WestStar
Wealth Management

Wealth Watch

2024: Second Quarter Review & Third Quarter Outlook

At the top of the 8th inning of Game 1 of the 1954 World Series, Willie Mays made a legendary on-the-run, over-the-shoulder catch in deep center field which ultimately won the game and the World Series for his New York Giants. Sports commentator Keith Olbermann stated, "the old cliché applied: 'where the ball is going to be, not where it is'—that is where you find Willie Mays." Investors are wise to emulate Willie Mays in this regard.

Where the Market & Economy Are Going to Be

Willie Mays passed away in June 2024. In remembrance of the 70th anniversary of "The Catch" referenced above and in deference to the example set by "The Say Hey Kid" throughout his storied career, we will examine both where the market is and, more importantly, where it may be going in the pages that follow.

US Large Cap Growth stocks dominated all other categories in the second quarter. Indeed, the US stock market overall continued its strong run, as year-to-date the S&P 500 had its second-best start to an election year since 1928, outperformed bonds by the sixth-widest margin since 1976, and outpaced Small Cap Stocks by the most since data began in 1979. This low-volatility environment has proven lucrative for our clients utilizing an actively-managed approach, as we have maintained our tactical overweight to stocks since February 2023.

Our 16-month stretch sans tactical changes should not be mistaken for complacency, however. Let us revisit the factors affecting markets and devise an outlook for the second half of 2024.

William Brady, CFA

SVP, Director of Investments
WestStar Wealth Management
bill.brady@weststarbank.com
915.747.4930

What You Need To Know:

- Stocks continued their rally, particularly Large Cap Growth
- A key driver of recent market strength has been actual economic results exceeding general sentiment
- Economic fundamentals remain strong with unemployment near all-time lows and household net worth near all-time highs
- June saw the first monthly negative reading on inflation in 4 years, potentially clearing the way for Fed rate cuts
- Investors with cash on the sidelines may benefit by investing longer-term funds in stocks and bonds at this time
- Remain focused on your long-term objectives and avoid near-term noise when making decisions

Asset Class Index Performance* Year-to-Date as of March 31, 2024

STRONGEST

Asset Class	Performance
US Large Cap Stocks	15.29%
International Emerging Market Stocks	7.49%
International Developed Market Stocks	5.34%
Commodities	5.14%
Alternative Investments	3.67%
Money Market (Cash)	2.62%
High Yield Bonds	2.59%
US Small Cap Stocks	1.73%
US Investment-Grade Bonds	-0.71%
Real Estate	-3.17%
International Bonds	-5.26%

WEAKEST

Expectations vs. Reality: The Impact on Markets

On the surface WestStar's tactical shift toward stocks in February 2023 may have initially seemed ill-timed following 2022's dismal market, the banking crisis, persistent elevated inflation, geopolitical instability, an aggressive Fed, and consensus expectations for a recession. Yet, as we expected and as previously discussed, the market continued to grind higher due in large part to the economy exceeding expectations. In other words, there was a disconnect between how people were feeling and how the economy was actually performing.

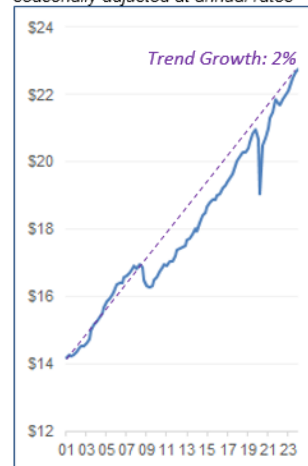
Citigroup US Economic Surprise Index

The phenomenon of people feeling worse than the data suggests they should was termed "vibecession" by economist Kyla Scanlon and is depicted in the chart at right. A positive number indicates economic data exceeds expectations and vice-versa. This is a contrarian indicator—an embodiment of "under promise and over deliver." Historically the stock market has risen at a faster pace when the Index is high, and it was in its "bullish zone" for 72% of the time since January 2023. That said, it has now declined to its lowest level since August 2022. This does not indicate a negative market is on the horizon; rather it merely notes that expectations for the economy have synchronized with actual data. This closing gap between perception and reality means fundamentals will be more important in the second half of 2024 rather than continued economic upside surprises.

