GWM GREENE WEALTH MANAGEMENT

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GWM Monthly Minute - August 2024

Economic and Market Update

Recent Market Volatility

In a year otherwise marked by market growth, stability, and optimism - the recent market selloff in the first few days of August quickly shifted sentiment from positive to apprehensive. It is natural for emotions to bubble up during periods of volatility, but volatility like we have recently experienced tends to present itself every year. Here is a snapshot of what is behind recent volatility:

- Softening Economic Data - Last week it was a July jobs report which drove economic concern. This continues a trend of slower wage growth, slower spending, and disinflation. There is a major difference in slowing data and a sharp drop-off. The consensus among economists is the pace of economic activity is slowing rather than contracting and fundamentals suggest a "soft-landing" is still on track.

- Fed Rate Policy - Adding to volatility last week was a growing contingent of Fed watchers, feeling that the central bank was incorrect in holding rates steady at the July meeting. While timing of rate cuts is uncertain, the consensus among economists is the Fed needs to start dialing back its restrictiveness. As markets have settled this week, it is less likely that the Fed would perform an emergency rate cut before its next meeting in September. However, most prognosticators anticipate a 50-basis point cut in September with additional cuts before year-end.

- Spike in the value of the Yen (Japanese) - Without getting deep into the weeds, a rate hike by the Bank of Japan (BOJ) and associated appreciation of the Yen vs. the Dollar caused a sell-off in risk markets, affecting all risk assets globally. The risk-off activity was associated with the unwinding of the so-called carry trade, where an investor borrows in a low-yielding currency (Japan) to invest in higher-yielding currencies/assets. As the Yen appreciated, investors had to sell assets to cover debts and capital calls associated with their borrowing. The Yen and carry trade landscape has since settled after a shock late last week and through the weekend.

The recent volatility was a stark and swift reminder that markets are uncertain. We would expect volatility to remain elevated in both the market and economy over the balance of the year. However, fundamentals of the economy remain intact and stable. As we typically recommend, the current environment does not justify a need for a major pivot from long-term strategies designed to perform through market cycles.

Economy/Market Snapshot

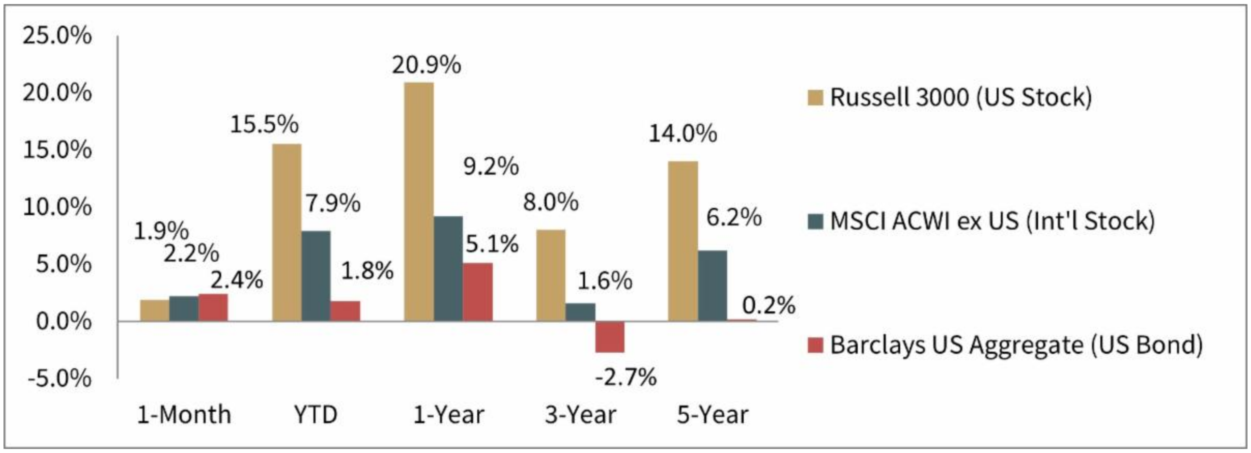
- Global equity markets have had a strong start to the year, while bond markets continue to oscillate around expectations for Fed policy as of the end of July. For the year, US Stocks (Russell 3000) are up 15.5% and Developed International Stocks (MSCI ACWI ex-US) are up 7.9%. The Total US Bond market (Bloomberg Agg. Bond) is up 1.8%.

- The US economic backdrop remains on solid footing with support from strong balance sheets (household + corporate), stable job markets and wages (albeit slowing), and steady consumption trends from consumers.

- Internationally the outlook continues to improve as recessionary conditions in 2023 that plagued some regions have concluded. The outlook is supported by a broad economic recovery in Europe, with rising earnings growth and attractive valuations. International Developed country stocks continue to trade at a steep discount to US stocks looking at valuations, offering optimism that international markets may outperform as valuations move towards long-term trends.

- The threat of exogenous factors impacting both the economy and markets is a realistic concern. Most recently, the threat of geopolitical conflict is elevated in light of ongoing conflict in Israel/Gaza - expanding the scope of geopolitical unrest from Russia/Ukraine - this is all without even considering US tensions with China, and further the way that China interacts with other world powers. Stateside we are going to move into the thick of an election season that is sure to be one of the more provocative and divisive election seasons in US history.

Market Index Performance - as of July 31, 2024



Strategy Corner - Preparing for Uncertain Markets

At of the close of markets on Monday, August 5th, the US Market (S&P 500) was down 8.5% from all-time highs. Historically, drawdowns of that magnitude are very much par for the course, with a median intra-year maximum drawdown of 10% since 1985 (Vanguard). Nonetheless, any downside volatility always reignites anxieties for investors and tests the ability to stay disciplined to long-term strategies. As the economy begins to slow, the market will be assessing the impact of evolving fundamentals in the capital markets, not to mention the myriad of uncontrollable headline risks over the balance of the year. Aforementioned exogenous factors that might impact both the economy and markets includes: Ongoing conflict in the Middle East; Continued war between Russia and Ukraine; tensions between China and the US (and other developed countries); A divisive election cycle in the US. Paramount to our partnership with clients is helping to prepare for and guiding you through this uncertainty. It is proven many times over that actions driven by fear or emotion have a far more negative long-term impact on investment outcomes than any market downturn. The bullet points below highlight underlying philosophies we have for volatile times in the market:

- Sticking with your plan gives you the best chance at success – Investors that stay disciplined are more likely to come out ahead in the long run.

- Missing even a small window of a recovery can cripple long-term results – Staying invested through volatility and having a plan focused on long-term outcomes is far more dependable.

- Being too cautious can make it harder to achieve goals – Remember our investment and planning philosophy are based on investing through market cycles (good and bad).
- Downturns can be an opportunity – Rebalancing and on-going investment allows you to buy on sale during volatile periods.

Let us know if it would be helpful to revisit short and long-term needs and assure you are well prepared for uncertainty.

What We're Reading

US Recession Fears Overdone - Blackrock

Will the Fed Cut Rates at its Next Meeting - JP Morgan

3 Mistakes Investors Make During Election Years - Capital Group

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