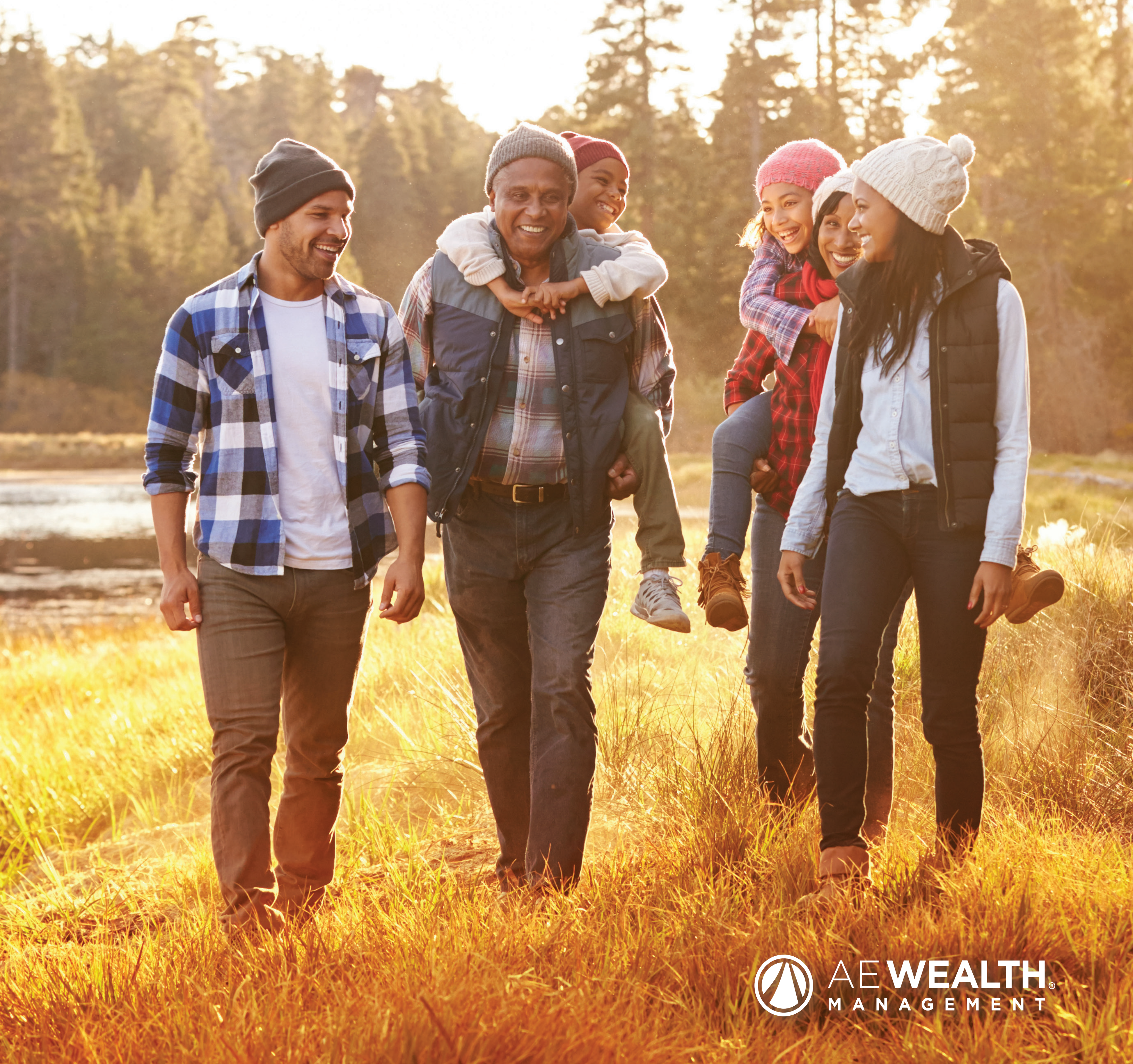
Mid-Year Investment Outlook 2024

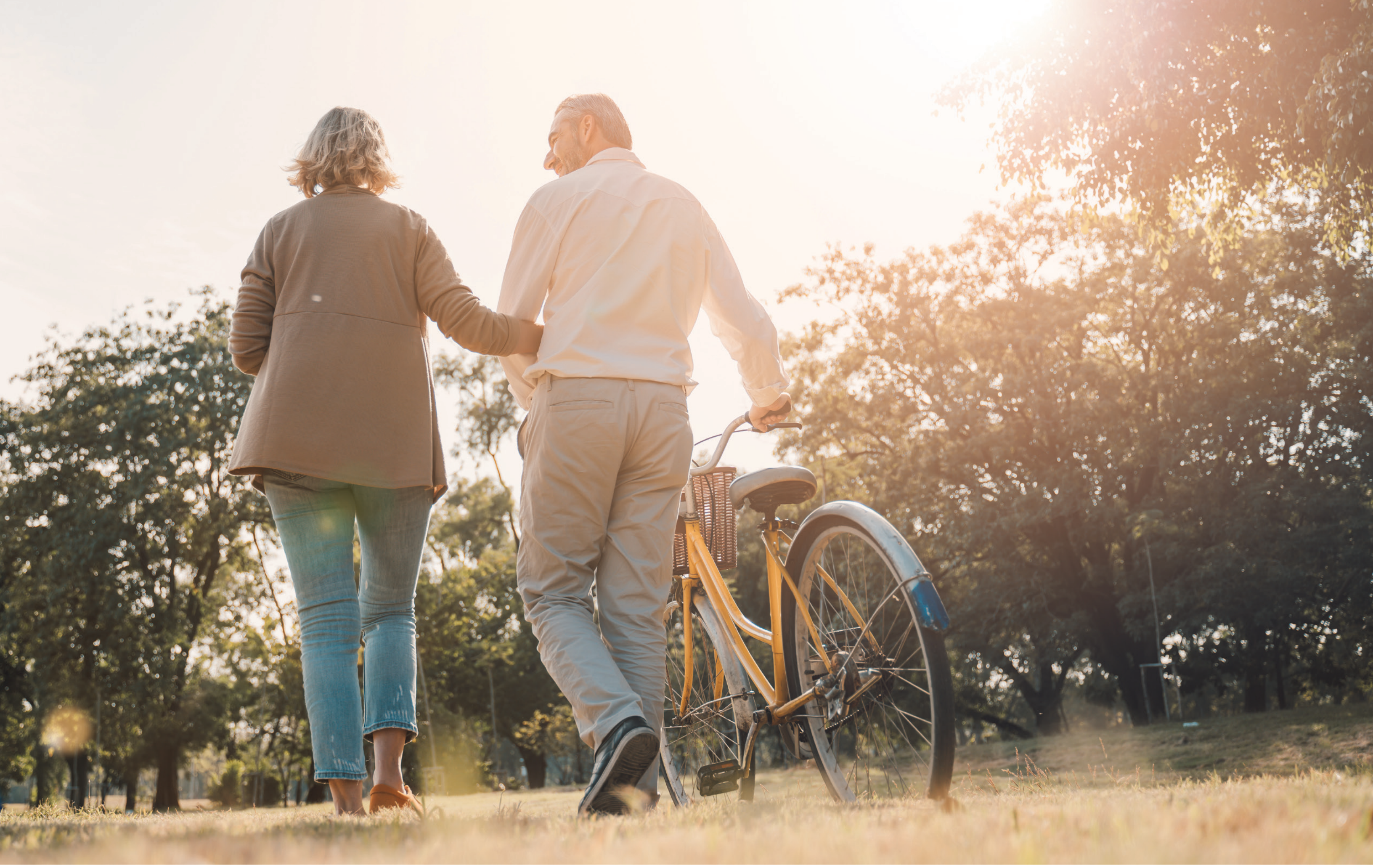


AE WEALTH® MANAGEMENT

Markets exited 2023 and entered 2024 on an upward trend, and that trend has continued as we head into the second half of the year. The past six months have been a welcomed change from the first half of 2023, which was fraught with challenges that suppressed market growth.

Rate cuts continue to be a significant item of focus for markets, and it remains to be seen how long the Federal Reserve will keep rates where they are. Still, high interest rates plus sticky inflation and weakening economic data haven't fazed markets, which reached fresh new highs in June.