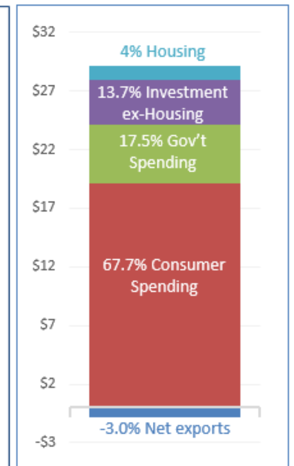
The Fundamentals: Factors Affecting the Second Half of 2024

The primary drivers of the macro environment going into the second half and beyond include economic growth, consumer strength, and inflation. Each of these interrelated elements has associated implications for the future and will be impacted by the fourth major forthcoming factor—the presidential election.

Real GDP
Trillions chained (2017) dollars; seasonally adjusted at annual rates



Components of GDP
1Q24 nominal, USD trillions



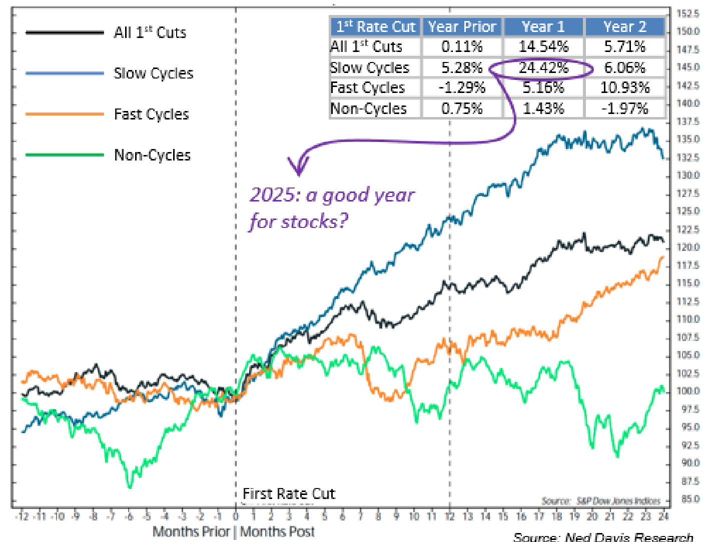
Source: JP Morgan Asset Management

The charts at right reflect the state of economic growth. Real GDP in the first quarter of 2024 slowed to 1.4%, down from 3.4% the previous quarter. Weaker consumer and small business confidence, slowing payrolls and wage growth, depleting excess savings and resulting rising debt delinquencies all suggest further economic deceleration. Yet the stock market and household net worth are near all-time highs and unemployment remains near all-time lows, meaning the consumer remains strong. As the chart at far-right indicates, consumer spending comprises two-thirds of the economy, so a strong consumer translates to resilient economic growth. All things considered, we expect GDP to slow but a recession remains highly unlikely. The full year outlook for economic growth in 2024 is expected to register in the 1.5% – 2% range.

*Large Cap: S&P 500 Index; Small Cap: Russell 2000 Index; Int'l Developed: MSCI EAFE Index; Int'l Emerging: MSCI Emerging Markets Index; US Inv-Grade Bonds: Bloomberg Aggregate Index; Int'l Bonds: Bloomberg Global Aggregate ex-USD Index; High Yield: Bloomberg US Corporate High Yield Index; Cash: BofA Merrill Lynch 3-Month US Treasury Index; Real Estate: FTSE EPRA/NAREIT Developed Index; Commodities: Bloomberg Commodity Index; Alternatives: Wilshire Liquid Alternatives Index

Inflation, the Fed and Election Volatility

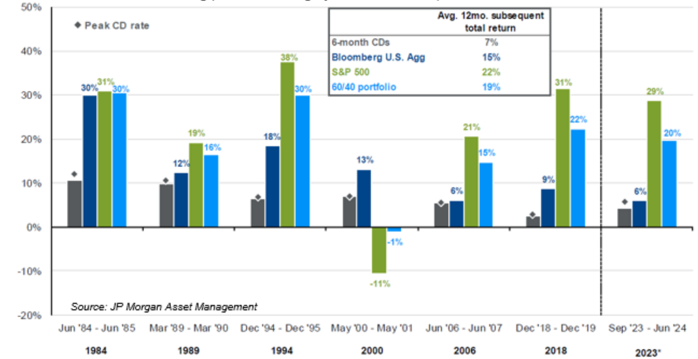
Among the greatest concerns to consumers has been inflation which has proven rather stubborn. It is undeniable, however, that the trend has been quite favorable and has declined precipitously from its high point two years ago. June marked a milestone with a -0.1% decline in CPI, the first negative reading in more than four years. Core CPI, which excludes the volatile food and energy segments, slowed as well, posting the smallest gain since 2021. Both measures came in less than expected. Q1 saw three bad inflation reports but Q2 saw three good ones. Should the trend continue in Q3, the Fed may very well begin cutting rates in September with a possible additional cut in December and four more next year. While rate cuts would be a boon to capital markets, the chart at right indicates stocks have been strongest under those with four cuts or fewer per year—so-called "slow cycles." The Fed will likely be less aggressive in its cutting than it was in its hikes, therefore a probable slow cycle would suggest that 2025 would see a strong stock market.



