Thoughts from the Holy City – July 2024

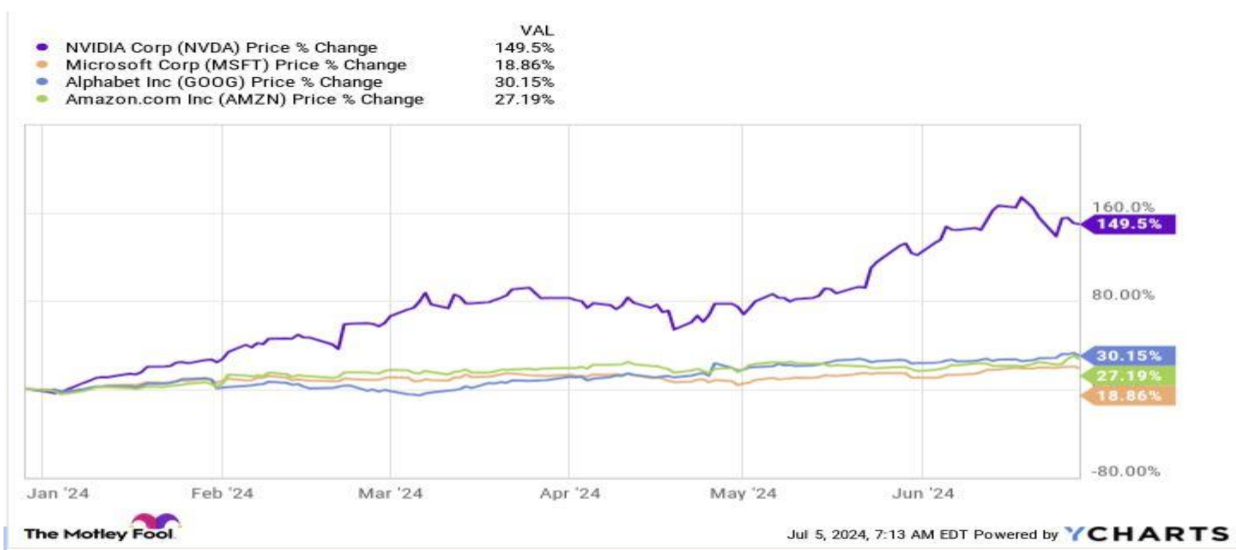
"The fulfilling life, the distinctive life, the relevant life is an achievement. To do whatever you do for no reason other than you love it and believe in its importance."

~ David McCullough

As we close out the first half of 2024 and celebrate Independence Day, we look back on the first half of the year and glimpse into the remainder of 2024. The S&P 500 has hit 31 record highs since January and is up nearly 15% year to date. It's off to its best start to an election year ever and has been driven by the mega-cap tech stocks. This return, however, is a bit deceiving as the average stock in the S&P 500 is lagging the index the most since at least 1990. If you have not held Nvidia in your portfolio you may very well feel as though you have missed out. History tells us that chasing the next "hot stock" can prove to be a mistake. While the stock market has been on quite the tear, the economy has been slowing a bit as we have seen weaker economic data over the past 6 months. Lastly, we have yet to see a rate hike from the Federal Reserve and there is a lot of uncertainty surrounding the election.

Markets & Economy

The S&P 500 and NASDAQ both had outstanding starts to the year with the S&P 500 up 14.48% and the NASDAQ positive 18.13%. The DJIA returned 3.79% and the Bloomberg Aggregate Bond Index rallied back to nearly positive territory with a -.27% return for the first half. When we further examine the divergence of returns in the S&P 500, it is very apparent that only a handful of stocks are carrying the market higher and that performance is concentrated in NVDIA (+149.5%), Microsoft (+18.86%), Alphabet (+30.15%) and Amazon (27.15%) through the first half of the year. Add in Apple and those five stocks alone make up over 27% of the index.



That is a very large number that is driving the market return for the better but could very easily become for the worse. The average stock in the S&P 500 is up only 4.1% this year while the "Magnificent 7" are responsible for nearly 60% of the index's total return.

Historically, a solid first half has led to a successful second half. According to an article penned in The Motley Fool and JP Morgan, "Since 1950, out of 22 times the index has climbed 10% or more in the first half, on 18 of those occasions the market continued to advance in the second half, according to a J.P. Morgan Wealth Management report, and the average annual gain topped 25%. This year, the index has performed particularly well, for the fifth-best first half in the past 25 years, the data show. All of this means that, if the market follows its most common historical pattern, we can expect more gains in the second half of the year -- and possibly even see an annual increase of around 25%."

The other two items that we should take into consideration are the 2024 presidential election and the number of rate cuts that the Fed will enact. The current political situation is, well, quite interesting.

Elections

Fortunately, whether a Democrat or Republican is ultimately in office is only part of the political equation. The race for Congress must also be considered. Based on an analysis by Raymond James, the Senate shows a strong advantage for Republicans to win a majority of the seats. The House of Representatives is a closer call with a slight advantage for the Democrats. Thus, it is easy to assume that a divided government is the most likely outcome. However, there is also the conclusion that if the Democrats beat the odds and retain the Senate then that likely comes with a Biden reelection. If Republicans maintain a House majority, the chances of a Trump victory and Republican Senate increase. Based on the past few weeks and the political unrest in Washington, it is hard to determine the outcome at this juncture.

Fiscal Cliffs

There are two fiscal cliffs that we are also keeping an eye on. The first is the return of the debt limit on January 1, 2025, at which point the federal government will have to begin reevaluating whether to lift the debt limit once again. There is typically an increase in volatility for the markets when these talks begin and would be exacerbated if there is a split government. The second of the fiscal cliffs is the potential sunset of the 2017 tax cuts which were a result of the Tax Cut and Jobs Act. There are several items included in this such as the corporate tax rate of 21%, the removing of the state and local tax (SALT) deductions, individual income tax brackets, and the very important Lifetime Gift Exemption. The lifetime gift exemption currently stands at $13.61 million for individuals and $27.22 million for couples. This does not currently affect many Americans, but it could revert to $7 million for individuals and $14 million for couples. This brings a lot more people into play, especially small to medium size business owners. We are already seeing a lot of scrambling by high-net-worth individuals and their attorneys to address this potential reversion.

Looking Ahead

In looking ahead over the course of the next 6 – 18 months there is undoubtedly a lot of unknowns, but there always are. That is why I always end these letters focused more on the wealth and behavioral management piece, which is where we specialize. If you have made it this far through the letter and the data, it is merely just that; numbers, data, and hypotheticals. While it is certainly important to manage money in a prudent manner while taking all the above into consideration, our job is to take all the worry off you, the client, so that you can focus on what is most important in your lives. Morgan Housel writes about the concept of *Quiet Compounding* in one of his recent articles. His point is that investing is more about understanding that it is a long-term venture and that it is easy to get caught in the comparison trap of what others are doing, or what the latest hot stock and fad are. As he says "*A lot of people want to be long-term investors but struggle to actually do it. One reason is they get caught up in comparison – comparison to peers, benchmarks, and wondering what other people will think of you if they find out you lost money in the last six months."*

We are here to help you navigate the complexities of your own life and the ever-changing twists and turns.

Enjoy the rest of your summer and spending time with your family.

Be Well,

Grier

L. Grier Williford, CFP®, CPWA®

Financial Advisor