QUARTERLY
Market
REPORT

2ND QUARTER - 2024

The Fed continued to whittle away at rate-cut expectations in the second quarter. The economy showed signs of weakening, but other data stayed strong. Markets shrugged off the mixed messages to reach fresh new highs in June.

A SHORT STUMBLE FOLLOWED BY RECORD HIGHS

After closing at record levels at the end of the first quarter, markets stumbled at the start of April. The culprits were the same ones that have plagued markets over the past year: a mixed bag of stubbornly high inflation and a decent economy preventing the Federal Reserve from bringing interest rates down.

Markets rebounded from their initial slip to reach new record highs in the second quarter. The S&P 500 has added 13% for the year, while the Nasdaq is up nearly 18%.[1,2] The Dow has been an outlier, adding only around 2%, but isn't as representative of the broader market.[3]

Equity Performance as of June 30, 2024

Equity Index	Q2	YTD	1 YR	3 YRS	5YRS
S&P 500:	3.92%	14.48%	22.70%	8.31%	13.17%
NASDAQ:	8.26%	18.13%	28.61%	6.93%	17.24%
DJIA:	-1.73%	3.79%	13.69%	4.27%	8.02%

Sources:
https://www.morningstar.com/indexes/spi/spx/quote
https://www.morningstar.com/indexes/xnas/@cco/quote
https://www.morningstar.com/indexes/dji/!dji/quote

THE FED'S DILEMMA

We entered 2024 with expectations for as many as seven rate cuts this year, but the Fed has whittled those expectations down to one after the November election.[4] The "will-they-or-won't-they" dance between the Fed and markets has continued as the Fed searches for signs of a flagging economy. Those signs are certainly there: The latest reading of first-quarter gross domestic product (GDP) showed the U.S. economy only grew by 1.3%.[5] Unemployment ticked up to 4% in the second quarter.[6]

Still, the Fed also has reasons to keep rates where they are. Inflation remains stuck above 3%; while it's significantly below the high of 9.1% we saw in June 2022, it's still well over the Fed's target rate of 2%.[7] Jobs and wage growth have remained robust. The Fed would like to see these numbers come down before implementing rate cuts.

Ongoing inflation and high prices have hit consumers hard, although there is one bright spot — gas prices declined significantly in June.[8] Energy costs make up a large part of the cost of goods and services, although they are highly volatile and can change quickly.

All this leaves the Fed with a quandary: Cut rates and possibly reignite inflation, or leave them where they are and let the economy flounder. The Fed chose to take the second route in the second quarter. In response, markets lowered their expectations to the point where they no longer seemed fazed by the idea that we'll see only one rate cut in the next six months.

SECOND-QUARTER WINNERS

So, which companies have performed well in the current environment? The biggest stock story this past quarter was Nvidia. The company produces chips that power AI, and in late June it overtook Apple and Microsoft as the highest-valued company in the world.[9] However, market breadth has been narrow so far this year, and Nvidia is one of the few companies responsible for market gains this year.

Overall first-quarter earnings were much better than expected and showed that companies are navigating the "higher-for-longer" rate environment successfully. However, consumers may be showing signs of fatigue as savings dwindle and credit card balances rise.[10] Declining consumer spending could lead to softer earnings for companies, and it's something to watch over the coming months.

There has been lots of talk that this is a "stock pickers" market, with distinct winners and losers. But trying to pick who will win and who will lose is not a trustworthy investing plan. Instead, investing in a broad-based index (such as the S&P 500) is typically a more solid strategy, as it is diversified across companies and industries.

FINAL THOUGHTS

Markets performed well in the first half of 2024, with the second quarter building on the momentum of the first quarter and hitting fresh new highs. But while markets have an upward bias over time, it's important to remember they never go straight up. Volatility is a natural part of normally functioning markets, and it's always good to be vigilant against a potential pullback.

If you haven't done so lately, we recommend scheduling a time to talk with your advisor and review your financial plan to make sure your investments are aligned with your goals. Short-term events and data may increase market volatility, particularly as we head toward an election and learn more about the Fed's plan for interest rates. Your advisor can help you avoid making emotion-based decisions and work with you to stick to the plan as you work toward your long-term goals.

SOURCES

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