MARKET VOLATILITY
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"Sometimes things go as people expected, and they conclude that they knew what was going to happen. And sometimes events diverge from people's expectations, and they say they would have been right if only some unexpected event hadn't transpired."

-The Folly of Certainty by Howard Marks, Oaktree Capital Management, LP ***7/17/2024***

On July 16, 2024 the S&P 500 hit an all time high of 5,667. But, on August 5th world markets posted one of its worst days in two years. The Dow Jones Industrials Average dropped over 1,000 points, the NASDAQ lost 3.4%, the Japanese Nikkei Index fell over 12% and Bitcoin lost $8,000.   After the drop on August 5th, the S&P 500 had dropped to 5,119, a 548-point drop, off 9.67% from its high achieved only 20 days earlier.

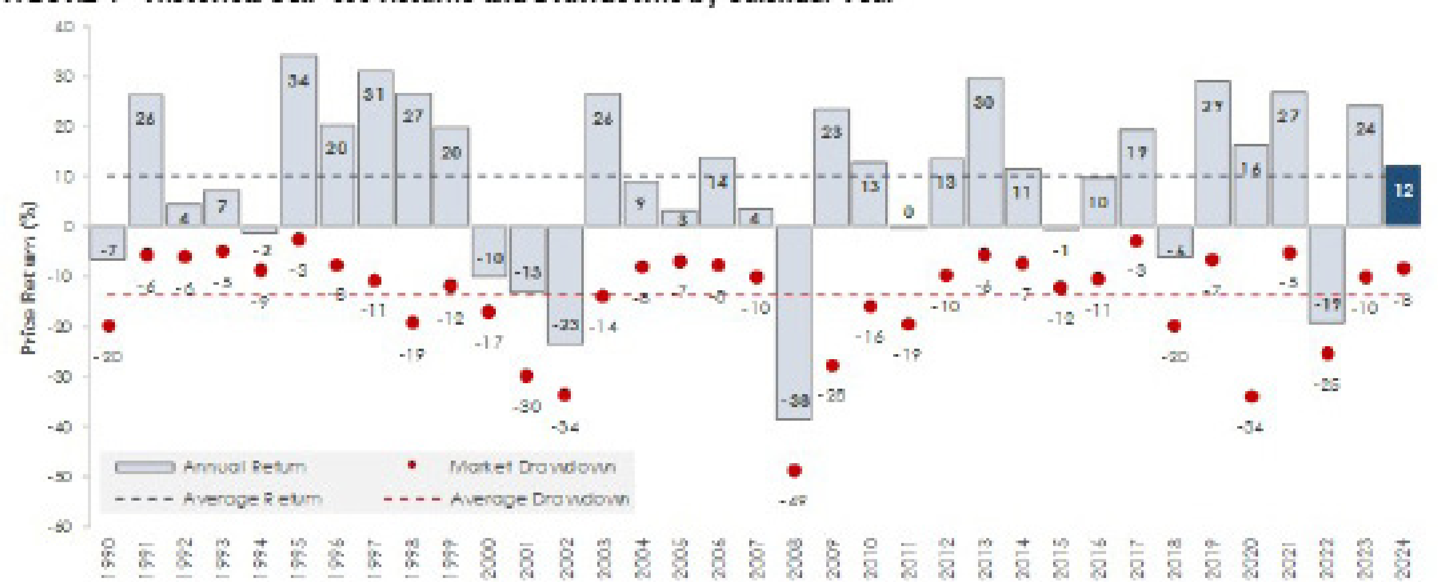
The August 5 correction in the stock market brought out the "I told you so" investor community. Many of the negativity predicting pundits stated that they knew the drop was coming.

On average it takes about 3 months to recover from corrections between 5% and 10% and about 8 months to recover from corrections between 10% and 20%.

As of the market close on August 15 (date of this article) the S&P 500 had recovered 424 points or 77% of the decline and is still up 16.14% for the year.

History shows that stock market drawdowns are a natural part of investing. The chart below graphs the S&P 500's price returns each year since 1990. The navy line shows the index has produced an average annual return of nearly +10%, but the bottom half of the graph shows a lot can happen within the market throughout the year. The red dots show the S&P 500's biggest intra-year decline in each year. Since 1990, 32 of 35 years have had an intra-year selloff of -5% or more. Nineteen years have had a selloff of -10% or more, with six years seeing a drawdown greater than -20%.

FIGURE 1 – Historical S&P 500 Returns and Drawdowns by Calendar Year



Source: Standard and Poor's based on S&P 500 index. Past performance does not guarantee future results. Data from January 1st, 1990 to August 10th, 2024.

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The U.S. economy has been giving mixed signals. First quarter 2024 GDP (Gross Domestic Product) rose only 1.4% but increased to 2.8% for the second quarter (first estimate published in July). Both the manufacturing PMI (Purchasing Managers Index) and the Services PMI are over 50 as of July, which indicates expansion.

While job growth has slowed, the economy added over 1.36 million new jobs in the first half of the year. However, the unemployment rate has ticked up from 3.7% at the beginning of the year to 4.3% in July.

The rate of inflation has been coming down. July's CPI (Consumer Price Index) was 3.3% while the PCE (Personal Consumption index) came in at 2.7%. These are down from over 9% in summer of 2022.

While the rate of inflation is decreasing, the actual prices of goods and services are up over 20% compared to January, 2021 (three and a half years). That is the difference between looking at the rate of change in inflation vs. looking at the cumulative increase in prices from a point in time.

During inflationary periods, the Federal Reserve raises interest rates as a way to curb purchasing in an attempt to dampen demand and, in theory, stop prices from rising as fast. The Federal Reserve raised rates 11 times from .5% in early 2022 to 5.5% in mid-2023. Rates have remained flat for over a year. The Fed has been signaling that they are done raising short term interest rates and may be fairly close to starting to cut rates, possibly as early as their next meeting in September.

Short term interest rates have been higher than long term interest rates since October, 2022. This is called an inverted yield curve, which has traditionally been a signal for a recession. Since 1978, the longest delay between an inverted yield curve and a recession has been 22 months (2006). We are currently in the longest time period of experiencing an inverted yield curve without a recession in over 60 years.

The main driver of the stock market is corporate earnings. The S&P 500 is projecting 2024 earnings to grow 12% over 2023 and another 16% in 2025 over 2024. These projections are signaling more room for the market to advance.

Markets fluctuate and they can be volatile at time. These are normal market events. No one knows where markets are headed in the short term with certainty.

At JVL Wealth Strategies, our goal is to construct investment portfolios for the long term. We create portfolios that can withstand the short-term ups and downs of the market. We work with our clients to understand their liquidity needs for the next few years and build their portfolios around their specific needs.

If you know of anyone who could benefit from our services, please feel free to pass our name along. We enjoy the opportunity to share our experiences with others.

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