Flash *Market Update*

August 5, 2024

MidWestOne™
PRIVATE WEALTH

Market Enters Correction Territory: Key Updates for August 5, 2024

Market Monitor			
YearTo Date (YTD) Return %			
Domestic			
	Value	Core	Growth
Large	7.13%	9.11%	16.72%
Mid	-1.22%	3.85%	6.98%
Small	-3.63%	-0.63%	3.31%
International			
Developed			2.47%
Emerging			3.66%
Fixed Income			
Bloomberg Aggregate			1.75%
Bloomberg US Credit HY			0.23%
Real Assets			
Commodities			-0.48%
Real Estate			6.33%
US Dollar			1.85%

Parts of the U.S. equity market entered correction territory over the past couple of trading sessions. As of mid-day Monday, the technology heavy NASDAQ has retreated 12.8% off its high in July. The S&P 500 and Dow Jones Industrial declined 8.2% and 3.5%, respectively. Declines of this magnitude are headline-grabbing. During these periods it is important to keep the bigger picture in perspective.

Over time markets advance and recede periodically. A *Correction* is defined as a 10% price decline from a recent high. In comparison, the trigger level for a *Bear Market* is a 20%. After the recent string of advances (57 new record highs for the S&P 500 over the past 12 months) it can be surprising to realize that markets are in correction territory 9% of the time and correction / bear markets 43%.[1] For example, since 1900 the Dow Jones Industrial Average has experienced 21 corrections, on average every 5.92 years and declining 13.41%.[1] Corrections are a normal part of investing in the stock market. Even accounting for the past couple of days, 2024 has been a solid year. (see panel to the right)

The unexpectedly low payroll data feeds the doubt regarding the ability of households to continue to consume and invites the interpretation that the Federal Reserve has waited too long to begin an easing cycle. Last week consumer confidence surprised to the upside, reading 100.3 vs expectations of 99.5. Household finances are weakening somewhat but are still in decent shape. The savings rate is at just under 4%. Household net worth has been increasing. Some relief will be felt as the 30-year mortgage rates have fallen below 7%.

Beyond the concern about the consumer, other recent economic data is mixed but point to slowing economic activity. Weak readings of manufacturing activity from the Institute of Supply Management, lower Leading Indicator reports and lower Construction spending indicate a controlled slow down. Our base case remains a soft landing.

Over the long term, the primary driver of market performance is corporate earnings growth. Through last Friday, 75% of the S&P 500 companies have reported second quarter results, overall earnings are 5.3% better than expected. The reported blended earnings growth rate is 9.8% as compared to the consensus estimate of 8.9% earnings growth. Forward guidance has been a little weaker than expected and is consistent with slowing but not collapsing consumption rates. The full year S&P 500 operating earnings estimates for 2024 and 2025 are $243.24 and 278.56, respectively.[2] That represents an expected growth rate in 2025 of 14.5%. As of Noon CDT Monday's value of 5,204, the Price Earnings ratio (P/E) stand at 21.4 and 18.7. By comparison, since 1956, when inflation is in the 1.75% - 2.98%, the S&P 500 PE has been 18.48 on average.[3] Broad market valuations are still slightly elevated but not alarmingly so.

The risk off sentiment has shown a flow to the relative safe haven of fixed income. The increased demand for bonds bids up prices which forces yields lower. As of mid-day Monday, the 2-year yields 3.92%, down a staggering 47 basis points (0.47%) from a week ago. The 10-year at 3.80%, down 40 bp (0.40%). The entire curve has shifted lower. The 2/10-year segment of the curve continued to normalize with the inversion at only 12 bp (0.12%). One bright side, 30-year fixed mortgages have retreated to 6.9% which should provide some relief to potential homebuyers and existing homeowners with adjustable-rate mortgages.

continued on page 2

MidWestOne™ PRIVATE WEALTH

Action Items:

- Keep Calm. Cooler heads prevail in these markets. Keep the big picture in perspective. While the impulse for immediate action can be strong, avoid emotional reactions despite the headlines. Market fundamentals remain intact. Earnings remain strong, outlook is softer but still positive (estimates for full year Gross Domestic Product are positive for 2024, 2025 and 2026).
- Rebalance. As equities settle out, bond prices are rallying. As cash is needed for distributions/spending, the money market provides a ready cash reserve that is not subject to market fluctuations. Bond prices increase as yields fall. Your MWO portfolio management team rebalances accounts as needed. In this situation, bonds may be trimmed as their prices rise, and equities purchased as relative prices fall.

US Treasury Yields	Now	Last Week		change bp
1 Year	4.40%	4.80%	↓	-40
2 Year	3.92%	4.39%	↓	-47
10 Year	3.80%	4.20%	↓	-40
30 Year	4.08%	4.45%	↓	-37
2/10 Spread	-0.12%	-0.19%	↓	-7

- Look for estate planning / gifting opportunities. If you have been considering the conversion of part of your IRA or qualified plans to a Roth IRA, or if you plan to gift appreciated assets to your heirs, it may make sense to do so during this time period. Take advantage of the lower prices to convert / gift more shares.
- Focus long term. Short term volatility is a part of the journey. The long-term trend for equities has historically been and is up. Note that within your financial plan we utilize Monte Carlo testing to test the strength of your plan across all market cycles. We set your optimal asset allocation in conjunction with that wide range of possible outcomes. Long-term the role of equities is to provide growth, while it can be a bumpy ride, it is effective.
- Talk with your MWO Team. You are not alone! If this week's volatility is troublesome, talk with your MidWestOne Team. Together we can ensure that you are positioned properly for all situations.

References:

1 https://www.crandallpierce.com/downloads/studies/428S.pdf

2 https://yardeni.com/charts/sp-500/&P 500 - Yardeni Research

3 https://www.crandallpierce.com/downloads/studies/336B.pdf

MidWestOne™
PRIVATE WEALTH

800.247.4418 MidWestOne.bank Email: privatewealth@midwestone.com