Hamilton-Bates
Market Update

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Summer Rally Continues but A Correction Looms

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The stock market rally continues and the second half of 2024 has arrived with investors hoping for more gains ahead. We have consistently thought the market would surprise to the upside and that has been the case. However, we may be due for a little pullback here. But first the good news.

The S&P 500 rallied popped 14.5% in the first six months of the year, reaching record highs. The Nasdaq Composite led by technology stocks also ran to all-time highs, jumping 18%. However, the gains weren't broad. The DJIA lagged with a 3.8% advance, while the Small-Cap Index was flat. The first half was strong but gains were concentrated in a few mega-cap stocks.

Such a strong start to the year historically bodes well for the market in the second half. CFRA Research chief investment strategist Sam Stovall noted that after rallying more than 10% in the first half of the year, it then averages a 7.9% gain in the second half. We will take that all day long.

Economy, Earnings, and Interest Rates

The economy continues to chug along but there has been a noticeable slowdown in the data of late. June's jobs report presented a mixed picture of US labor markets, with slightly better-than-expected job gains, though it also highlighted an unexpected rise in the unemployment rate. Nonfarm payrolls rose by +206,000 in June, surpassing estimates of 190,000. On the other hand, most of the jobs came from the Government and the prior two reports saw 100,000 lost jobs through downward revisions.

Inflation data has also come in tamer than expected with today's CPI report weaker than expected. This suggests that while the economy may be weakening the Fed may now cut rates soon, thus boosting some lagging sectors of the market. If the previously leading sectors like Technology can hold together while previously lagging sectors can rally—we could indeed see the second half boost that historical tendencies suggest. The markets reacted to the report as a signal of a soft landing for the economy, with futures markets indicating a 78.3% chance of the first rate cut by the September FOMC meeting. They very well could move earlier than that.

Stock Market and Investment Outlook

The trend remains bullish for stocks, and we continue to like stocks as a long-term inflation hedge. One area we especially like are more conservative dividend paying stocks that have been very overlooked of late. We continue to add to dividend paying stocks, funds, and ETF's on any further pullback this summer. With rate cuts now becoming more likely and coming into focus, these dividend paying stocks could be ready for their time in the sun.

As far a bonds go, we continue to hold shorter maturities and even cash in the fixed income sector. Short-term rates are likely to be cut but long-term rates may not fall as much as people think. Short-term lower risk bonds remain our choice. Short-term debt and floating rate bonds have yields of 5-7% and no duration risk. Even cash now pays 5%. Even if the Fed cuts those cuts are likely to be low and slow, with rates moving lower in 1/4 point increments. This is more likely to be favorable for stocks than bonds at this time.

In short, we could see a pullback into August or possibly even September, as the stock market consolidates 2024 gains and reflects on the uncertainties of the upcoming election. However, we believe seasonal and historical tendencies for a strong period after the election will hold true. Our concerns for the stock market and the economy will come in 2025.

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Market Charts: S&P 500—Bull Market Still Intact—But We May Be Set For A Correction

S&P 500 Chart

Sometimes you can get too much of the good thing. Even in the stock market. The market trend remains bullish, but after a surge off of the Fall Lows in 2022 and again in 2023—the market is well above its long-term trend. Markets do trend, and they also mean revert– meaning that when things get too giddy and stocks move well ahead of their long-term trend—they tend to move back down toward it. This has happened twice in the last two years with the S&P peaking out about 13% above its long-term mean (blue-line). **We could see a bit of a consolidation here to bring the market back into line, but the longer-term outlook remains bullish**.