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September 2024

Market Perspectives: Typical Situation in Atypical Times

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MARKET PERSPECTIVES: TYPICAL SITUATION IN ATYPICAL TIMES

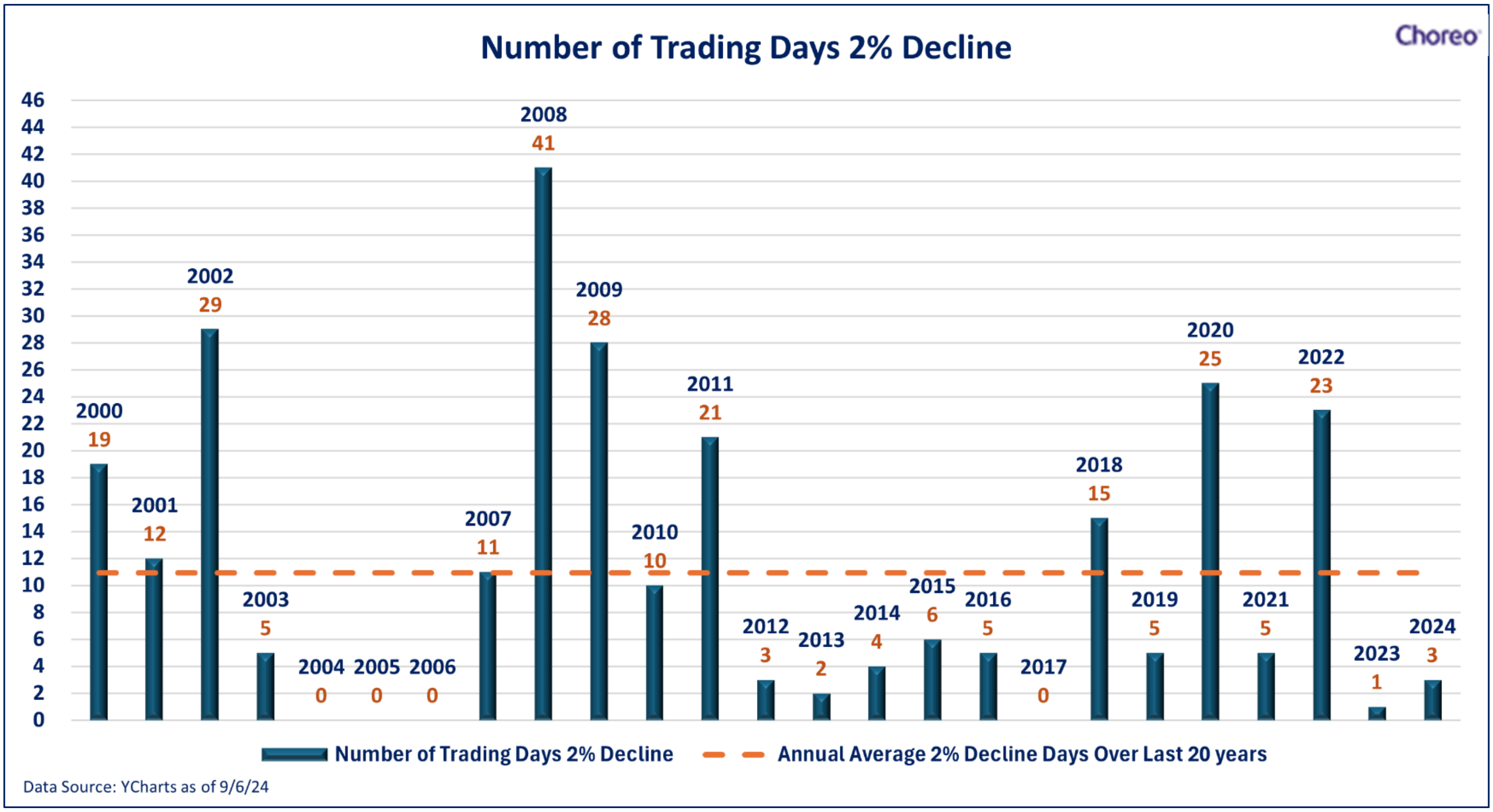
"Nothing to see here."

