Monthly Commentary 2nd of July 2024

The first half of 2024 has been strong for world equities, up about 12%, though the second quarter was more tepid than the first, up only about 3% as measured by the MSCI World Index. The A.I. theme continues to fuel the rally in the U.S. Nvidia alone accounted for 30% of the gains of the S&P500 so far this year, as the rally was not broad. Coffee, silver and crude helped commodities in the first six months of 2024, countering weakness in grains. Overall, the commodity index (CRY Index) is up 10% so far this year. DXY Index which measures the value of the USD against a basket of global currencies was up 4.47% and Bitcoin surged 45.63% YTD even though it has been treading water since early March.

Markets up or down? For and Against.

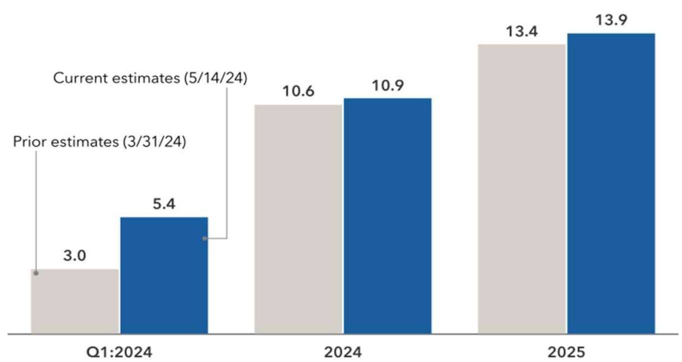
An increasing number of clients have raised their concern that markets have been good and whether we should sell. Always a good question, and our answer is always the same: **It depends on your circumstances.**

We do not know where equity markets are going, so the below might help.

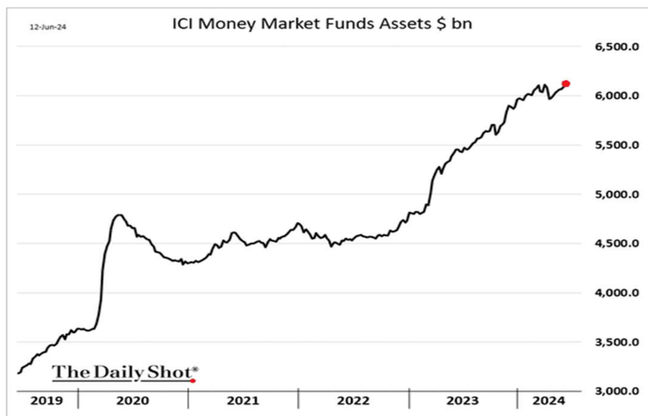
"We are in a good environment for equities":

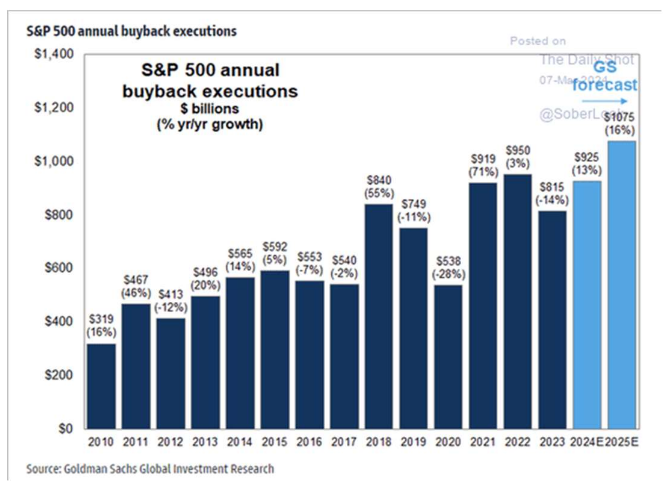
- The economy is growing nicely
- Earnings expected to rise double-digit in 2024 & 2025 (see chart)
- Inflation appears to be falling again, clearing the way for central banks to lower interest rates before long
- Unemployment is low, so consumers are spending
- AI is driving productivity growth. Early in the supercycle.
- Manufacturers are investing in new supply chains
- Big tech is the new safe heaven due to strong balance sheets and robust growth
- Household net worth is at all-time highs (70% home equity, stock portfolios)
- Only 1.8% of mortgaged properties have negative equity (vs 24% in 2013)
- Money-market (cash) fund assets at all-time high (see chart)
- Buybacks are expected to reach record highs (see chart)

