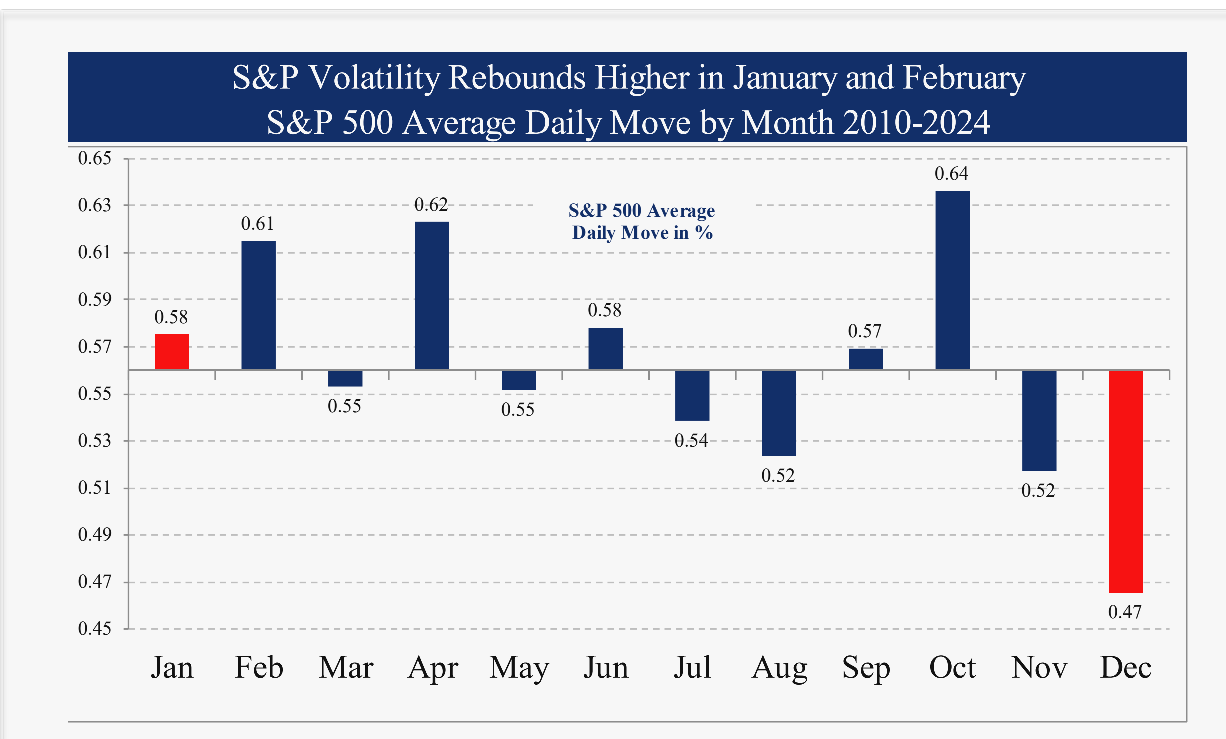
December 31, 2024

Investing Environment Review and Outlook – Volume 88

Last month we discussed bank lending standards and small caps, the strong economic outlook model and the high real T-Bill yield relative to gold. This month, we discuss the potentially higher equity volatility ahead, the mixed investor positioning, and the weaker presidential cycle returns for equities in Q1.

Higher Equity Volatility Ahead

S&P 500 equity volatility averaged just 0.35% a day in December prior to 12/18, even lower than the norm of 0.47% since 2010. Over that period, the lowest volatility of the year came in December, followed by a reversal higher in January and February to start the new year. The 2.9% S&P 500 decline on 12/18 is a timely reminder that strong equity returns are accompanied by significant volatility. The first two weeks of January is one of the most volatile periods of the year and varied widely historically. The worst were 2016, 2009 and 2008, down 8.0%, 6.6% and 6.0%. The best occurred in 1987, 1976 and 1967, up 9.6%, 7.1% and 5.2%.



