Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – May 1, 2024

'Twixt the optimist and pessimist
The difference is droll:
The optimist sees the doughnut
But the pessimist sees the hole. ~McLandburgh Wilson

In March the animal spirits of exuberance ran free as they had since October 2023. The market, as measured by most indices, peaked as the calendar turned to April. Then, that month of spring showers brought with it tumbling prices, pattering our heads like fat raindrops.

Regular readers of our monthly missives were well prepared for such a pullback. As we suggested in our April 1st commentary, stock prices had gotten ahead of fundamentals. The optimists had taken charge early this year, seeing only that delicate delight of fried dough. However, with a string of high inflation readings, it was only a matter of time before the pessimists seized power, eyeing that void in the doughnut's center.

Which view is correct? Should we see only the doughnut? Just the hole?

Medical science seems to indicate that optimists are healthier and live longer than the pessimists among us. And so, in their faiths, families, and careers, we heartily recommend clients adopt a "glass-half-full" point of view. So, too, in their finances, fretting irrationally likely does more harm than good.

Of course, our role in relationships with clients is to be, well, relational. But clients also ask that we be rational. That we construct portfolios based on the truth or facts to the extent we may ascertain the goings-on in the marketplace. That we use our phone calls, emails, and meetings to convey actionable advice that is neither overly optimistic nor overly pessimistic.

And so, we scrutinize investment opportunities with the intent to see both the doughnut AND the hole. Seeing only the dough leads to greed and excessive risk-taking. Seeing only the hole tends to fear and lost opportunities for gain.

The market was certainly due for a break. The hotter inflation data made that clear. And if the CPI continues to produce higher than expected prints, the Federal Reserve will be forced to delay cuts (or even raise further). Stock prices would get weaker.

To cut to the chase, we think there are reasons to be sanguine about the rest of 2024.

Those companies that have reported 1Q results thus far have notched an average 4% revenue growth rate over the previous year. These results are solid, but a little below the 10-year average growth rate in top-line results. Furthermore, these numbers support the notion that we remain in modestly expansionary territory (no looming recession).

Bottom-line results advanced 3.5%, also below the average 10-year rate. This, too, supports stock prices. But it, along with subdued profit margins in the S&P 500, also indicates that inflation is nibbling at the heels of the world's biggest conglomerates in addition to your pocketbook and ours.

Unemployment is low. The labor force participation rate for workers aged 54 and under has at last superseded the February 2020 level (immediately pre-COVID panic). These two metrics are the most significant indicators leading to our relatively positive outlook. It's difficult to have a recession when the folks who want to work are working.

You may rightly protest that geopolitical events are untenable and will precipitate a market meltdown. Yes, the global situation is troublesome and deadly in many cases. And yes, if one of the many burning tinderboxes sends a spark into fresh, dry kindling next door, the market will sell off. But with all the information available to us, we cannot recommend clients invest with this as their predominant view. We and our clients would have liked to have seen other courses of action by the U.S. Yet, the status quo continues to hold. For better or worse, each new crisis has been cordoned off from further damage to the world stage.

In closing, let us hold ample cash for emergencies. Let us earn 4-5% on our safe bonds. Let us invest in companies with solid prospects and terrific trajectories. In this way we may eat the doughnut AND the hole. The doughnut can provide us its caloric goodness. And those pessimistic holes of bear markets, when they come, can be properly viewed as merely blips in our long run returns.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
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