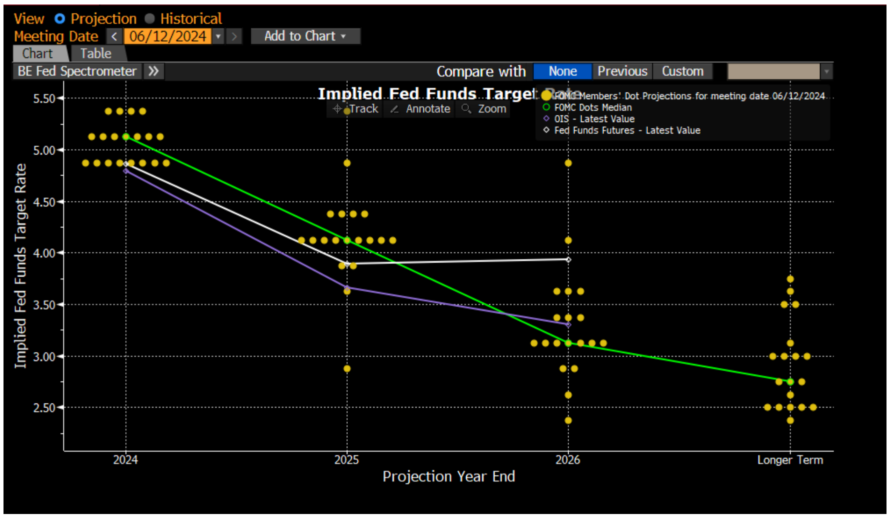
Seacoast
WEALTH MANAGEMENT

Market Update

JULY 2024

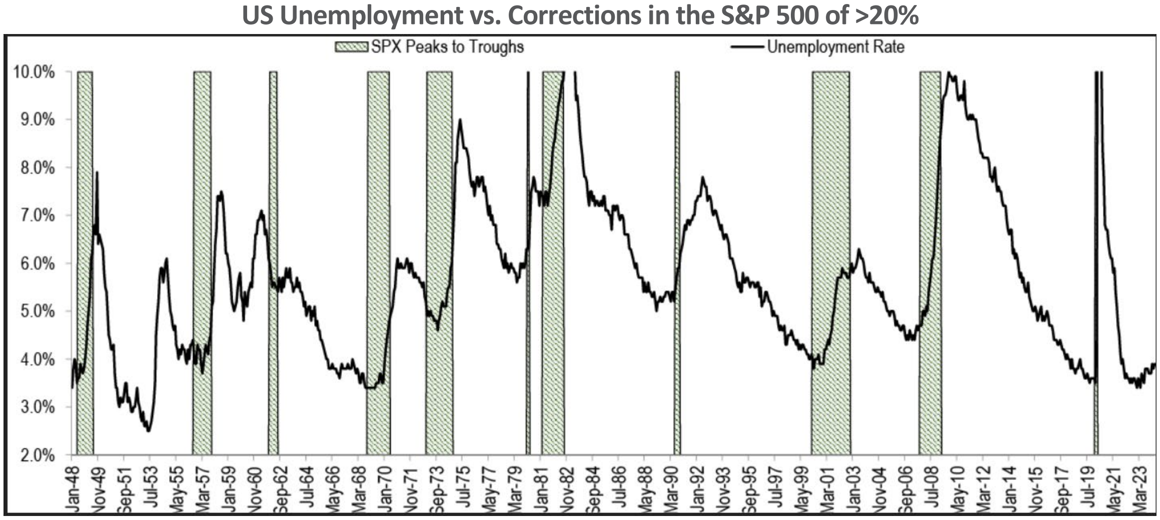
And Then There Was One…



Source: Bloomberg Finance LP

In a blink of an eye, we have reached the midway point of the year. The higher-for-longer narrative surrounding interest rates has planted sturdy roots within the American zeitgeist and equity markets are, at least for the time being, showing ambivalence to the change in expectations over the past six months. We'd mention said narrative has been warranted off the back of resilient growth coupled with glacial progress on curbing inflation. Meanwhile, the Federal Reserve (the "Fed") continues to search for frailty in the economic prints which would support a trim after having backed themselves into a corner last November by telegraphing the end to this rate hiking cycle. Where once the market was pricing in five to six rate cuts at the start of 2024, there are now Fed officials projecting the possibility of no cuts this year. That said, it is increasingly likely, we will see the Fed toss one, albeit nominal, cut into the ring sometime between now and the November elections to maintain credibility in the eyes of the American public. Headline inflation has begun to inch downward and, if we have reached the unemployment trough, the Fed may have sufficient ammunition to justify the cut.