In the past we have discussed the effects of uncertainty on the markets, and in election years this typically translates to increased volatility around the primaries and the general. This year volatility has actually been lower than might ordinarily be expected, as the primaries were essentially settled at the outset and both candidates—one the incumbent and the other the previous President—are known quantities. That said, recent developments in the political world—such as talk of a potential replacement of one of the candidates and the status of pending criminal charges and sentencing of the other—may lead to heightened uncertainty and greater volatility as we approach the fourth quarter. It would not be outside the realm of possibility to see a stock market correction prior to the election, though fundamentals still suggest a positive year overall in 2024.

Areas of Opportunity

Despite potential volatility, we believe the positives continue to outweigh the negatives and the data portends a good year for stocks. Furthermore, bonds will benefit when the Fed begins to cut interest rates and investors who lock-in elevated yields now will capitalize the most. Historically yields peak an average of two to three months before the first rate cut—June of this year if the first cut occurs in September. The chart at right compares the 12-month performance of 6-month CDs, bonds and stocks following peak yields during previous Fed hiking cycles. We find that both stocks and bonds have historically outperformed CDs by a wide margin in these scenarios, as has a diversified portfolio of the two. Accordingly, it may behoove investors who have recently capitalized upon heightened income yields in money market funds and CDs to redeploy those monies to longer-term investments.



WestStar's Strategy: Keep Your Eye on the Ball

As we have discussed, there exists a plethora of important factors at play, a number of which could erroneously cause an investor to make rash decisions. It is paramount, however, to "keep your eye on the ball," remaining focused on your long-term objectives. It is with this in mind that we once again refer to Willie Mays, who is often described as having been a "five-tool player" with great skills in hitting for average, hitting for power, speed, throwing and fielding. We at WestStar also utilize five tools to "win the game" for our clients: growth assets such as stocks, income assets such as bonds, inflation-defense assets such as real estate and commodities, volatility-defense assets such as alternative investments, and, for actively-managed portfolios, tactical positioning among these four categories. We will remain vigilant in monitoring developments as they arise, proactive in seeking areas of opportunity, and defending against areas of risk.

WestStar
Wealth Management

The Team You Can Trust.

As true fiduciaries, our focus isn't on selling products to our clients. Instead, we focus on providing personalized service and real financial solutions.

Our team of wealth management professionals has the valuable depth of expertise you need to navigate life's events.

From retirement planning and investment management to trust services and estate settlement, we can help you devise the most effective plan to meet your financial goals.

Joe Sayklay
President, Wealth Management
joe.sayklay@weststarbank.com

Bill Brady, CFA
SVP, Director of Investments
bill.brady@weststarbank.com

Tami Gladkowski
SVP, Senior Trust Officer
tamara.gladkowski@weststarbank.com

Colleen Marusich, CTFA
SVP, Senior Wealth Advisor
colleen.marusich@weststarbank.com

Rose Gonzalez
SVP, Relationship Manager
rose.gonzalez@weststarbank.com

Crystal Martin, MBA
AVP, Trust Officer
crystal.martin@weststarbank.com

Tommy Gabriel, MBA
AVP, Relationship Manager
thomas.gabriel@weststarbank.com

Rebecca Montes
Portfolio Manager
rebecca.montes@weststarbank.com

weststarbank.com | 915.747.4153

Wealth Management Investments are Not Insured by the FDIC or Any Other Government Agency, Not Deposits or Other Obligations of WestStar Bank or Any Bank Affiliate, Not Guaranteed by WestStar Bank or Any Bank Affiliate, and Subject to Investment Risks, Including Possible Loss of the Principal Invested. Wealth Management Investments are provided through WestStar's Fiduciary Services Division on a fee-only basis. WestStar does not offer Investment Brokerage Services.