MANHATTAN WEST

State of the Market Update

Presidential Wisdom: Insights for Today's Economic Challenges

Q2'24

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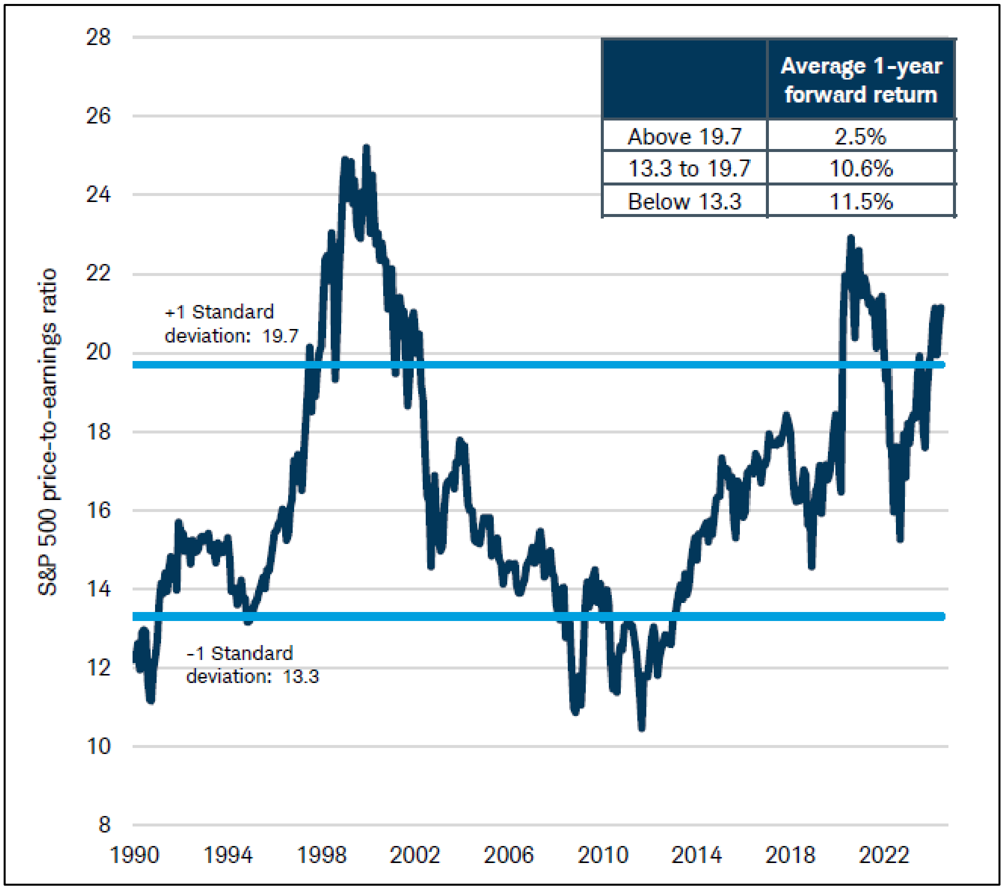
Over the last few weeks in the U.S. Presidential election cycle, the world witnessed Joe Biden's shaky debate performance, the failed assassination attempt of Donald Trump, and the sitting President stepping aside for Vice President Kamala Harris to take over the democratic nomination. This has been a moment in time we shall not soon forget. This also presents us an opportune moment to reflect on the current state of the economy and financial markets through the wisdom and guidance in the words of past U.S. Presidents, whose insights remain relevant today.

"Efforts and courage are not enough without purpose and direction." – John F. Kennedy

The first half of 2024 brought above average returns, but we will not get complacent as we actively manage through this ever-changing landscape. Mega-cap technology stocks ended the second quarter on a high note delivering an outsized amount of market returns. We are not blind to the excessive concentration at the top nor valuation metrics like the S&P 500's elevated price to earnings multiple flashing potential warning signs about future performance.

