



August 9, 2024

Good afternoon.

Stocks must have gotten the memo that August tends to be weak historically. July, the eighth positive month in the past nine, was quickly forgotten as the beginning of August greeted us with a selloff. The primary catalyst was August 2's weaker-than-expected employment report, which ignited concern that the U.S. economy could tip into recession. Several additional factors exacerbated the selling pressure:

- Overly bullish sentiment and elevated valuations. Investor sentiment had become a bit frothy, particularly in the tech sector, and stocks had simply gotten a bit ahead of themselves, as discussed in LPL's [Midyear Outlook 2024: Still Waiting for the Turn](#).
- Seasonality. The historically weak month of August is a logical time for a selloff to reset investor sentiment to more normal levels.
- Increased scrutiny around the payoffs for artificial intelligence (AI) investments. This scrutiny followed some evidence of slowing consumer demand during second quarter earnings season.
- Leverage in the financial system. Borrowing in the yen (the so-called carry trade) is unwinding as global markets fall and the yen surges — plus some institutional traders appear to have been caught offside in the downdraft, driving more forced selling.

So, what now? First, this is not the time to panic. Remember, pullbacks and corrections — as painful as they are — are a normal part of investing. Think of them as tolls to pay on the road to attractive long-term returns. The S&P 500 and its predecessor indexes have gained 11.5% annualized since 1950, through some of the worst wars, terrorist attacks, recessions, financial crises, pandemics, and natural disasters in history. And that's while averaging a drawdown of over 10% per year — even in up years.

Turning to potential catalysts for a rebound, perhaps the most obvious one is the Federal Reserve (Fed). A 0.5% rate cut in September is now firmly on the table, and an emergency, intra-meeting cut, though unlikely, is possible if the economy weakens further. Simply put, restrictive monetary policy is no longer necessary. Expect the Fed to quickly get to a neutral stance, despite the perception that they might influence the election. "Higher for longer" created room for cuts.

Other drivers that could help turn stocks around include better economic data, reassuring commentary from corporate America, and more progress unwinding leveraged trades. Fundamentals still look good enough to keep this bull market going even as the economy slows into the election. Additional downside may be modest, and opportunities may soon emerge, but bottoming is a process. Be patient and allocate wisely.

As always, please reach out to me with questions.

Sincerely,

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All data is provided as of August 6, 2024.

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All index data from FactSet.

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