Year-over-year earnings growth estimates for the S&P 500 Index (%)



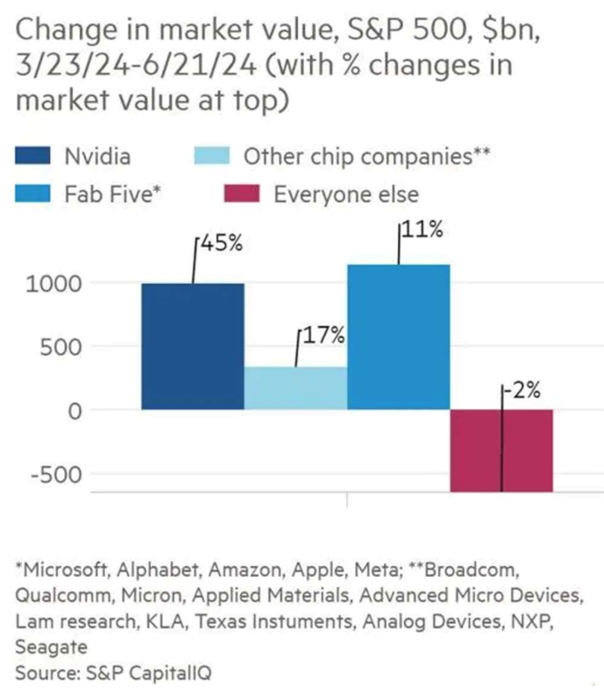
Sources: Capital Group, FactSet. Earnings growth refers to annual change in earnings per share. As of May 14, 2024.





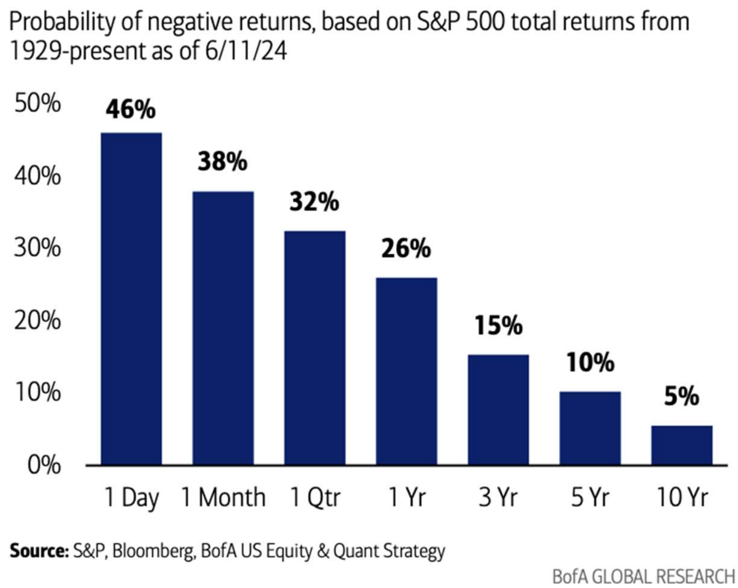
“We are in a bad environment for equities”:

- Valuations are historically high
- High interest rates make bonds a more attractive alternative
- Froth: Only a few stocks account for a large part of the gains
- Breadth is weakening as less and less stocks are doing well (see chart)
- Trade tensions are rising and protectionism growing
- Geopolitical tensions are high
- Populism is rising
- The housing market is showing signs of strain
- Commercial real estate has huge debts and defaults are rising



So, up or down markets?

If you have a long term horizon, it should not matter, as the below chart from Bank of America is all you need to know. It shows the probablilty of losing money over time when you are invested in the US markets. The odds look good!



The Elgin Analysts Team

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