Q2 2024 Market Update

THE QUARTER IN BRIEF

The S&P 500 had its 32nd all-time high this year during the month – ending June slightly off the potential for a 33rd. That is 32 all-time highs out of 125 trading days or 1 all-time high every 4 trading days. Based on year-to-date performance, this year has been the best start to any election year on record and a good first half tends to mean that the remaining 6 months will also be strong. It has been 343 days since the S&P 500 recorded a decline of -2% or greater, which is the largest stretch since February 2018. For the quarter, it was about extreme narrowness around the world. The average equity in the U.S. was down ~3%, while the S&P 500 was up 3.9% and growth indexes were up high-single digits. Globally, this narrowness also pervaded performance with most global indexes down low-single digits for the quarter, but U.S. large-cap, India, and a few tech-dominated Asian indexes up meaningfully.

	1M	QTD	YTD	1-YR	3-YR	5-YR	10-YR
S&P 500	3.59%	4.28%	15.29%	24.54%	9.99%	15.03%	12.84%
NASDAQ	6.03%	8.47%	18.57%	29.66%	7.81%	18.26%	16.14%
Dow Jones Industrial	1.23%	-1.27%	4.79%	16.02%	6.42%	10.33%	11.30%
MSCI EAFE	-1.59%	-0.20%	5.78%	12.18%	3.52%	7.08%	4.94%
MSCI EM	3.96%	5.03%	7.60%	12.86%	-4.75%	3.43%	3.16%
U.S. Barclays Agg.	0.95%	0.07%	-0.71%	2.63%	-3.02%	-0.23%	1.35%
Investment Grade Bonds	0.61%	-0.48%	-1.20%	3.95%	-3.86%	0.39%	2.43%
High Yield Bonds	0.95%	1.00%	2.28%	10.05%	1.48%	3.25%	3.72%

Source: Bloomberg. Data as of 06/30/2024. Returns include Dividends. Returns over 1 YR are Annualized.

DOMESTIC MARKETS

U.S. economic momentum remains solid, supported by resilient consumer spending. While signs of consumer stress are emerging, moderate consumption growth with rising real wages should extend the U.S. economic expansion into next year. However, with an upcoming U.S. election, higher policy rates and elevated geopolitical tension, risks remain that could knock the U.S. economy off its steady path.

Strong growth in the U.S. labor supply, driven by increased labor force participation and a surge in immigration, has supported impressive job gains without higher inflation. Moving forward, tighter labor supply, falling job openings and solid productivity growth could slow the pace of job gains. However, a backlog of migrant workers waiting to be integrated into the U.S. economy should allow employment growth to continue at a solid pace, and the unemployment rate should stay low. *Source BLS

Inflation remained stubbornly elevated above 3% during the first half of 2024, feeding concerns that inflation may be sticky above the Fed's target. While rate cuts may take longer than expected, stable supply chains, moderating wage growth and substantial decreases in shelter and auto insurance inflation should allow overall inflation to resume its slow descent and return to 2% by the middle of next year.

Results from the 1Q24 earnings season looked solid, as margin expansion helped earnings grow by over 6% y/y. As has been the case for some time now, earnings growth has remained dominated by the "Magnificent 7." However, we don't expect this trend to last. As 2024 progresses, broadening profit leadership across sectors should support a more inclusive equity market rally.

Stalling progress on disinflation has caused the Federal Reserve to reassert its hawkish tone. While it remains biased toward easing policy, the Fed needs more evidence that inflation is sustainably moving back toward its 2% target before taking action, and rate cuts have likely been postponed until September at the earliest.

FOREIGN MARKETS

After a sluggish ending to 2023, data suggests prospects for the global economy are improving. Economic surprises have turned positive in Europe, and while China's recovery has been shaky, other parts of Asia should benefit from a turn in the electronics cycle and continued AI tailwinds. With U.S consumer activity expected to slow, narrowing growth differentials should highlight plenty of attractive opportunities across global markets.

Strong performance across international markets has pushed valuations higher since the start of 2024. However, in both absolute terms and relative to their own histories, international markets continue to look attractively priced compared to the U.S. This, combined with improving earnings expectations and a more favorable economic backdrop, presents an attractive opportunity for U.S. investors to diversify abroad.

FIXED INCOME MARKETS

After a tough start to the year, bonds have rebounded, and recent performance has stabilized as investors have accepted the more hawkish outlook for policy. Still, the hawkish repricing earlier this year has dramatically improved the yields offered by fixed income. With rates unlikely to move meaningfully lower without an economic shock, we continue to use this prolonged period of higher yields to lock in attractive income.

LOOKING FORWARD

The S&P 500 has notched more than 30 all-time highs so far this year. Considering this, many investors may feel like they missed the boat, leaving them on the sidelines waiting for a pullback before deploying capital. However, history shows that, even at all-time highs, markets can still be attractive, as strong performance tends to beget more strong performance.

At OPWM, we continue to focus on providing portfolios that can navigate a wide range of environments while keeping your long-term planning goals in mind. Please reach out to your advisor if you have questions or concerns.

CoreSat Model Update

Core Allocation

The core allocation is designed to unlock the benefits of diversification by using capital more efficiently and effectively. This allows our risk allocations to maintain their core stock and bond exposure while simultaneously introducing new, diversifying return streams in our satellite allocation. Essentially, we can introduce diversifying assets and strategies without sacrificing exposure to the traditional asset allocation. This creates the potential for outperformance, which may be particularly attractive in an environment where expected returns for traditional assets may be muted. Also, by thoughtfully introducing differentiated return streams, the models may gain a diversification advantage with the potential to reduce portfolio volatility and drawdowns.

We continue to tilt the domestic allocation toward quality names, those with stable earnings and trading at fair value. Outside the US, we continue to focus on broad index exposure with a tilt toward value and quality. In fixed income, we continue to focus on short duration where yields have been more attractive.

Satellite Allocation - Tactical

During the quarter global equities produced positive returns, while bonds were up minimally. Managed futures – as measured by the returns of the S&P Strategic Futures Index (“SPSFA”) – posted a -0.30% return for the quarter and a year to date return of 6.89%. While global equities and U.S. Bonds make up the core of the portfolios, the managed futures overlay contributes the majority of the portfolio’s active risk. The satellite allocation consists of managed futures and tactical trend following strategies. The combination provides diversified returns outside of traditional equities and bonds, along with volatility management. We prefer using tactical strategies due to their all-weather go-anywhere approach, which will typically produce better risk adjusted returns over time.

Andrew Corradetti, CMT
Chief Investment Officer

SOURCES: BEA, BLS, Federal Reserve, Standard & Poor’s, MSCI, JP Morgan Asset Management, JPMorgan Credit Research, YCharts, Bloomberg and FactSet, Data as of 06/30/2024

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