

NO ONE SAW THAT COMING

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WESTLAKE
PRIVATE WEALTH MANAGEMENT

Welcome to August! 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.

It's been an extraordinary few weeks.

Starting in late June, the global stage was shaken by the presidential debate that ultimately culminated in President Biden foregoing his reelection bid. This was soon followed by an assassination attempt on former President Trump during a campaign event. As if the political turmoil wasn't enough, July brought with it a sharp rotation out of predominantly large-cap technology stocks. And just last week, a surprisingly weak employment report threw the durability of U.S. economic growth into question, reigniting fears of a potential recession.

While these events have been startling, history shows that such shocks are not uncommon. Despite their unexpected nature, media pundits inevitably offer their definitive takes on how these events will play out, whether they are political, economic, or financial. This brings to mind John Kenneth Galbraith's famous quip: "There are only two types of forecasters: those who don't know, and those who don't know they don't know."

Reflecting on our investing paths, "no one saw that coming" has been a recurring theme. Over the past decade alone, we've witnessed countless unforeseen events.

Take the first pandemic in a century, for example. Perhaps the only thing more surprising than Covid itself was the market's response to it. As the world braced for a complete shutdown in the Spring of 2020, predictions of a depression-level economic decline were rampant. Instead, the S&P 500 defied expectations by rallying sharply and posting an +18% return for 2020. Stocks followed that up with a +28% gain in 2021¹.

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In 2022, the Russian invasion of Ukraine sparked fears of a larger global conflict, which thankfully failed to materialize.

Then came 2023, with the unexpected failure of Silicon Valley Bank. This spurred widespread predictions of an impending banking crisis, with Silicon Valley Bank seen as the canary in the coal mine. Ultimately the crisis never came and within a few months, the SVB failure was old news.

Looking over a longer period, it was widely held that higher interest rates would stifle economic growth and squeeze corporate profits. Once again, the market defied expectations, with the S&P 500 advancing nearly +25% since the first Fed interest rate hike in 2022².

We could go on, but you get the idea. Predicting the future is nearly impossible, at least with any consistency. Even if one could predict events accurately, *foreseeing the market's response is an entirely different challenge.*

Our point: there will always be unexpected events and market responses that we didn't see coming. As Daniel Kahneman wisely noted, "The correct lesson to learn from surprises is that the world is surprising."

We wholeheartedly agree, but this need not trouble us. History has repeatedly shown that despite unthinkable – and sometimes unspeakable – events, the wheels of progress have never come off the bus. Instead, even amid the chaos, we pause, reassess, trim the sails, and move forward.

Curiously, this resilience isn't just a characteristic of the stock market, but of humanity itself. Just as we navigate life's unexpected challenges by adapting and moving forward, the management teams of the companies in which we invest do the same. It's up to us to trust they'll figure it all out and navigate through the chaos effectively.

We share this with you today because the financial markets once again appear to be entering another phase of uncertainty. With the S&P 500 recently overvalued by as much as 26% relative to historical averages, and the technology sector overvalued by 56%³, perhaps this is simply more of a shock than a surprise. Yet what should matter to us as investors is not the event itself, but our response to it. Are we prepared? Will we stay committed to our thoughtfully designed plans, or will we succumb to worry?

We think you know our advice. We believe in the consistent execution of a consistent philosophy, so we will adapt and continue to move forward.

As always, there is more to come.

¹Novel Investor ²Factset Research ³Strategas Research – 7/29/2024