1065 Andrews Dr. West Chester PA 19380 • www.tp-advisory.com
Phone: 610-254-0451 Fax: 484-580-8482 email: thomaspadilla@comcast.net

No Stormy Weather

Global Markets and Regions

	2nd QTR	2024 YTD
US	4.00%	14.90%
Developed Europe	0.90%	6.40%
Asia	3.20%	8.70%
Emerging Markets	5.40%	7.70%

US Markets

	2nd QTR	2024 YTD
Dow 30	-1.30%	4.80%
Large Cap Cos.	4.41%	15.27%
Mid. Cap Cos.	-3.43%	6.12%
Small Cap Cos.	-3.24%	-0.76%
Bonds	0.75%	-0.35%

The National Weather Service has been predicting an above average storm count this summer. With the arrival of the season's first major hurricane, their predictions may be fulfilled. The markets, on the other hand, appear to be forecasting relative calm for the summer. Of course, forecasting the weather and the markets can be a low probability exercise, as conditions and circumstances can and do change without much warning. That being said, the conditions are in place for continued calm in the markets.

Markets are beginning to normalize. A resilient economy is reflected in relatively strong Purchasing Manager Indices (PMI) and jobless claims that are well below the 350,000 threshold that is historically consistent with recessions. Outside the US, economies are showing similar characteristics. General financial and monetary conditions are stable. Even though the economy has been steadily slowing down for the last year or so, it is still growing at about a 2% pace.

The Federal Reserve appears to be in the last stages of getting inflation back to their long term 2% target. They are still acting to bring inflation down, hence the market anxiety over interest rates. Though reported inflation is still above their target, the soft- landing thesis rather than a hard recession is considered a reasonably probable outcome. The question the markets are trying to accommodate is when interest rates will come down, not if they will come down.

Consumer sentiment measurements are still on the low side. This is not surprising, as the Fed is trying to control inflation without causing a recession. According to a number of analysts, this conflicted sentiment appears to reflect the uneven distribution of economic benefits, which is reflected in the continued stress on households adjusting to inflation along with a difficult housing market and the generally polarized political climate. Around the world there are also several hot wars going on at the moment and cold wars that could turn hot. It's understandable that sentiment is a little negative or conflicted.

Despite, or more likely because of this background, stocks continue to generally hold gains. There are just enough positives to offset the negatives. Employment figures are stable but not ideal. Inflation is coming down but still above target. Stock valuations are above average but not at extreme levels. Corporate earnings are rising and forward estimates are stable to modestly increasing. That would have to change in order to seriously undermine stock prices.

The broad major indices, primarily the Nasdaq and the S&P 500, have shown strong gains so far this year. Those gains have been somewhat lopsided due to the outsized price gains in technology stocks associated with Artificial Intelligence (AI). The price appreciation does not seem unjustified due to their outsized earnings and revenue performance. Considering the forecast future benefits from AI application, the optimism is understandable. Smaller and mid-sized stocks have not delivered those types of financial gains yet. If the promise of AI is real, it should be just a matter of time.

The markets also historically have done well during Presidential elections years. Given how contentious this election has been, that may seem counterintuitive, but that has been the record. The market may just be able to see through the fog of campaigning and focus on the future. Let's hope that what it sees justifies a continued stretch of no stormy weather.