Market Update

AUGUST 2024

"A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be."
- Wayne Gretzky

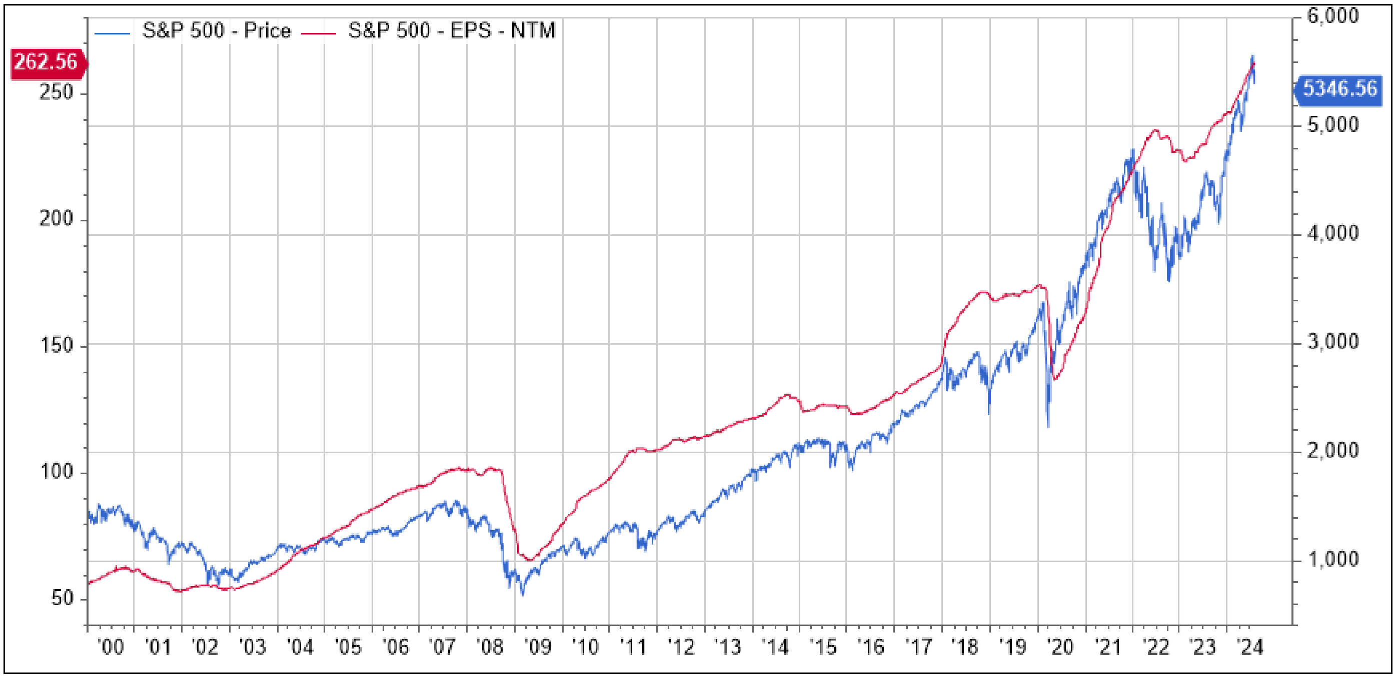
Index	July 2024*	YTD 2024*
S&P 500	1.2%	17.1%
Russell 2000	10.2%	13.1%
Bloomberg AGG Bond	2.4%	1.7%
MSCI World, Ex-US	1.3%	12.3%

As we write this commentary, markets continue to digest the July 31st Federal Reserve decision to hold the Fed Funds rate steady, Fed Chairman Powell's subsequent press conference, and a surprisingly weak payrolls and unemployment report. By digest we mean a sell-off in stocks and massive rally in bonds in the first trading days of August. Perhaps bad news is actually bad news again for the stock market as the weaker jobs market brings the dreaded "R" word (recession) back to the front of investor's minds. Exacerbating the downward pressure was the Bank of Japan's decision to raise interest rates, triggering a massive rally in the value of the Yen and forcing hedge funds and other quantitative investment funds to unwind complex positions known as "the carry trade." Seacoast Wealth's appropriately diversified equity portfolios, underweight the most expensive technology stocks and overweight the highest quality businesses, are designed to bear up well through this turbulence.