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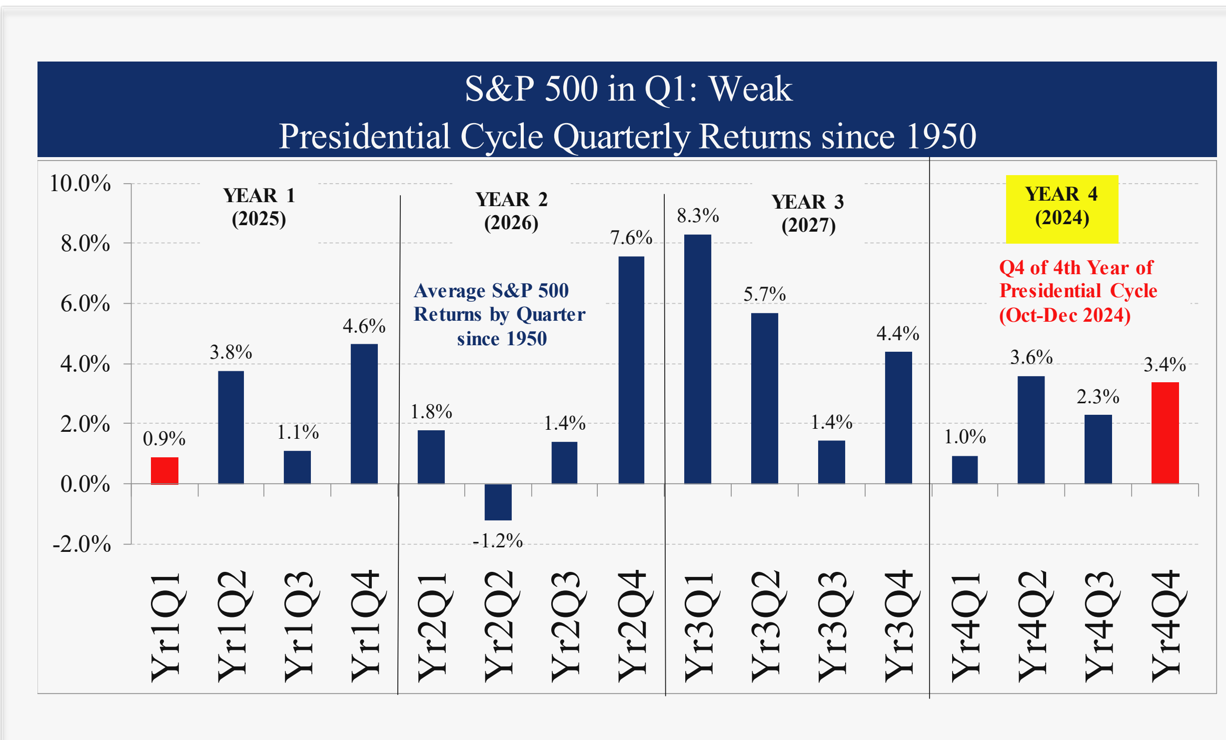
S&P 500 in Q1: Weak

January starts the first year of the presidential cycle. Since 1950, the S&P 500 averaged just 0.9% in the first quarter compared to 3.4% return in the fourth quarter of the fourth year, ending this month. Year 1 Q1 returns were quite varied, with the best year in 1960 up 12.8% and the worst in 2000 down 11.9%.



