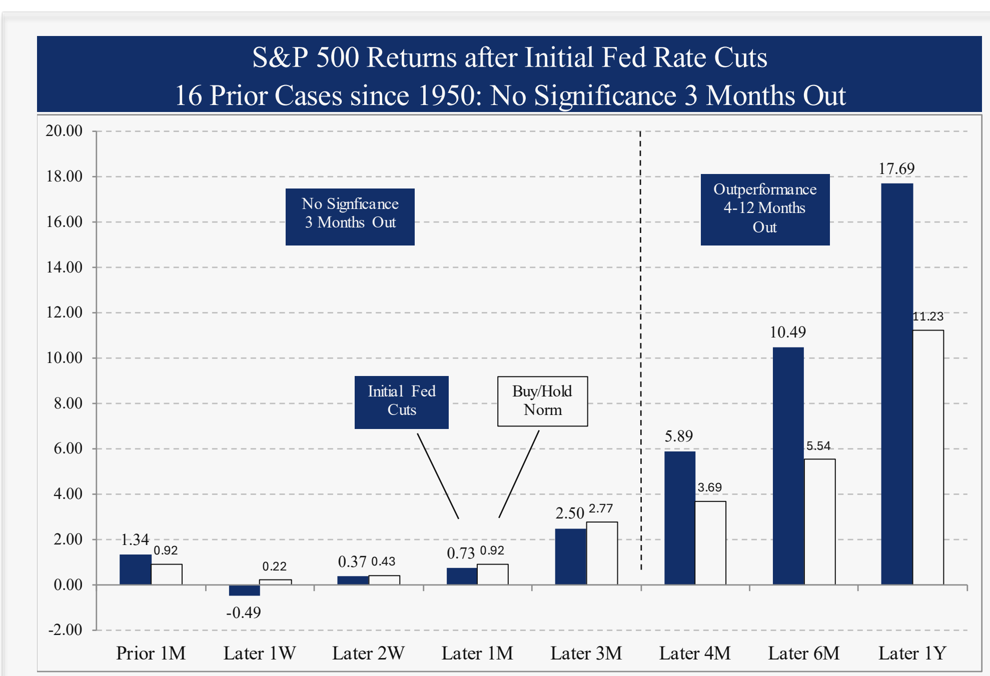
August 27, 2024

Investing Environment Review and Outlook – Volume 84

The economic background, particularly falling inflation, remains one of the biggest positives for U.S. equities with a historical return of 15.5% when CPI was 0-4% and falling. One known short-term offset is the potential for further volatility after the S&P 500 8% round trip from the August 5th low, particularly at this time of the year. Prior cases like August 2011, August 2015 and January 2018 reversed meaningfully lower after the initial rebound. As a result, this month we cut the U.S. equity rating to a still bullish 4. We also raised the commodities rating to a bullish 4, based on the Dollar Index, down 5% from the June peak, historically followed by strong performance of industrial commodities like copper and crude oil. Our economic and inflation outlook indicators remain neutral along with investor positioning.

Fed Chairman Powell Explicit in Jackson Hole: “The time has come for policy to adjust”
In Jackson Hole, WY on 8/23/24, Fed Chairman Powell spoke explicitly saying “the time has come for policy to adjust.” After 2 false starts in the last year when the market prematurely priced in Fed cuts, a September rate cut is now a safe bet. Equities rallied sharply after his comments. It is common knowledge that Fed policy works with a long and variable lag, yet investors still expect an immediate upside response from equities. Our mentor, Marty Zweig, coined the now widely quoted phrase, “Don’t fight the Fed.” What may not be widely understood is that, of the 16 prior initial Fed cuts since 1950, S&P 500 returns were not significant the first 3 months out. One month later, the median return was just 0.7%, below the market norm since then of 0.9%. Even 3 months out the range was -25% (1974) to +17% (1998) and just 56% of cases were higher. Farther out results are a different story, when equity returns are quite positive, up 5%, 10% and 17% 4, 6 and 12 months later.



This review and outlook report by Brenton Point Wealth Advisors LLC represents our views and beliefs regarding the current market outlook. Please also read the important disclosures at the end of this report.