Will this momentum continue? Read on to find out our outlook for the rest of 2024 and what you need to know about investing for potential growth.



Key Takeaways

- The Federal Reserve has changed expectations for rate cuts this year, saying it plans to cut rates only once in November or December.
- Markets dipped slightly in both the first and second quarters as they processed disappointment about rate cuts. However, they rebounded nicely to reach fresh new highs by the end of June.
- We believe market performance will stay strong in the second half of 2024, although volatility could increase in the face of a presidential election, flagging consumer spending and uncertain geopolitical events.

Markets Push Higher in First Six Months of 2024

After experiencing a drop in late October 2023 and rebounding late in the fourth quarter, markets continued their upward momentum over the past six months and notched new record highs along the way. The first six months of 2024 were noticeably stronger than those in 2023, when we were dealing with a mini banking crisis, stubbornly high inflation and recessionary fears.

Markets performed similarly in the first and second quarters, with a dip followed by a rebound. The first dip was caused by the market coming to grips with the realization that the Federal Reserve would not be cutting rates six or seven times in 2024 as previously expected.[1] After setting records at the end of March, markets experienced a mild pullback when the Fed said it was more realistic to expect two or three cuts instead.

The second, even milder dip occurred in late April and early May, after first-quarter gross domestic product (GDP) came in at 1.3%.[2] This was far below the growth rate of 3.4% from just three months earlier and well below forecasted first-quarter growth.[3] In response, the Fed tempered expectations once again by indicating we will see only one rate cut this year, most likely after the November elections.[4]

Markets got over their disappointment about rate cuts quickly and pushed higher to end the second quarter. The S&P 500 touched 5,500 points after starting the year at 4,770, and the Nasdaq jumped from 15,000 to well over 17,000 in just six months.[5,6] Meanwhile, the yield on the 10-year U.S. Treasury continues to hover just over 4% after approaching 5% in October 2023.[7]

In short, markets seemed to manage fine in the first half of the year, despite changing expectations for interest rates and softening economic data. There seemed to be plenty to worry about as we headed into 2024, but a recession did not materialize, and corporate earnings have remained solid even in the face of sticky inflation and high interest rates.

Will this positive trend continue in the second half of the year? Let's look ahead at what might lie in store for investors over the next six months.

Our Outlook for the Second Half of 2024

While we can never foresee the future, a few catalysts could possibly move markets in the next six months. The Fed will continue to play a significant role in market performance as it decides what to do with rates in the face of a slowing economy and inflationary pressures. Upcoming elections could also be a potential market-mover, especially as we move closer to November. Finally, the possibility of a geopolitical event – either good or bad – could impact market performance over the next six months.

At AE Wealth Management, we are optimistic that markets will have a strong second half. However, that optimism could be tested. Volatility has been mild so far this year, and we expect to see it rise somewhat over the next six months.

The Fed has managed to keep interest rates higher for longer than expected. Although Fed Chair Jerome Powell indicated cuts would not be happening until November or December, we would not be surprised to see an earlier cut, especially if economic data indicates a cut is due. The Fed will also feel pressure from political incumbents to cut rates ahead of the election. If this happens, an earlier-than-expected cut could supercharge equities and push the market to fresh new highs.

The other wild card is a possible geopolitical event. This could take the form of an escalation of the conflict in the Middle East, a significant change in the Russia-Ukraine war or actions by China. Any movement in international events could change the dynamic for world economies and energy prices.