~Frank Drebin (AKA Leslie Nielsen) from "The Naked Gun" while standing in front of an exploding fireworks factory

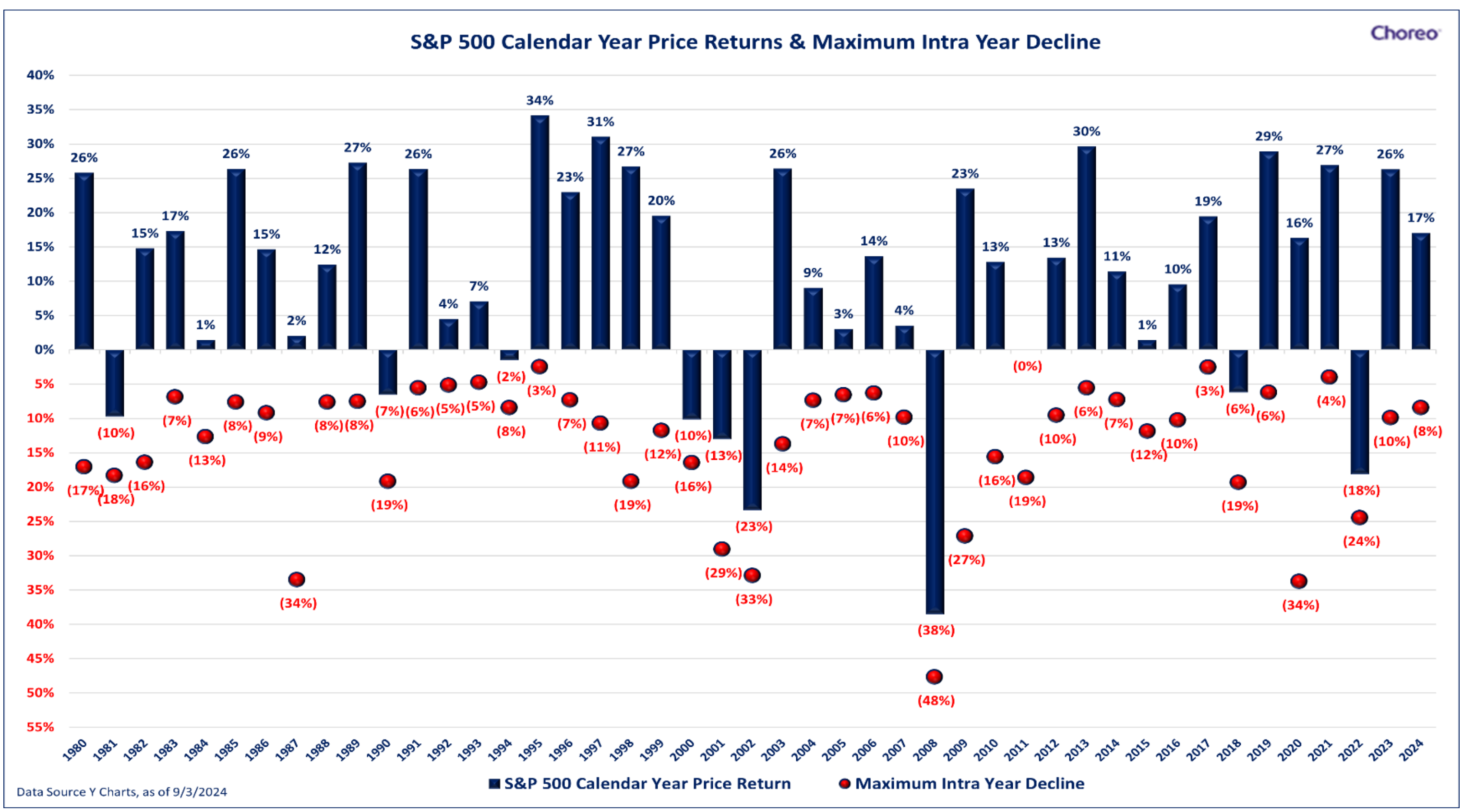
- The markets have experienced some volatility in 2024, but the magnitude has thus far been within normal bounds.
- Elections, Federal Reserve (the "Fed") rate policy changes and economic data have the potential to alter the course of markets in the near term. The policy changes in particular have the potential to add volatility.
- Despite the market uncertainty, it is important to remember that market ups and downs in any given year are normal events.