BRENTON POINT
WEALTH ADVISORS

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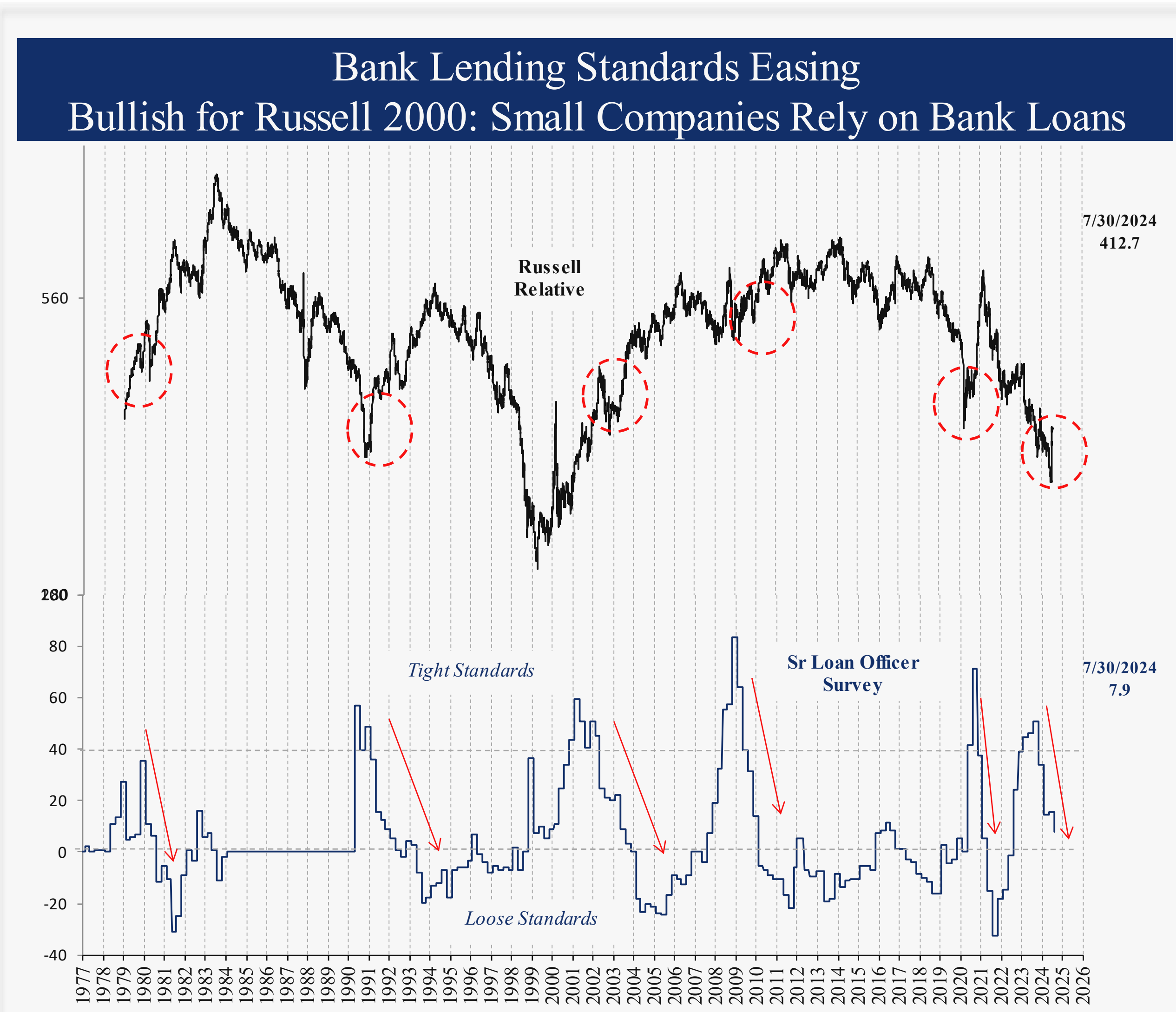
Bank Lending Standards Easing: Inflection Point for Russell 2000

The July Fed Senior Lending Officer survey showed easier lending standards from banks as the 2020 crash and recession become a more distant memory. Consider a simple fact – the small cap companies in the Russell 2000 rely on bank lending for financing, much more than the big cap names that dominate the S&P 500. With easier financing, these companies will find it easier to expand and invest in their businesses. In prior cases lending standards eased, the Russell 2000 reversed persistent underperformance and outperformed the S&P 500, often for the subsequent 2-3 years. With so much focus and media attention on the big cap technology stocks, most investors are ignoring the upside potential of small cap companies trading at lower multiples. Easier lending standards, combined with the 11.4% July surge we discussed last month, makes it more likely the long-awaited inflection point for small cap stocks has arrived.



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Russell 2000 Relative Performance Reversal Following 10 Years Underperformance

Diversification remains the best risk control tool available. Along with traditional stocks and bonds, small cap stocks and commodities are just two examples of uncorrelated assets that can help reduce portfolio volatility. We will continue to monitor conditions on a daily basis and shift exposures as needed. Thank you for your support and please contact us with any questions.

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