearish case often seems more compelling because it draws on current events, like a weaker-than-expected employment report. In contrast, the bullish case is forward-looking, supported not by what is happening today, but by what could unfold in the future – something that isn't always visible or immediately obvious. It is essential to recognize that while there are times to exercise caution, reacting impulsively to every data point or market fluctuation can be a recipe for investing failure.

To put this all into perspective, Birinyi Associates calculated that the probability of making money in stocks improves dramatically over time – from roughly a coin toss for a one-day speculator to nearly 100% for a twenty-year investor. While twenty years might seem a stretch for someone in their seventies, even over just three years, the odds of success rise to a very respectable 79%[2].

Reflecting on the long term, last month marked the 42nd anniversary of the start of the 1982 bull market in equities. Despite multiple bear markets, wars, recessions, the dot-com bust, and the Great Financial Crisis over the following span, a $10,000 investment back then would be worth approximately $1.4 million today, including dividends[3]. Imagine the missed opportunities had an investor reacted to every fear or concern raised by Wall Street strategists or financial media over those years.

As we look ahead, our outlook remains consistent with the view we've held since October 2022: we believe we are in a bull market, we expect higher prices, and we want to own stocks. However, we acknowledge that the road ahead may be bumpy. With the upcoming election, geopolitical uncertainties, high valuations, and the propensity for Septembers to be weak, any surprises could bring heightened volatility. We're also closely monitoring the broader economic picture, particularly considering the delayed impact of substantial government stimulus, which could still make an economic downturn inevitable. While recessions are notoriously difficult to forecast, only two-of-ten reliable Ned Davis Research indicators are currently flashing warning signs, so we're not there yet and this large ship may take additional time to change course.

As always, there's more to come.

[1]Factset Research [2]Birinyi Associates [3]Thomson Reuters

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