Markets have a way of always seeming exasperating to investors for at least portions of the year. Even in strong years, periodic bouts of volatility are common, almost a certainty. The remainder of 2024 brings with it the potential for disruption from interest rate changes, presidential elections, economic pivots and much more as we have written about in recent Market Perspective notes. Market gyrations and the circumstances (or often the "excuses") as to why markets go up and down may differ slightly, but thus far, 2024 has been a typical year, admittedly with a seemingly unusual set of circumstances (i.e., inflation, Fed Cycle potentially changing, political elections, etc.). For the astute observer, the title is a reference to the song by the Dave Matthews Band "Typical Situation" which in part references the daily grind through life.

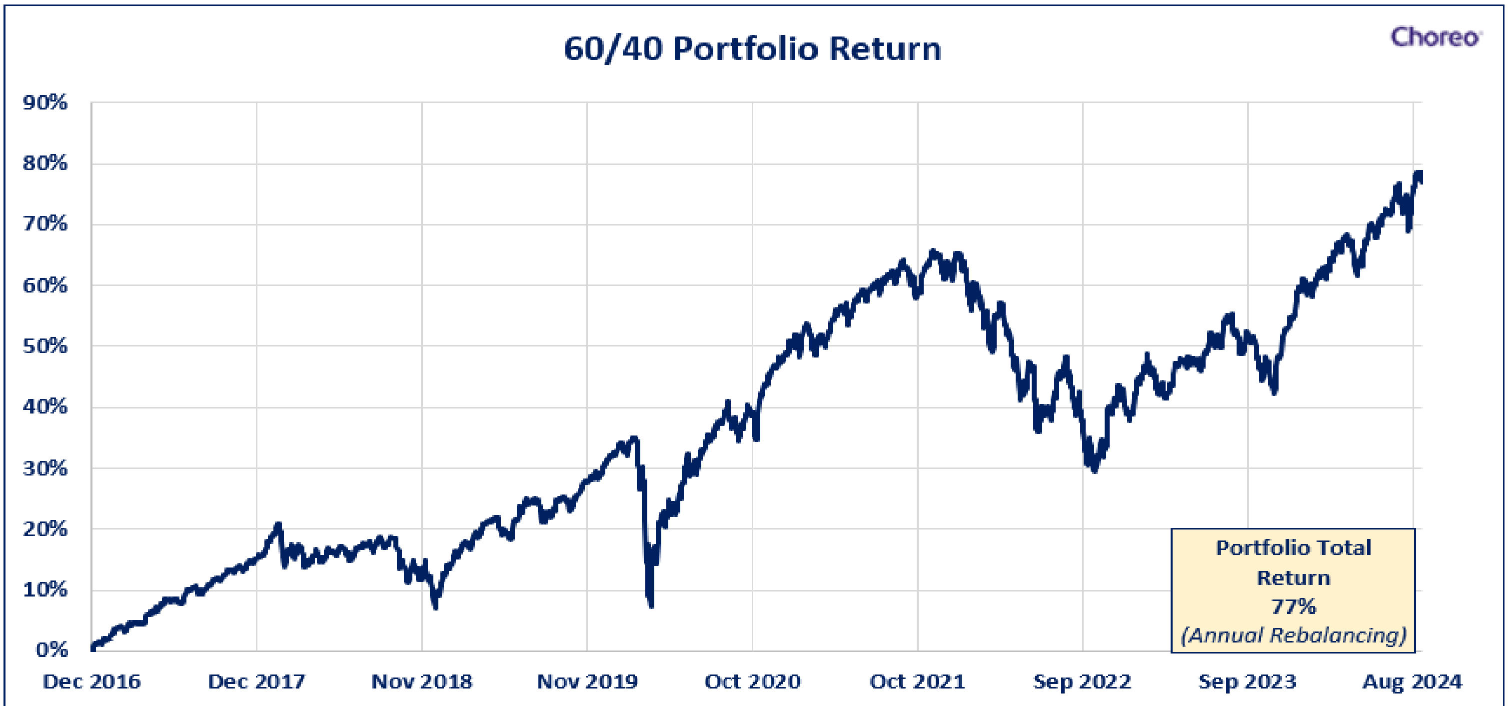
Market performance over time has been positive, but within this general trajectory, bouts of volatility have been the norm. Depending on how weekends and holidays fall, most years have around 252 trading days. Since 2000, markets (as demonstrated by the S&P 500) have averaged around 10 trading days per year where the index falls more than 2%. Thus far in 2024, markets have only experienced a 2% drop on three occasions (as of 9/6/2024). In other words, 2024 has been calmer than it may seem to many.



