Your Weekly Investment
Insights
October 14, 2024

VERDENCE CAPITAL ADVISORS

Key Takeaways:

- Bull market turns 2!
- Still a concentrated bull market.
- Be thankful for price to earnings multiple expansion.
- Year three tends to see returns fade.
- Volatility to remain heightened as risks to equities grow.

Happy Anniversary to the Bull Market

Over the weekend, the current bull market that began on October 12, 2022 turned two years old. Investors in the S&P 500 have enjoyed a 68% rally, midcap investors as measured by the Russell 2500 have seen a 39% rally while small cap buyers as measured by the Russell 2000 have experienced a 36% rally. This bull market has been unique as it has not been a diversified bull market. In addition, the bull market has taken place amid one of the most aggressive tightening cycles in decades. In this weekly insights, we look at how this bull market has compared to historical bull markets. In addition, we will look at what history tells us about the third year of the bull market.

- **Not necessarily a diversified bull market:** While the bull market started with a rotation out of technology and growth sectors into value sectors, that was short lived, lasting the first five months of the bull market. In fact, the S&P 500 market cap weighted index is outperforming the S&P 500 equal cap weighted index by 22% since the bull market started. This overwhelming outperformance has been driven by a handful of names. In fact, five names have made up 96% of the S&P 500 total return (i.e., NVIDIA, Meta. Broadcom, Microsoft and Apple).

- **Multiple expansion drives bull market:** This bull market has been primarily driven by PE expansion as investors pay elevated multiples for select sectors (e.g., tech and growth). In fact, ~75% of the S&P 500 total return since the start of the bull market has been PE expansion while ~12% has been earnings growth.

- **How does this bull market measure up:** We looked at 15 different bull markets since 1932 and how the current bull market measures up in performance. The median average return of the bull markets that enter a third year has been ~55%. This compares to the 62% rally we have seen thus far (price return only). The current bull market ranks fifth of the bull markets in performance.

- **How much longer can we go?** If you simply use history as a guide, bull markets start to lose steam in year three. Of the 15 bull markets, 10 of the 15 made it to year three, nine of the 15 made it to year four and only five of the 15 made it to year five. The average return in year one is 34% (this bull market saw 22%), in year two it is 10% (this saw 32%), year three is 5% and then it picks up again in year four (16%) before fading in year five (8%).

The Bottom Line:

This bull market has been impressive on an absolute level but not as diversified as we would like. In fact, if there was confidence in the Fed orchestrating the perfect soft landing we should have more participation in small and midcap stocks than we have seen. We continue to favor equities for the long run and are looking for opportunities to add exposure. However, with valuations elevated and earnings unrealistic for 2025 amid slowing economic growth, we remain cautious at this time. In addition, history tells us that in year three, bull markets tend to lose steam. With geopolitical risks heightened and uncertainty surrounding the U.S. election, we expect volatility to remain heightened and additional opportunities to add to equities to present themselves.

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Key Takeaways:

- Revolving credit falls by the most since March 2021.
- Fed minutes highlight debate around aggressiveness of cuts.
- Core inflation increases for second straight month.
- U.S. equities lead global market performance.
- Traders reset rate cut expectations, 10YR above 4.0%.
- Energy drives commodities lower.

Weekly Economic Recap –

Fed Highlights Differences in Interest Rate Cuts

Consumer credit increased at a slower pace than expected in August ($8.9 billion vs. $12.0 billion). Revolving debt outstanding, including credit cards, decreased $1.4 billion, the largest drop since March 2021. The prior month's reading, however, was revised higher to $26.6 billion, the largest increase since October 2022.

Small business optimism was slightly higher in September compared to the previous month but lower than expected. Of the respondents 34% indicated job openings they could not fill, the smallest share since the start of 2021. The uncertainty index increased 11 points ahead of the November election. Firms planning capital expenditures fell to the lowest reading since April 2023.

The Fed's September meeting minutes showed a consensus view to cut interest rates, but there was debate around the aggressiveness of the cut. "Some participants observed that they would have preferred a 25bps reduction at this meeting."

Inflation as tracked by the Consumer Price Index increased more than expected in September (2.4% vs. 2.3% est.). However, the annualized rate of inflation is still the lowest since February 2021. Core inflation, which excludes volatile food and energy prices, increased 0.3% for the second straight month, while the three-month annualized rate increased by the most since May.

Producer price inflation was relatively unchanged in September from the prior month. An increase in prices received for services offset a similar size decline in prices received for goods. Declining energy prices were the main contributor to the decrease in goods prices.

