Hamilton-Bates
Market Update

August 15, 2024

The August Correction Arrived With a Bang

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We stated in the last Update that the market had come a long way, and was coming off one of the best first halves of the year in decades. That was all well and good, but that rally left the market pretty extended and vulnerable to some bad news, which we started to get in August. Throw in a 'crash' in the Japanese market and you get a recipe for a correction. Things got a bit dicey with two 1000 point down days in the DJIA, but things have calmed down significantly as stocks have rallied back.

What happened?

When the technology stocks started to crater after a massive run, investors started to head for the exists. When the Japanese market crashed 20% after their Central Bank shockingly hiked rates to defend the yen—it became a panic. The decline of a major market like Japan of 25% in just a week had reverberations around the globe. Risk was taken in and money was moved to cash and bonds. But as quickly as it came, it went. Stocks dropped to attractive levels, and buyers came out. The Bank of Japan said they won't hike rates anymore and it spurred even more buying. The worst appears to be over but we wouldn't discount some further volatility in the weeks ahead.

Economy, Earnings, and Interest Rates

The economy is certainly slowing as the consumer has finally started to buckle after years of rising prices and inflation. More and more companies are mentioning that consumers are 'tapped out' or are becoming increasingly discerning. The good news is that companies can no longer raise prices indiscriminately, and inflation is finally starting to moderate. Earnings are weaking along with the economy, but companies that are perceived as delivering value (like Walmart) have continued to hum. The only problem we see right now is that unemployment is rising, and the labor market is not nearly as tight as it once was. If the labor market continues to weaken it could ignite fears of a recession. That is not priced into stocks and anything more than a 'growth scare' like we have had will send stocks lower. The fed 'cavalry' is on its way and we can hear their bugles. They are all but certain to move on rates in September, likely a 25bps cut followed by another cut in November. This in of itself probably won't do much for the economy, except for the morale boost it gives the financial markets, which could be significant.

Historical and Seasonal Trends Soon Turn Favorable

The first half of the year was strong, and historically such gains augur well for the second half. First half gains of greater than 10% rarely see a down second half. That coupled with the correction we are seeing makes any weakness a good buying opportunity. We did indeed rebalance and add to positions during the recent volatility, and will do more in coming weeks if we see any further weakness. Remember too that seasonal trends also turn positive in coming weeks that should lead to strength into year-end.

Stock Market and Investment Outlook

Client accounts were not nearly as affected by the market rout as the worst of the selling was in the technology sector. Our accounts had allocated some assets away from the NASDAQ in July and we generally invest in more stable dividend payors. As a result our clients on balance have gained rather than lost in August. We may be down a bit from the top, but our accounts are not down nearly as much as the indexes. **We ended up buying during the weakness, and we'll do more in coming weeks. We think the market will be higher at year-end.**

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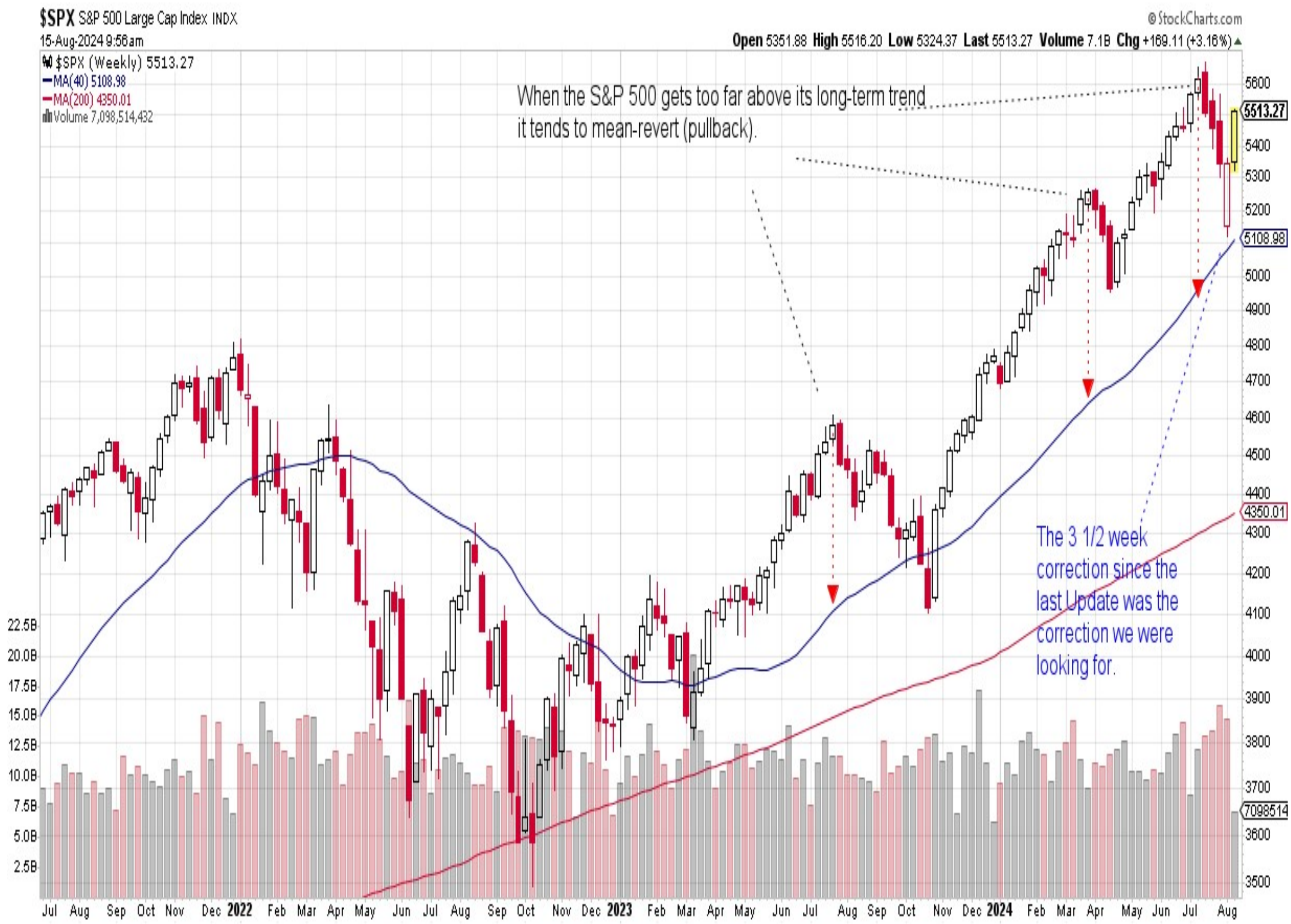
Market Charts: S&P 500—Correction Seen —But Is It Over?



S&P 500 Chart

The correction unwound some of the overbought conditions that existed in July, but it may not be over. We have seen a great rebound so far, but we need to see it hold and or back and fill from here. There could be further volatility over the next few weeks, especially with the Election on the horizon.

The long-term trend remains up and the bulls are in charge. We think that once the market gets Beyond this seasonal weakness and Election concerns there will be a rally into year's end. Our concerns for a weakening economy in 2025 remain. For the rest of 2024 however we should see higher stock prices.