



**WALKER, HIGGINS & ASSOCIATES**  
WEALTH MANAGEMENT, LLC

## Quarterly Market Review and Outlook

### 2024 Q2 Market Re-Cap

The U.S. stock market advanced during the 2<sup>nd</sup> Quarter, but we continue to see signs of divergence amongst stocks. For instance, the more valued-based Dow Jones Industrial Average lost 1.25% during the 2<sup>nd</sup> Quarter.<sup>i</sup> While the more tech-focused S&P 500 advanced 4+% during the 2<sup>nd</sup> Quarter.<sup>ii</sup> This further illustrates to us that a select handful of stocks are the primary driver behind the stock market returns over the previous 9 months. As we look overseas, we notice that non-U.S. stocks mostly trended water over the previous 3 months.<sup>iii</sup>

The U.S. bond market was basically flat for the quarter and remains negative by almost 1% for 2024.<sup>iv</sup> International bonds have fared only slightly better year-to-date.<sup>v</sup> This should not come as a huge surprise as interest rate cut projections have not come to fruition so far in 2024.

Other than a brief drop in mid-April, the stock market was mostly subdued during the 2<sup>nd</sup> quarter. Was this a case of no real news being good news or a calm before a storm?

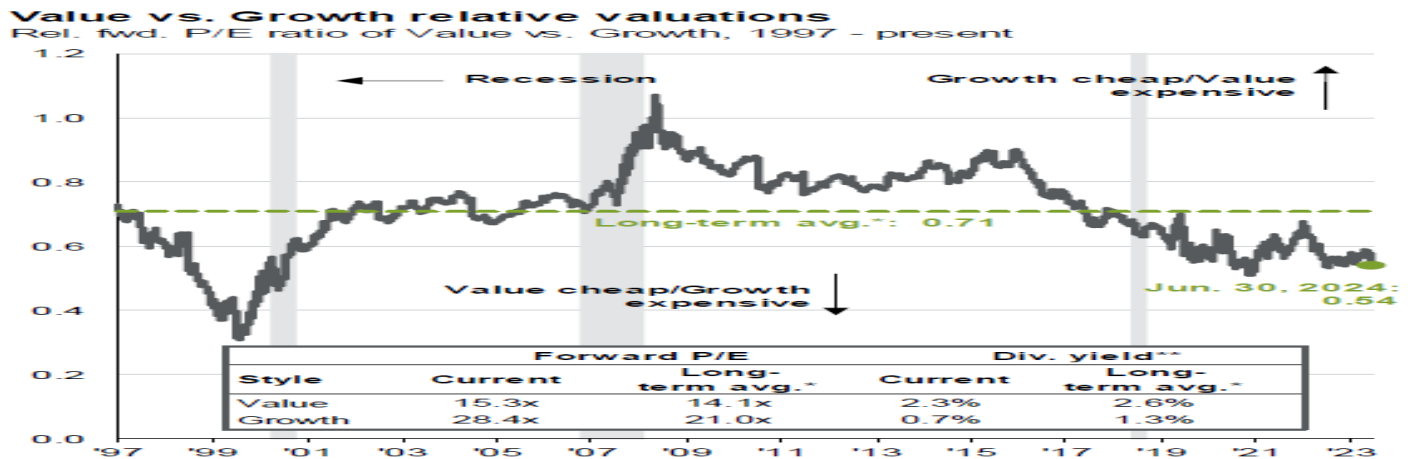
### 2024 Q3 Economic Outlook & Beyond

#### **Stock Market Valuations Stretched?**

We have talked a length about stock market valuations in previous newsletters as well as in client meetings. The reason for this is that fundamentally we view ourselves as value investors. Meaning that we, generally, do not like to purchase or add stock positions to accounts when it appears that stocks are priced more than they are valued. Just like everyone else, we want a deal (or at least the perception of a deal).

We spend a lot of time reviewing data to get a sense of whether the overall stock market is over or undervalued. Likewise, we spend a lot of energy and effort to ascertain whether individual stocks and sectors are over or undervalued. There is no one perfect measurement and often the data can be contradictory.

As we view the current landscape, we see an overall market that appears a bit stretched.<sup>vi</sup> It is important to note from above that the S&P 500 is a measurement of the largest 500 stocks in the U.S., but it is weighted by the market capitalization, or size, of the stocks. Meaning that the larger stocks have a disproportionate impact on the S&P 500. In short, the current valuation of the S&P 500 looks like that of the tech bubble of the late 1990s. However, when we examine the more dividend focused sectors of the stock market, we see valuations mostly in line with historic levels.<sup>vii</sup>



viii

Our conclusion is that we would not be surprised to see a correction of the more tech-focused stocks at some point this year (as a reminder, we consider a correction to be when stocks fall between 10%-20% from a recent high). This would be normal and, even, healthy. Additionally, corrections are often excellent stringboards for stocks to advance to new highs.

## **Are Interest Rates Ever Going to Be Cut?**

At the beginning of 2024, many assumed that the Federal Reserve was going to implement multiple interest rate cuts in 2024. As of today, there have been none. This is mostly because the data does not justify interest rates being reduced. Virtually all inflationary numbers remain above the Federal Reserve's stated objectives.<sup>ix</sup> Additionally, by traditional measurements the U.S. economy is not in recession.<sup>xxi</sup>

Therefore, it is difficult for the Federal Reserve to cut rates when inflation remains stubbornly high, and the economy does not appear to be contracting. If they did cut rates in the face of current data, then it could cause inflation to move even higher. Which would in turn likely cause the Federal Reserve to have to raise interest rates again.