Weekly Market Recap –

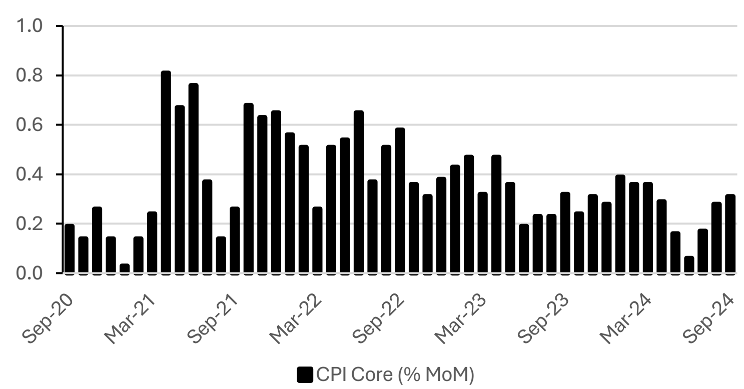
Global Equities Rally Driven by the U.S.; Yields Breach Key Psychological Level

Equities: The MSCI AC World Index was higher for the fourth time in the past five weeks. Major averages in the U.S. were higher for the fifth straight week as both the S&P 500 and Dow Jones Industrial Average ended the week at record highs. The gains came despite hotter inflation data as earnings season kicked off with the major banks. Large cap growth outperformed value as energy and utilities dragged on value.

Fixed Income: The Bloomberg Barclays Aggregate Index was lower for the fourth consecutive week. Bond yields moved higher and the 10YR yield breached the psychological 4.0% level after inflation data was higher than expected and the Fed Minutes showed a low likelihood of another 50 bps rate cut. U.S. TIPS and floating rate instruments were the only areas of the market higher for the week as investors reprice Fed rate cut expectations.

Commodities/FX: The Bloomberg Commodity Index was lower for the first time in five weeks led by weakness in energy. Crude oil fell sharply on subdued optimism about China stimulus. Metals also dropped driven by copper on growth fears.

Core Inflation Increases by Most Since May



Footnotes: Data is as of September 2024.
Data Source: FactSet Research Systems, Verdence Capital Advisors.

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Past performance is not indicative of future returns.

Global Equities Rally Led by the U.S.

U.S. Equities

	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	42,864	1.2%	5.0%	8.3%	29.3%	15.4%
S&P 500	5,815	1.1%	4.8%	4.5%	34.8%	23.2%
Russell 1000 Growth	3,828	1.4%	5.4%	1.7%	38.6%	26.1%
Russell 1000 Value	1,885	0.9%	4.7%	8.5%	28.9%	17.7%
Russell Midcap	3,552	1.0%	5.7%	8.1%	29.2%	15.5%
Russell 2000	2,234	1.0%	6.3%	5.5%	27.8%	11.4%
Nasdaq	18,343	1.1%	5.5%	0.5%	35.4%	22.9%

International Equities

	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	853	0.6%	4.9%	3.8%	30.0%	18.8%
MSCI EAFE (USD)	2,419	0.3%	2.9%	1.3%	21.5%	10.7%
MSCI Europe ex UK (USD)	2,705	0.8%	2.5%	1.0%	22.1%	9.8%
MSCI Japan (USD)	4,020	0.3%	2.7%	-2.3%	20.2%	10.6%
MSCI UK (USD)	1,285	-0.6%	1.3%	2.6%	19.3%	12.9%
MSCI EM (USD)	1,160	-1.7%	9.7%	3.7%	24.3%	15.8%
MSCI Asia ex Japan (USD)	757	-2.0%	11.7%	5.5%	26.9%	20.3%

Fixed Income

	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	4.5%	-0.5%	-1.8%	2.3%	9.8%	2.9%
U.S. Govt/Credit	4.4%	-0.5%	-1.8%	2.3%	9.5%	2.8%
U.S. 10 Year Treasury	4.1%	-0.8%	-3.1%	1.9%	8.1%	1.3%
U.S. TIPS (1-10YR)	4.1%	0.2%	0.0%	2.3%	8.3%	4.4%
U.S. High Yield	7.2%	-0.3%	0.8%	3.8%	15.6%	7.5%
EM Bonds (USD)	6.4%	-0.4%	0.2%	3.6%	16.5%	7.2%
Municipal Bonds	3.4%	-0.5%	-0.2%	1.6%	9.0%	1.7%

Commodities

	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	241	-1.2%	7.5%	1.3%	3.2%	6.5%
Crude Oil (USD/bbl)	$74.0	-4.1%	5.3%	-8.2%	-13.7%	2.3%
Gold ($/oz)	$2,656.6	0.3%	2.9%	10.0%	37.2%	28.5%
Copper	$449.4	-3.6%	5.4%	-4.3%	23.3%	13.2%
Wheat	$599.0	0.7%	0.3%	3.6%	-10.2%	-10.8%
U.S. Dollar	103	0.7%	2.1%	-0.8%	-3.2%	1.9%
VIX Index	20.5	6.5%	15.7%	58.4%	27.2%	64.3%

Footnotes: Data is as of October 11, 2024.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

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