The stage is clearly set for the start of rate cuts with September the most likely time frame. Pace and magnitude are debatable, but recent private sector jobs numbers, manufacturing indicators, and inflation trends have given the Fed plenty of cover to begin easing monetary policy. What remains to be seen is if the Fed has "thread-the-needle" and engineered a soft landing, or if keeping rates restrictive for all of 2024 has tipped the US economy into recession.

This rapid shift in sentiment comes on the heels of an action-packed month of July. While all eyes were glued to the more historical and dramatic political/geo-political developments, U.S. equity and bond markets cheered progress on inflation. To wit, in the face of very troubling global headlines, a broadening swath of stocks and bonds appreciated over the month as Q2 corporate earnings remained constructive and rate cuts came closer into view.

As the chart below illustrates, stock prices meander around an upward trajectory over long periods based on growth in corporate earnings per share. Over the last 25 years S&P 500 profits per share have expanded at a compound annual growth rate (CAGR) of 8%. The chart also illustrates that broad stock markets typically decline before the decline in earnings is evident. Our job, as hockey's Great One might say, is to focus on where corporate earnings are headed, not where they've been or are today.



Source: FACTSET DATA

Last week's close saw the S&P 500 up 15.3% and the Bloomberg U.S. Aggregate Bond Index down 0.71% through the half. On the equity side, Artificial Intelligence ("AI") dominates the headlines (and boardrooms) as Nvidia continues its meteoric climb. Up 149.5% from the beginning of the year through June 30th, Nvidia has received its membership to the $3T Valuation Club with the likes of Apple and Microsoft. Nvidia's gravitational pull has many companies joining in on the mania. Of the 500 companies that comprise the S&P's flagship index, 199 of them mentioned AI in their Q1-2024 earnings call - a nearly 300% increase in mentions over the 10-year average. At this point, it is broad consensus that AI could lead to economic upside across most industries, albeit it is too early to quantify its impact with any degree of certainty. What we do know of AI is that it is expensive, consumes a ton of energy, and will likely take several years before most companies see its contribution to their bottom lines. The duration of the payback period, however, has done little to thwart companies from diving headfirst into the space. Lofty aspirations on AI's ability to transform businesses and industries is estimated to generate ~$1T in capex spending in the coming years, with substantial investments flowing into infrastructure such as semiconductor manufacturing, data centers, and power grids. We liken this spending to a proverb of uncertain provenance that roughly states, "a society grows great when old men plant trees whose shade they know they shall never sit in." In the interim, those selling the picks and shovels will be the most immediate beneficiaries of this rush.

With 75% of S&P 500 companies having reported second quarter results and given some guidance for the balance of 2024, downward estimate revisions are running below historical averages, and the overall earnings estimate for 2025 remains essentially flat with prior levels.

It's worth reiterating our core investment philosophy to seek out the highest quality companies, managed prudently for shareholders over full market cycles, where they are reasonably priced in the market. At July month-end our core large cap holdings were priced at a 15% discount to the S&P 500 on forward-twelve-month earnings yet pay out a higher dividend yield and sport higher expected growth for both earnings and dividends.

As always, we appreciate the opportunity to work with you, and if you have any questions, please do not hesitate to reach out to your Seacoast Wealth Management Associate.

portfolio will outperform a non-diversified portfolio or assure or protect against loss in any given market environment. Past performance is not a guarantee of future results. Securities, Insurance and Advisory Services are: Not a deposit. Not FDIC Insured. Not guaranteed by the bank.

Sources: JP Morgan Asset Management; NASDAQ; FactSet; Bloomberg; Broadridge: *Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks.*