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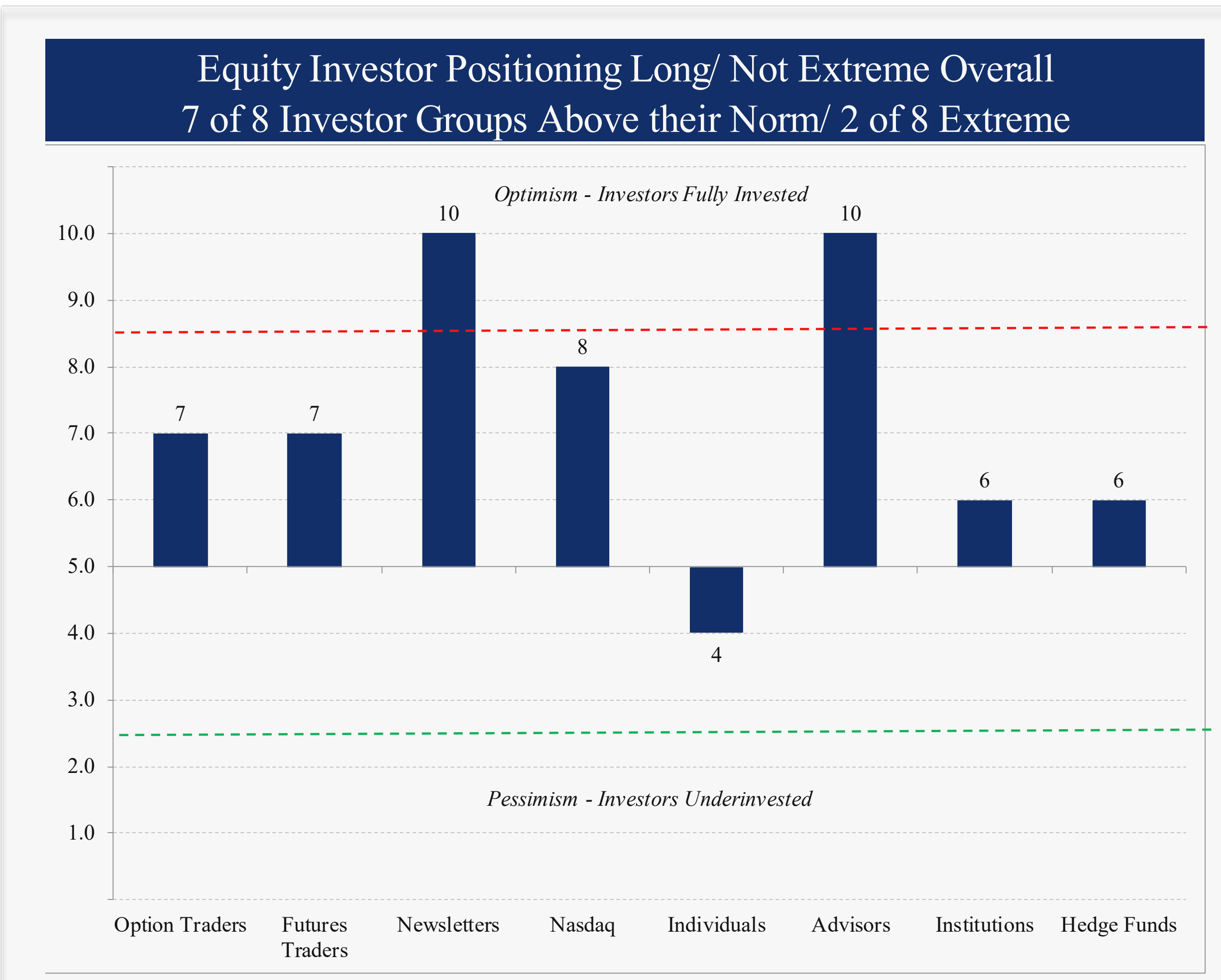
Equity Investor Positioning Long: Not Extreme

Investor positioning in U.S. equities is long on balance, with 7 of 8 investor groups above their historic norm. Despite a 25% S&P 500 rally YTD, just two of the 8 investor groups are extreme, and individuals are actually below their norm. Extreme positioning in equities will be a risk for equities when we see it next, but for now is ok. Skepticism is important to sustain bull markets. Once all investors are fully invested, there is less fuel available for future buying. If nothing else, the sharp decline on 12/18 has dampened investor positioning to the downside.



We continue to monitor economic and market conditions and analyze their impact on asset classes. Thank you for your support and please contact us with any questions.

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