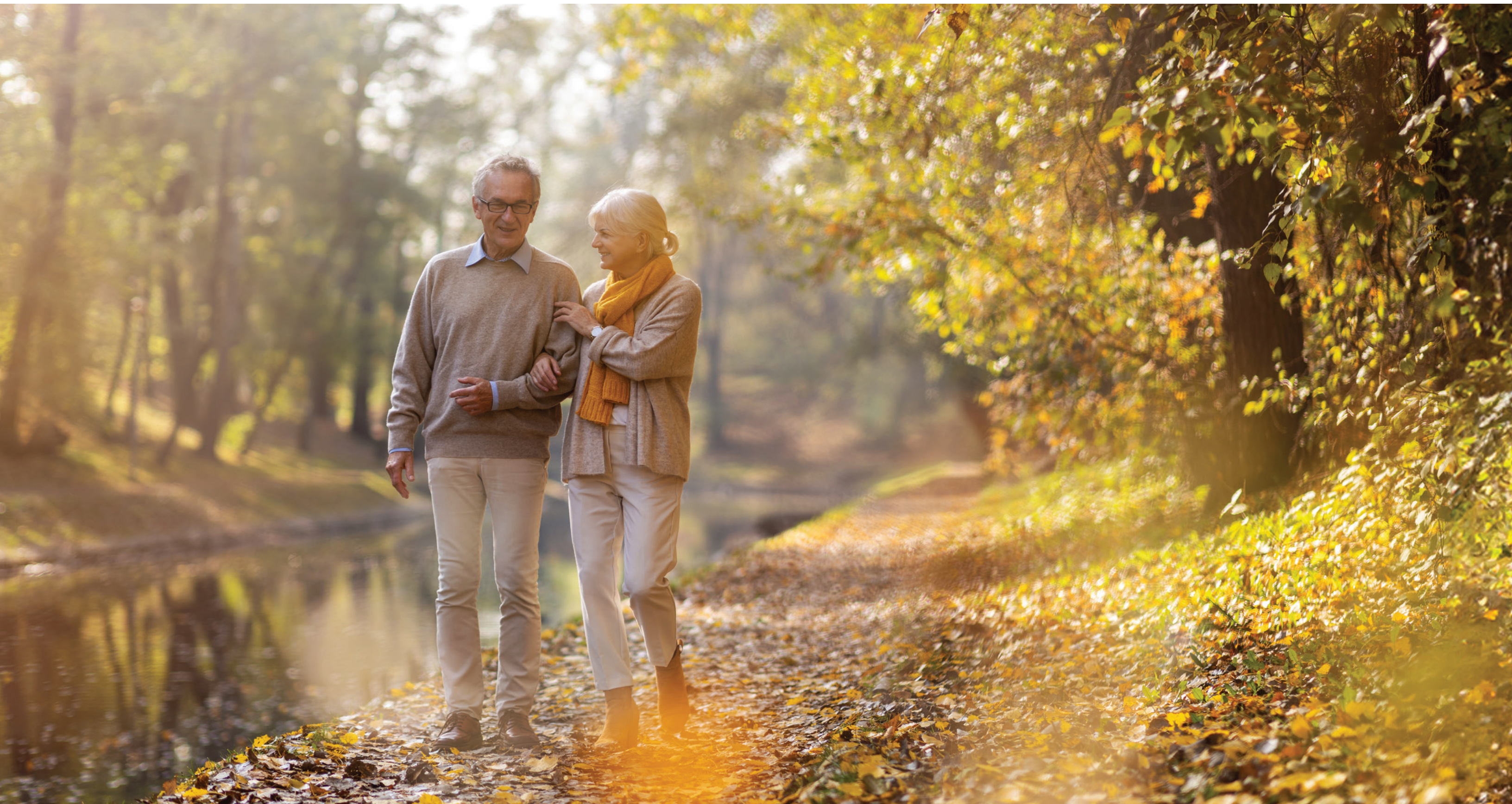
Finally, corporate earnings may weaken as consumers weary of paying high prices and spending slows. The good news is that the Fed will be watching for signs of this happening – and it could be a catalyst for them to begin cutting rates.

Final Thoughts

Even as we acknowledge potential challenges, our outlook is positive for the coming months, and we believe markets will end the year strong. There are always hurdles to overcome, but we believe there are also considerable opportunities for investors.

Focusing on the fundamentals is always key, no matter how markets are performing. If you haven't done so already, now is a good time to revisit your goals and reposition your portfolio to address unnecessary risk and take advantage of markets as we approach a declining rate environment.

Above all, stick to your plan. The market has stayed strong in the face of potential challenges over the past six months, and while challenges still lie ahead, we anticipate continued upward movement in the months ahead. Now is not the time to get overly aggressive; instead, stay steady and focused on the big picture. Talk with your financial advisor to make sure your portfolio is balanced and aligned with your goals. If you do this, we believe you will be rewarded as we navigate the second half of 2024.



Sources

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