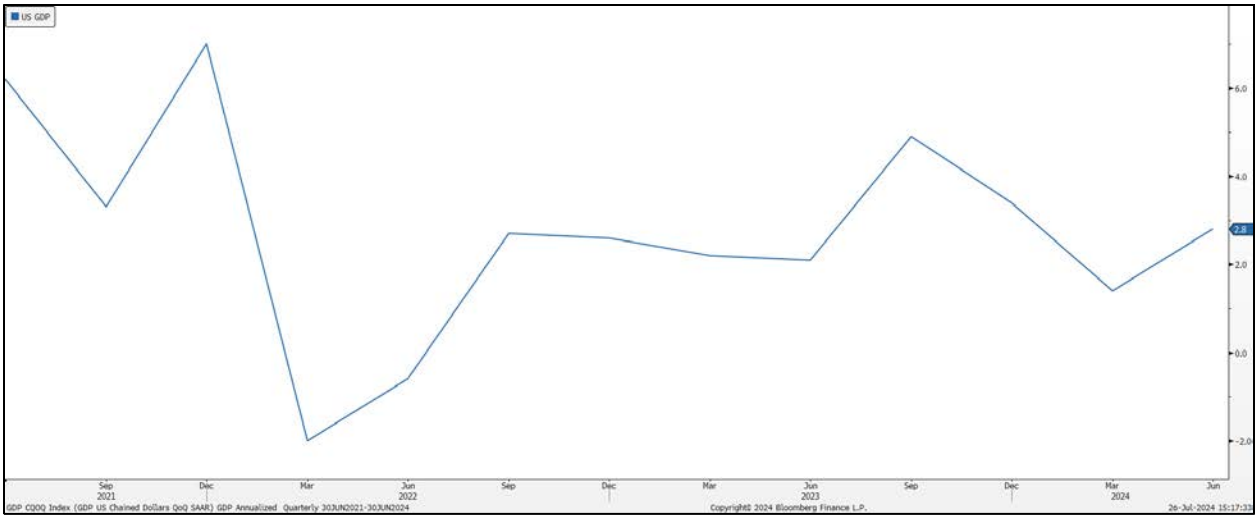


Source: Charles Schwab Quarterly Chartbook Q3 2024, the Schwab Center for Financial Research. S&P 500 price to earnings ratio represents blended forward 12 months P/E ratio as of 6/30/24

That is why we remain overweight US large-cap equities but feel it’s prudent to diversify through exposure to international, mid-cap and small-cap equities. July has brought a much-needed rotation into the lagging non-mega-cap stocks that may very well sustain the market rally further this year.

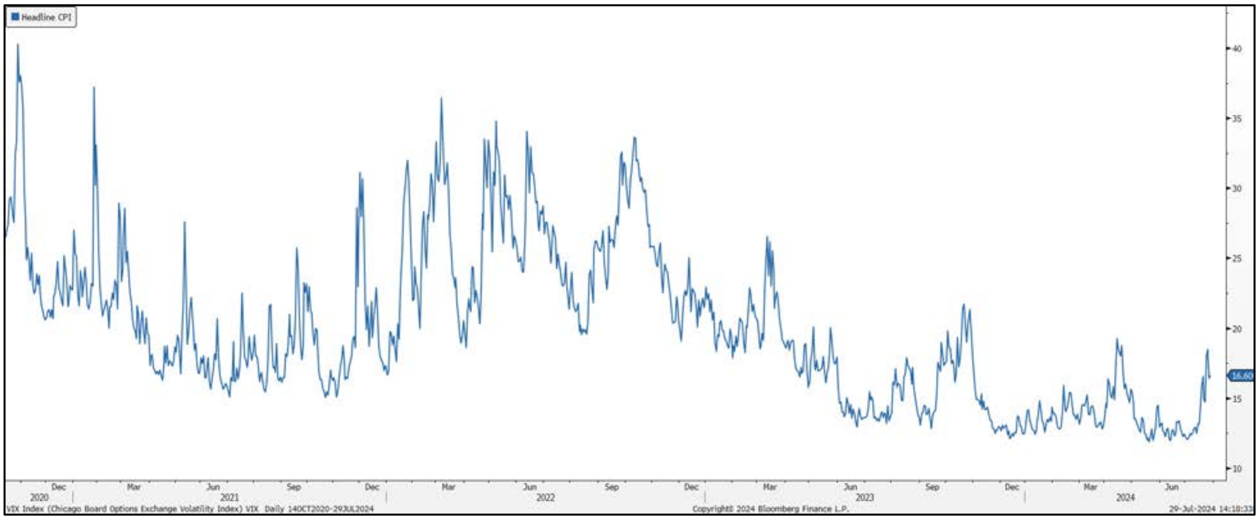
“*The only thing we have to fear is fear itself.” – Franklin D. Roosevelt*

As we navigate through inflationary pressures and geopolitical tensions, the consumer has remained resilient as there are still signs of economic growth. The latest GDP figures indicate a continuing expansion at an annualized rate of 2.8% driven by consumer spending.