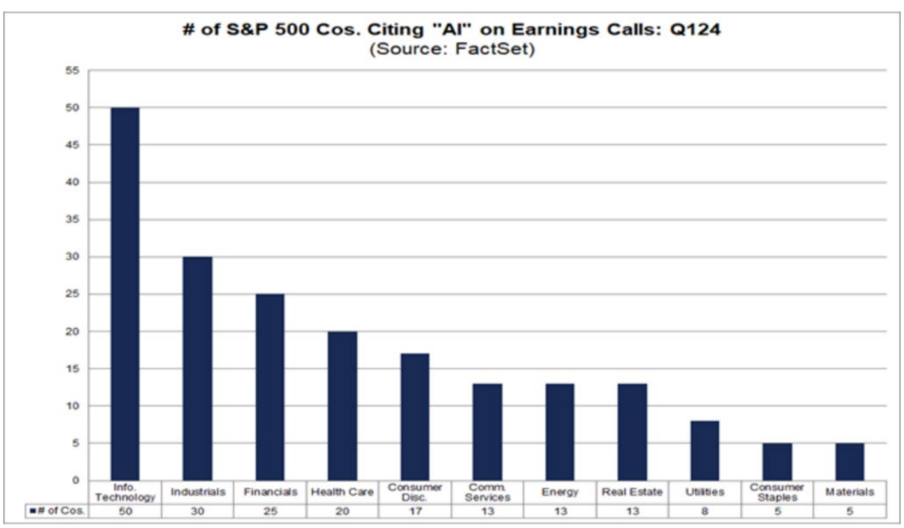
US Unemployment vs. Corrections in the S&P 500 of >20%



Recession linked market corrections	# of Mths (Unemployment trough to S&P 500 peak)	Chg in Unemployment (Unemployment trough to S&P 500 trough)	% chg in S&P 500 (Unemployment trough to S&P 500 trough)
Dec '52 - Sep '53	38	2.0%	+61.5%
Aug '56 - Oct '57	-7	0.8%	-11.6%
Feb '60 - Oct '60	22	0.7%	-6.5%
Dec '61 - Jun '62	-7	0.1%	-9.9%
Nov '68 - May '70	2	1.4%	-32.5%
Jan '73 - Oct '74	-3	1.4%	-42.4%
Feb '80 - Mar '80	9	0.7%	-0.9%
Mar '81 - Aug '82	3	2.6%	-24.6%
Jul '90 - Oct '90	16	0.9%	1.9%
Mar '00 - Oct '02	-1	1.9%	-46.5%
Oct '07 - Mar '09	12	4.3%	-50.9%
Feb '20 - Mar '20	0	0.9%	-24.3%
Hist. Avg	**7**	**1.5%**	**-15.6%**
Hist. Median	**3**	**1.2%**	**-17.9%**
Current	14	0.6%	+30.5%

Source: Bloomberg Finance LP, Datastream, Factset, JPM.

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.



So, what might we expect for the rest of the year? Fundamentally, the economy, and the consumer for that matter, could remain on decently solid footing if we see inflation fall further and the Fed delivers its rate cuts, but even then, we may not see the earnings growth necessary to propel equity markets significantly higher. Below are a handful of factors we are monitoring in the current landscape:

1. Corporate debt is above 2007 levels and near all-time highs. To that end, interest expense will likely rise, even if central banks cut rates, as companies will have to refinance their maturing debt which were priced during a zero-interest rate environment.
2. Wage growth, while off the peaks seen in 2023, continues to push the "Salaries and Wages" line item on P&L statements higher.
3. Overall inflation, while decelerating, still has corporate expenses moving higher.
4. Consumer credit to GDP is above historical averages (and near highs) in most regions.
5. Consumption also does not seem to have a ton of room to accelerate, with consumer spending as a percentage of disposable income in the US near historic highs.

Accordingly, now more than ever, it is vital that we maintain our discipline of researching and selecting quality companies (i.e., not chasing fads), whose businesses we understand, with the consistent ability to generate positive cash flows, all helmed by management teams that can steer their P&Ls through shifting sands. Of the picks and shovels mentioned above, client portfolios have benefited from the likes of Applied Materials, Broadcom, Caterpillar, Eaton, Oracle, and Southern Company, to name a few. On the fixed income side, we are keeping our duration tilt towards the shorter end, a call that has proven accretive to the performance of clients' bond allocations, until we have a better indication on the timing and magnitude of Fed rate cuts. As always, we remain steadfast on targeting optimal risk-adjusted returns, regardless of asset class.

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.