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WEALTH MANAGEMENT
NORTHWESTERN MUTUAL PRIVATE CLIENT GROUP

Q2 2024 Quarterly Market Commentary

"In Investing, what is comfortable is rarely profitable" - Robert Arnott

The S&P 500 Index returned 4.49 percent during the second quarter of 2024, following a 10.55 percent return in Q1. The market remains narrow, with the Russell 2000 (small caps) returning only -2.28% over Q2. However, there were signs of broader market participation emerging by the quarter's end. This continued resilience can be attributed to two main factors: strong earnings led by mega-cap stocks and moderating economic data, which led to renewed belief in more than one rate cut by the Fed before the end of 2024.

The Economy

In Q2, the yield curve remained inverted but steepened slightly, reflecting a small increase in interest rates across the curve. US fixed income performed relatively flat for this quarter.

While inflation remains elevated above the Fed's 2% target, the disinflationary trend continues, as evidenced by CPI at 3.3%, Core CPI at 3.4%, and PCE at 2.6%. The services component of CPI is still well above normal levels and warrants monitoring, although core goods were actually deflating over the quarter.

Unemployment has been trending upward throughout the quarter and reached 4% at the end of Q2, while labor participation rates have also stalled. Rising unemployment is an early indicator of recession, as it is reinforced by a slowdown and can weaken the economy further.

Real GDP growth also slowed in Q1 to 1.4% from 3.4% prior. This, along with other economic indicators, suggests a moderating and cooling economy in the second half of 2024. These data all support the market’s expectation of two rate cuts by the Fed, even though the fed reiterated its stance on one rate cut in their June meeting.

Valuation

The market is still richly valued at about 22x forward P/E, especially considering a slowing economy and earnings growth. While most companies' earnings did beat expectations and EPS experienced a 6% YoY growth, many companies are cautious and issued negative guidance for Q3.

A slowing economy and disinflationary pressures do raise concerns about whether analysts are too optimistic with their EPS targets for Q3 and beyond, and if the market can still command such a relatively high multiple in a slowing environment. The market is currently priced for perfection, and any miss in earnings coupled with further evidence of an economic slowdown can certainly bring about a market correction, especially in largecap growth stocks.

Looking Ahead

The upcoming November elections will be at the forefront of many investors' minds, as they will determine the country's trajectory for the foreseeable future. One critical aspect to be watched closely is the US debt burden and how it will be tackled, as the growing deficit is already unsustainable. Additionally, we expect the Fed to start cutting rates soon to relieve the government's already significant interest burden that has now exceeded the defense budget.

While we believe an economic slowdown and/or a stock market correction is still possible, our long-term investment philosophy shouldn't deter us from staying invested. This is why we emphasize building diversified portfolios to weather downturns while also capturing potential growth across different asset classes and sectors.

Our Commitment to You

At Patterson Andrews, we understand the importance of staying invested through both market highs and lows to achieve your long-term financial goals. We meticulously monitor the markets and economic data daily, but our core philosophy remains focused on the long term. We're grateful for your trust and partnership, and we’re committed to working alongside you every step of the way to navigate the markets and help you achieve your financial objectives.

Regards,

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