Source: Bloomberg

The VIX index (commonly referred to as the “Fear Index”) measures the implied volatility of the S&P 500 index options and has spiked higher over the last few weeks – but is still below the historical median and average readings.



Source: Bloomberg

This recent bout of volatility can largely be attributed to the pull back in concentrated mega cap stocks, but also some potential economic warning signs. The Fed’s restrictive monetary policy may have begun to slowly work its way through the US economy as the cooling labor market and rise in auto loan and credit card delinquencies might be the tipping point where the Fed begins cutting rates.

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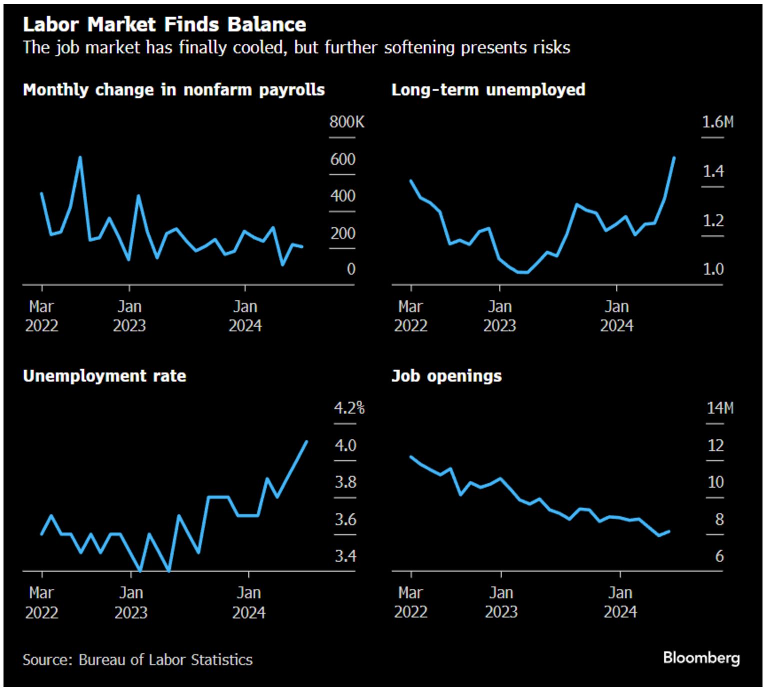
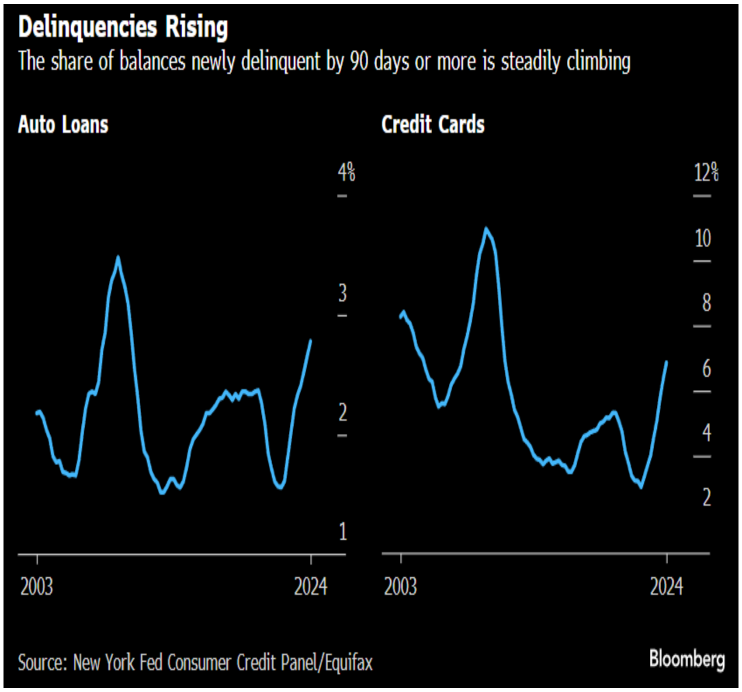


