# Ridgetop Wealth Management
# Market Update – August 2024

**Second Half Outlook**
As we wrote about in our market update in late June: *"Going into the second half of the year, the positive cyclical story remains intact. We think the stock market is likely to advance but the "choppiness" shoe is likely to be a good fit. After a great first half in the S&P 500 optimism has emerged. The longer investor optimism remains high, the bigger the risk that it turns into complacency and leaves the market vulnerable to a few pieces of bad news. The eighteen month rally we have had has left valuations stretched and the market overbought. With these vulnerabilities at hand its far more likely that we see choppiness this summer than smooth sailing."*

**Short Term Pain for Long-Term Gain?**
July finally brought us some volatility and August has been thus far ugly. The largest US tech-centric companies (which comprise about 35% of the index) have pulled back off of their highs which punishes market cap weighted indices like the S&P 500. Despite this, what we have seen over the last few weeks is healthy, if not bullish.

The market is broadening out which is a healthy sign. While the Elite Eight stocks have paused in the short term, the majority of the remaining stocks in the S&P 500 are finally starting to advance. The New York Stock Exchange(NYSE) Advance/Decline(A/D) line is making new highs, showing a majority of stocks in the NYSE are advancing. This kind of broad advance has historically been bullish. The A/D Line also tends to rise prior to the reemergence of overall gains in market cap weighted indices.

We also made a new cycle high in the number of 52-week new highs on the NYSE in mid-July. Weekly new highs have peaked a median of 44 weeks before a cyclical market peak. While anything can happen in the stock market, it just doesn't add up that the internals of the market would be strengthening immediately prior to a meaningful longer-term bear market.

Lastly, and we would argue most important in the short run, the excess optimism we wrote about it June is finally subsiding in this latest decline. While what we are experiencing does not feel good in the short run, we need these pauses (during the historically weakest two months of the year for the stock market – Aug. & Sept.) combined with a decrease in investor sentiment, to set the stage for a continuation of the Bull to new highs into the end of the year.

**The Jobs Report**
The July employment report was the overwhelming impetus for the pain we have experienced the last few days. The report was weak across the board. The cyclical slowdown in the economy is undeniable and the Fed has now accomplished its mission in the rate tightening cycle. That said, what has not been widely discussed in the media are some of the innuendos in this report which make the market's violent reaction potentially overblown. The underlying data was littered with weather-related impacts overstating the widespread weakness in the economy. As a result, the headlines likely overstated the weakness in the labor market. With Hurricane Beryl and hotter than normal weather, a record 461,000 people were not at work due to weather, more than 10x the July monthly average of 41,000. Additionally, there were 250,000 more people not at work than last July for "other reasons" such as auto shutdowns.

**In Summary**

The cyclical Bull market we have been in since October 2022 has gone up about half as much and lasted half as long as prior cyclical Bull markets. This fact means almost nothing on its own, but when you combine it with the euphoric attitude on Wallstreet as we concluded the 2nd quarter, a healthy broadening of overall stock performance since then, a Fed that will be providing us with imminent rate cuts, and almost 80% of companies in S&P 500 whom have reported Q2 earnings thus far have beaten expectations …we still have to give this Bull the benefit of the doubt. Once the current sell-off runs its course, the uptrend should resume.

We are not naive. No matter who gets into the White House no President has ever been able to repeal the economic cycle. The next recession and meaningful long-term bear market in stocks will happen, but the weight of the evidence is this isn't yet it. We will change course as the evidence warrants, but it does not warrant changing at this time. Bull markets have always and will always climb a proverbial wall of worry. Finally, over the last few weeks, some of that worry is materializing.