Intelligent Investment

Second Quarter 2024

S&P 500 YTD 14.48%[3]

MSCI ALL WORLD ex US YTD 5.28%[3]

"Don't Stop Believin'![1]

The first half of 2024 is already behind us, seems like just yesterday we were ringing in the new year. And what a year it has been! We've seen equity markets continue to steam ahead to all-time highs showing very few signs of weakness, and with rumors of Steve Perry reuniting with Journey let's hope 2024's "Wheel in the Sky Keeps on Turnin!"[1].

This year has continued to defy the naysayers and bears. Although ARPG has remained "Faithfully"[1] in the bull camp for the last 18 months there has been many firms that have gone their "Separate Ways"[1] calling 2023's market mere reversion to the mean but "The Party's Over"[1] in 2024, "Who's Crying Now?" [1]

What has been the catalyst of 2024's market gains? "Anyway You Want it"[1] it seems. Higher interest rates coupled with a contentious election year wouldn't appear to be the "Sweet and Simple"[1] recipe for a continuation of 2023's juggernaut. However, it doesn't take a tremendous amount of human intelligence to see the narrative of earnings provided from artificial intelligence is alive and well on Wall Street.

What does the second half of 2024 have in store? Let's review how we arrived at these levels before we shine the "Lights"[1] on the remainder of this year.

Wall Street got off to a slow start to begin the second quarter of 2024. Stocks lagged for much of April, rebounded in May, and were choppy in June. ARPG, along with many others spent the quarter watching economic data, trying to gauge whether the Federal Reserve might lower interest rates. In April, we were discouraged by the unexpected rise in inflation, which dampened hopes of several interest rate decreases during the year. However, the latest economic data gave some indication that inflationary pressures may be scaling back. The personal consumption expenditures (PCE) price index for May rose at its slowest pace since March 2021. Nevertheless, lowering price pressures has been a slow process and inflation could push higher again. In response, the Federal Reserve has remained cautious in its assessment of inflation going forward and will look for more concrete data confirming downward price pressures before loosening its restrictive monetary policy.

These headwinds didn't appear to damper the animal spirits. Several indexes reached new records throughout the quarter. The S&P 500 and the Nasdaq closed out the quarter at new highs, marking the 32nd record close of the year for the S&P 500 and the 21st for the Nasdaq. Among the market sectors, information technology outperformed, gaining 14.5% in the quarter, followed by communication services, and utilities. Materials, industrials, and real estate lagged. Rising bond yields (higher interest rates) weighed on prices, with the yield on 10-year Treasuries closing the quarter up nearly 0.15% from the end of the first quarter, while the yield on the 2-year note ended the quarter about where it began. Corporate earnings got off to a good start for the year, with first-quarter earnings exceeding analyst expectations for the fifth consecutive quarter. Roughly 78.3% of S&P 500 companies reported earnings that beat expectations, as companies in consumer staples, financials, health care, real estate, and communication services bested their prior four-quarter average.

The Federal Open Market Committee met twice in the second quarter, in May and in June. Following each of those meetings, the Committee kept interest rates at their current levels. Each time, the FOMC noted that the economy in general, and the labor market in particular, had remained steady, while inflation stayed well above the Fed's target rate of 2.0%.

Where do we see Fed policy heading for the remainder of 2024? Overall, last quarter the FOMC maintained its hawkish stance toward lowering interest rates, with the possibility of just one rate cut before the end of the year. ARPG believes there to be a probability of 2-3 rate cuts this year. The Fed's restrictive policy is working very well based on current Core PCE as of June 28th of a mere 2.6%, unemployment ticking up from 3.4% to 4.0% and available jobs to available workers down to 1.2 from a high of 2.0. The Federal Reserve is acutely aware of the risks associated with keeping policy rate restrictive for too long thus damaging the labor market and causing unnecessary contraction in the economy.

What can we expect "After the Fall"[1] of policy rates? How do we view market performance going forward? What parts of the equity market will likely expand before "The Lights Go Down"[1] on 2024? We think it's best to stay with strong sectors and companies that are working. From Fundstrat "Strength continues to be strong. Why does this happen? Arguably, the fundamental factors supporting stocks in the first half continue through the remainder of the year. So, the drivers of 2024 first half are similarly still in place. What is different for the next six months is the Fed is one step closer to cutting. Thus, we think, on the margin, those sectors/stocks leveraged to a Fed cut will see an inflection. Most notably, this is small-caps." With these likely market tailwinds, we think it's best to stay positive and embrace the second half of 2024 with "Open Arms"[1]

Summer is summering! It's time to enjoy a vacation with your family, celebrate the 4th of July and generally "Be Good to Yourself"[1]. In any season or market, the best investors always focus on the long term and ARPG will continue to practice our approach to value investing, "Intelligent Investment is Investment on Value, buying high quality companies in low quality times". This is what sets ARPG apart from the rest. As always, we thank you for your confidence and are humbled by your trust. Please feel free to contact us at any time. With interest rates higher and a contentious election year

INTELLIGENT INVESTMENT

Sincerely,
Matthew D. Dahl
Chief Investment Officer

1. Journey
2. Fundstrat
3. ARPG / Stockcharts.com