Source: Bloomberg. Underlying data from Bureau of Labor Statistics as of 6/30/24



Source: Bloomberg. Underlying data from New York Fed Consumer Credit Panel /Equifax

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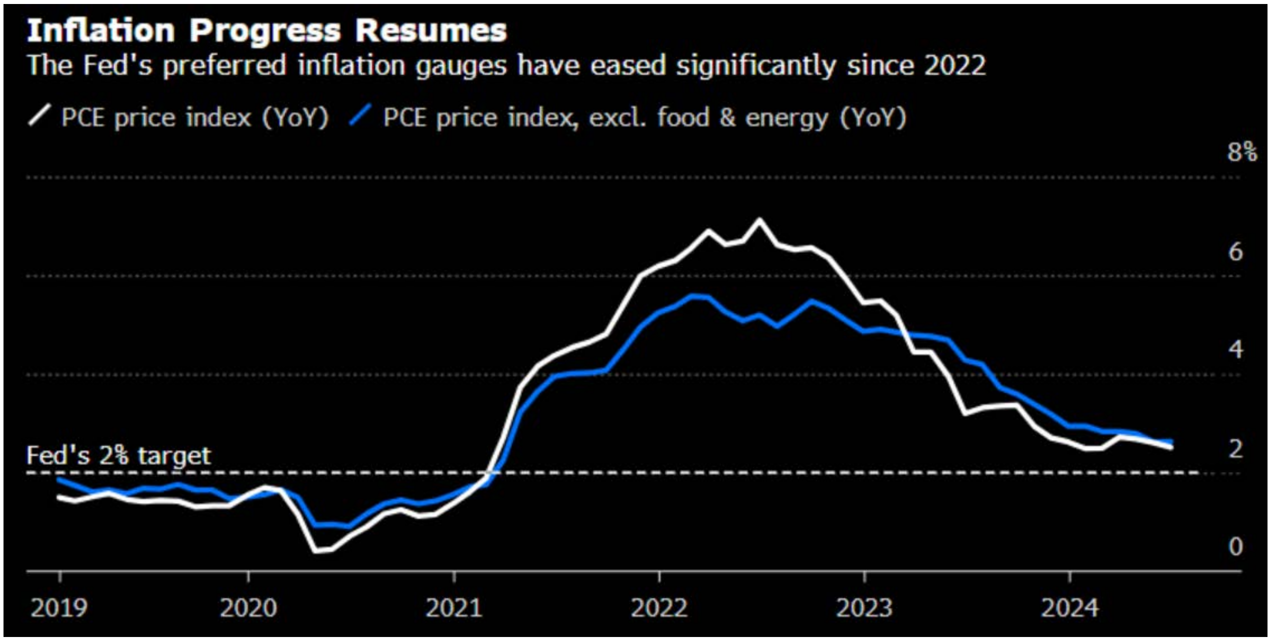
"We see three inflation readings, and so I think you're at a point there where you should take some signal. We don't like to react to one or two months' data, but this is a full quarter." – Jerome Powell

Alright he's not a US President - however Fed Chair Jay Powell uttered these words at the May FOMC meeting in reference to the hotter than expected inflation data measured in the first quarter of this year. Fast forward to July and we've now seen three straight cooler than expected Consumer Price Index readings.



Source: Bloomberg

Our premise that inflation would continue to cool, and yields would begin to come down has begun to be embraced by a market which is now expecting three Fed rate cuts by January. This has pushed the 10-year yield back towards 4% (with room to move lower in our opinion). That's why we have continued to increase our interest rate exposure to take advantage of a rate cutting cycle and better protect portfolios from economic headwinds and corresponding equity market volatility.

Source: Bloomberg

In conclusion, we draw inspiration from a quote often credited to President Abraham Lincoln, who said, **"The best way to predict the future is to create it."** At Manhattan West, we are committed to creating a future of growth and prosperity for our clients, leveraging our expertise and insights to navigate the complexities of today's market environment.

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