# HALFTIME

BY JAMES H. DRYDEN

*JULY 2024*

WESTLAKE
PRIVATE WEALTH MANAGEMENT

*Welcome to July! 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.*

Here we are once again at halftime, the midpoint of the year. As is customary, I believe this is a good time to pause and assess, trim the sails, and plan for the year's second half. Specifically, I want to offer some thoughts on the state of the consumer, the corporate and economic landscape, then offer some thoughts on what may lie ahead over the next six months.

Looking back on the first half, returns have been impressive for large-cap equity investors and a bit of a mixed bag for everyone else. Through June 30, 2024 per Wells Fargo Investment Institute:

- S&P 500 +15.6%
- NASDAQ Composite +19.5%
- Dow Jones Industrials +4.9%
- Russell MidCap +4.1%
- Russell SmallCap +0.9%
- MSCI EAFE +6.0%
- MSCI Emerg Mkts +7.8%
- Bloomberg U.S. Agg -1.3%

**THE STATE OF THE CONSUMER**

After rising by more than $12 trillion in 2023, household net worth continued to grow impressively, adding another $5 trillion in the first quarter and hitting an all-time high. The bulk of that increase ($3.8 trillion) was attributable to stock market performance, and given equity returns again in the second quarter, it is quite likely we will see another record once final figures are released[1]. Consumer cash (checking and money market account balances) stands at $10 trillion, a substantial increase from the pre-pandemic level of $4.5 trillion[2]. Considering the total annual GDP of the United States stands at about $25 trillion, such substantial cash reserves suggests we may see continued money flows into stocks and muted downside in the event of a correction or bear market.

One reason why net worth and cash levels have spiked may be that employee compensation growth, and thus disposable income, has nicely outpaced inflation since the pandemic. Importantly, it's not just high-income earners who have benefitted; non-manager incomes have significantly outpaced managerial wage gains during the same period as well. This isn't to say that the rising tide has lifted all boats, but in aggregate, the consumer is faring quite well.

**THE CORPORATE AND ECONOMIC LANDSCAPE**

The stock market is considered a leading indicator, which means that stocks typically rise well in advance of good news and pull back in advance of bad. We've always said that corporate earnings are the mother's milk of stock prices, and one need only look at earnings growth to see why recent market performance has been so strong. Looking forward, profits growth is projected to continue, if not accelerate. Consensus analyst estimates call for +11% earnings growth in 2024 and +14% in 2025[3].

Regarding the economy, we all remember the projections of multiple Fed rate cuts this year that so far have not panned out. As it stands today, the Federal Reserve projects just one interest rate cut in 2024, citing "persistent inflation" and the strong economy[4]. And remember the doomsday predictions spurred by the inverted yield curve? It's been inverted now for two years (the longest inversion ever[5]) while the economy and stock market have continued their ascents.

**WHERE DO WE GO FROM HERE?**

We remain positive on the financial markets and we believe that the bull market which began in late 2022 is likely to continue for the fundamental reasons outlined above. Comparing this market to previous cycles, this advance is 20 months old and has produced a +53% gain. By comparison, the median bull market over the last century has lasted 30 months and has produced a +90% gain[6]. That's not to say today's market will reach those same levels, but it does suggest we have a ways to go before we simply hit the averages.

But we should point out a few areas we're keeping an eye on. Most meaningful would be any downward revisions to corporate earnings estimates. With the S&P 500 priced for perfection at 22x next year's projections, any slip here could be impactful. Another is market breadth, as this market continues to be concentrated in a handful of names. Historically however, all bull markets have been built on the backs of a few stocks. And the same concerns over narrow breadth were voiced a year ago....before the market went on to gain another +22%[7]. We also want to remind our clients that in election years, the heightened political uncertainty – especially through the low-volume summer months – can magnify market volatility. But despite the significance of the election in terms of news, the strong emotions it unleashes, and the relevance it has to American life, we don't believe it is likely to be the dominant market story of 2024's second half.

Our bottom line remains quite positive. If the S&P 500 were to continue to advance at the same pace as it did during the first half, 2024 would ultimately show a gain north of 30%. While that's not our belief and some moderation in the gains is to be expected, we are encouraged by history: in every instance since 1988 when the S&P 500 was up at least 10% at halftime, the market showed a positive gain in the second half of the year[8].

I wish our clients a very Happy Fourth of July weekend and a celebration of everything good this wonderful country has to offer.

Onward.

[1]Reuters [2]St. Louis Fed [3]Factset Research [4]CNBC [5]Wall Street Journal [6]Sandbox Financial Partners [7]Birinyi Associates [8]Birinyi Associates

200 N. Westlake Blvd., Suite 202 · Westlake Village, CA 91362 · 818.436.6800 · www.WestlakePWM.com