Additionally, when looking at the S&P 500 Index over time, one can observe that the intra-year declines can be meaningful, even in years where the Index increases. The graph below shows calendar year price returns (blue bar) and the corresponding maximum intra-year decline (red dot). Last year, for example, saw a 10 percent intra-year decline on the way to a 26 percent positive return for the full year. In other words, rarely does market volatility impact investors with a long-term time horizon, and patience is critical.



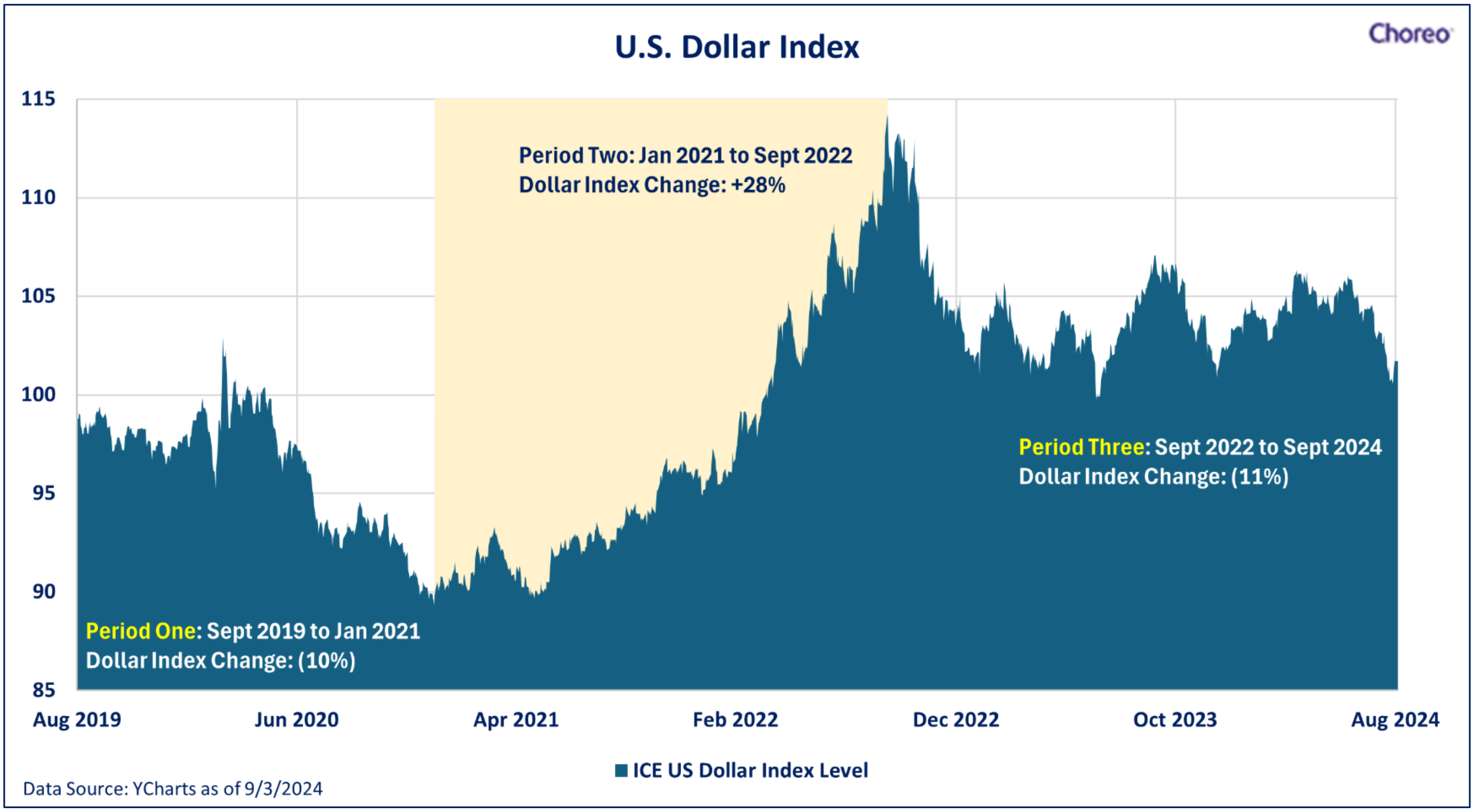
Another part of the market is also returning to a more typical state: Fixed Income. Bond yields were very low for many years, but due largely to inflationary pressures, rates have risen in recent years. This has made the math of bonds (potential price movement plus earned interest) more attractive, enabling them to once again serve the dual purpose of providing income as well as portfolio ballast. In other words, bonds often perform well when stocks do not. This has not been a consistent formula over time, particularly during the low interest-rate years seen recently. The fears of the balanced portfolio no longer being a valid investment approach are perhaps overblown as this year has shown a return to the norm. The graph below highlights a 60/40 portfolio performing well, particularly in recent months.



2017 Return	2018 Return	2019 Return	2020 Return	2021 Return	2022 Return	2023 Return	2024 Return	Total Return
16.2%	(5.4%)	19.9%	13.1%	10.8%	(16.0%)	15.9%	10.0%	77.0%

Data Source: Ycharts as of 9/3/24, 60% MSCI ACWI, 40% Bloomberg US Aggregate Bond Index, Annual Rebalancing

The U.S. dollar and currency strengths or weaknesses are often not discussed in the financial media. This year, the U.S. dollar has been weakening against a basket of global currencies as of late, likely in part due to the expectation of imminent Federal Reserve interest rate cuts. The dollar had experienced strength in recent years but this recent reversal with somewhat weaker performance against a basket of currencies may alter the global dynamics. The impact of currency movements around the world is profound for global trade and a normalization of currency movements could have meaningful effects if the trends persist. The graph below highlights various trends seen over the last several years.



Conclusion

As we approach November, it is likely there will be news headlines in the U.S. that may be agitating for market participants. There certainly has been no shortage of hot financial topics this year. In just a few days, it is likely the markets will see the reversal of several years of interest rate policy. In other words, there is a lot to potentially see and fret over as an investor. At the same time, there may be nothing to see here despite the fireworks because these short-term events are unpredictable by nature and a long-term focus will serve investors well. As we often observe, drowning out the noise will help investors see that the atypical is often more typical than one might believe.

As always, we welcome your feedback. Please reach out to your Choreo advisor with any questions or comments.

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