The current forward-looking projections suggest that there may be 1-2 interest rate cuts by year end.<sup>xii</sup> This would mean that either inflation data improves, or economic data deteriorates. Or that wishful thinking exists. We do tend to believe that the Federal Reserve would like to get in at least one rate cut. If you believe that the Federal Reserve is political, look to their September meeting. If you believe that the Federal Reserve remains apolitical, look to their November or December meeting.

Either way, interest rates are unlikely to see a noticeable decline in the short term. Meaning that the purchasing of anything (i.e., homes/real estate, cars, businesses, industrial equipment, etc.) involving the use of debt will remain expensive. Additionally, the issuance of Federal debt will continue to be problematic for the long-term debt service of the Federal government.

## **Where Does Opportunity Exist?**

First, let us discuss interest rate sensitive assets like bonds. We continue to favor short-term bond positions of high quality. These assets offer yields that are generally more than 5%, offer reasonable protection against defaults and are less sensitive should interest rates drift higher. The disadvantage is that short-term bonds do not offer a lot of appreciation opportunities should interest rates decline. For that we have some bond assets allocated to ETFs (i.e., PYLD, JPIE, JAAA, etc.) that offer a high degree of flexibility and diversification. Finally, we would continue to suggest that the bond portion of portfolios should primarily be used for protection and income stability not to necessarily chase double digit returns.

Second, while we previously stated that perhaps technology focused stocks are overvalued, we are not actively reducing exposure to that sector. On the contrary, we simply want to be selective. We continue to believe that technology focused stocks likely offer the most upside in the long run. We just want to be cautious in overpaying for them.

Beyond technology focused stocks, we continue to be proponents of companies that consistently increase their dividends, have large sums of free cash flow, are undervalued relative to their historical levels and offer attractive growth prospects. There are always stocks and sectors that meet these criteria, but we often must remain patient.

Finally, we want to continue to stress that money market yields remain attractive at around 5%. We have used money markets in accounts to serve as a temporary holding position until we identify a high conviction strategy to implement. Should a stock market correction occur, we would likely significantly decrease money market allocations if appropriate for the respective account strategy. In the interim, money markets are performing better than the overall bond market and not too far behind the Dow Jones Industrial Average.<sup>xiii</sup>

## **Summary**

The Summer is often a bit of a slow time for stock market news. The Federal Reserve only meets twice this Summer.<sup>xiv</sup> Many people take vacations and focus on time with family and recharging their batteries.

We anticipate this Summer's news cycle to mostly focus on the November elections. Already, there have been several significant election-focused events that have pushed financial market news to the backburner. We are not political prognosticators, so we try to trend lightly on predictions. However, we anticipate a steady bombardment from all sides of the media telling each of us that the end is eminent. Consider taking points made by the media with an element of context and with a grain of salt. With that being said, in our next newsletter, we plan to dive deep into the financial impacts of a variety of potential election scenarios.

Securities offered through **First Heartland Capital**®, Inc., member FINRA/SIPC. Advisory Services offered through **First Heartland**® **Consultants, Inc.** Walker, Higgins & Associates, LLC and Walker, Higgins & Associates Wealth Management, LLC are independent of **First Heartland Capital**®, Inc. and **First Heartland**® **Consultants, Inc.**

In the interim, we want to affirm a few points:

- The calls for an economic recession have diminished. Rightfully so as GDP data continues to show growth. However, growth has slowed, which means that there is less margin of error to absorb unexpected economic shocks.
- The U.S. stock market has experienced a strong rally since October, 2023. At this point, some sectors of the market have stretched valuations. We suggest resisting the urge to throw caution to the wind for FOMO (Fear Of Missing Out). A market correction would be healthy and normal.
- We continue to believe that AI and tech-focused stocks offer strong long-term upside potential. However, it is prudent to be selective either by taking a dollar-cost-averaging approach or exercising patience.
- Further, we emphasize that opportunities exist for companies that consistently increase their dividends and have solid financials.
- The Federal Reserve is likely feeling pressure from multiple fronts to initiate a rate cutting strategy. We would temper expectations of the Federal Reserve dramatically reducing rates. Thus, we believe that the best defensive and most opportunistic positions exist in high quality, short duration and a flexible, multi-strategy fixed allocation.

As always should you have questions, please let us know. We stand ready to listen to your thoughts and discuss solutions to your unique financial goals and investment objectives.

We hope that you and your family have an enjoyable Summer!

---

<sup>i</sup> <https://www.morningstar.com/etfs/arcx/dia/performance>

<sup>ii</sup> <https://www.morningstar.com/etfs/arcx/spy/performance>

<sup>iii</sup> <https://www.morningstar.com/etfs/xnas/acwx/performance>

<sup>iv</sup> <https://www.morningstar.com/etfs/arcx/agg/performance>

<sup>v</sup> <https://www.morningstar.com/etfs/bats/iagg/performance>

<sup>vi</sup> J.P. Morgan Asset Management. "Market Insights: Guide to the Markets<sup>®</sup>". June 30, 2024. Page 5.

<sup>vii</sup> J.P. Morgan Asset Management. "Market Insights: Guide to the Markets<sup>®</sup>". June 30, 2024. Page 9.

<sup>viii</sup> Ibid.

<sup>ix</sup> <https://www.bls.gov/news.release/cpi.nr0.htm>

<sup>x</sup> First Trust. "DataWatch: 1<sup>st</sup> Quarter GDP (Final)". June 27, 2024.

<sup>xi</sup> <https://www.atlantafed.org/cqer/research/gdpnow.aspx>

<sup>xii</sup> <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html?redirect=/trading/interest-rates/countdown-to-fomc.html>

<sup>xiii</sup> <https://finance.yahoo.com/quote/%5EDJI/chart>

<sup>xiv</sup> <https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm>