TRUST COMPANY
OF THE SOUTH

Monthly Market Dashboard

September 2024

ELEMENT	TREND	COMMENTS
VALUATION	Negative	Stock prices are high, most especially for the largest companies.
INTEREST RATES	Positive	Markets are now expecting four 25-basis-point rate cuts this year.
INFLATION	Positive	Inflation continues to drift lower.
VOLATILITY	Neutral	After a brief spike, price volatility has fallen again.
MONETARY POLICY	Positive	Fed indicating rate cuts beginning in September.
DOMESTIC POLICY	Neutral	Focus growing on U.S. election.
GEOPOLITICAL	Negative	Middle East on edge, China economy reeling, Ukraine/Russia worsening.

Managing Expectations

Labor Day Weekend signifies the end of summer. The kids are back in school, the golf game is as good as it's going to be for the rest of the year (which is not to say it's good, it's just not going to get any better) and college football is back. The bittersweet ending to the year's most overtly pleasant season is at least softened by the sounds of snare drums, horns and crowds coming from the television.

The season has just begun, so for most teams, hopes are high. For teams like mine, the University of North Carolina Tar Heels, expectations are, shall we say, a bit lower. For the first time in five years, the Tar Heels do not have an obvious future NFL lottery pick playing at quarterback. On top of that, even though we won our first game last week, our new starting quarterback broke his leg and is out for the season. Expectations for this team are not particularly high.

At the other end of the college football expectations spectrum, or at least the ACC spectrum, there are (or were) the Clemson Tigers and the Florida State Seminoles. The Tigers, perennial favorites in ACC football, were demolished on Saturday by the Georgia Bulldogs. The internet was a cruel place for Clemson coach Dabo Swinney over the weekend—but nothing like what's happening right now in Tallahassee. The Florida State Seminoles, who began the season in the top ten and are currently suing the ACC essentially for not being good enough and therefore holding them back financially, find themselves 0-2 in the league.

That's the curse of high expectations. Clemson and FSU fans are dejected right now, while Tar Heels are actually feeling alright about things (for now). Our schedule is not unusually difficult; we may wind up having an okay record after all (knock on wood!).

Equity markets work the same way. When companies report earnings, they need to meet or exceed expectations for their stocks to do well. Most companies attempt to manage expectations about future earnings so that they can avoid disappointing their investors.

For some companies, such as Nvidia recently, high expectations, which come with high valuations, are unavoidable. Last week, the company reported earnings growth that most management teams would kill for, but because expectations were so high, the stock fell more than 6%. While it is nowhere near fair to Nvidia to call them the Florida State of the stock market right now, the point is that expectations matter, and they matter at least as much in investing as they do in college football.

Our entire investing philosophy is predicated on managing expectations and maintaining that discipline over time. So, while the lofty expectations built into mega-cap tech companies such as Nvidia could suppress performance in broad market-cap-weighted indices such as the S&P 500 as we head into the final third of the year, we believe we are extremely well positioned in this environment.

Global Equity Index Performance

	2022	2023	1Q24	2Q24	July	August	YTD
S&P 500	-18.1	26.3	10.6	4.3	1.2	2.4	19.5
DJIA	-6.9	16.2	6.1	-1.3	4.5	2.0	11.7
NASDAQ	-32.5	44.7	9.3	8.5	-0.7	0.7	18.6
Russell 2000	-20.5	16.9	5.2	-3.3	10.2	-1.5	10.4
Russell 2000 Value	-14.8	14.6	2.6	-3.7	12.4	-2.0	8.9
Russell 2000 Growth	10.0	18.5	7.5	-2.9	8.2	-1.1	11.6
Russell 3000	-19.2	25.9	10.0	3.2	1.9	2.2	18.2
Russell 3000 Value	-8.0	11.6	8.6	-2.3	5.5	2.4	14.7
Russell 3000 Growth	-29.0	41.2	11.2	7.8	-1.3	1.9	20.7
International	21.0	17.9	5.6	-0.6	2.3	1.4	11.9

Source: Bloomberg, Trust Company of the South

For the third quarter, the Magnificent Seven is down 2%. The S&P 500 outside of the Mag 7 was up 6.5%, while small caps and value stocks have outperformed. Bonds have bounced back, with the Bloomberg Agg now up about 3% for the year, as markets have grown more confident that inflation is under control and that the Fed will begin cutting short-term interest rates this month. Fed Chairman Jay Powell has recently indicated that the central bank is pivoting to focus on supporting employment as opposed to quashing inflation, setting the stage for rate cuts this year. The best-performing sectors in August were outside of technology and communications services; they were consumer staples, real estate and health care.

There's quite a lot to like in this environment. We have a dovish Fed, we have decent earnings expectations and we have a market that is much more attractive outside the top handful of mega-cap tech stocks.

What do we not like? Well, volatility has fallen again after a spike early in the month. That makes it harder to buy stocks more cheaply, all else equal. Also, we observe that stocks are still pricier than we would like, given where interest rates are. Lastly, consumer confidence is on the rise. That's great for the kitchen table but also creates more competition in the market for stocks.

Markets tend to do better when expectations are lower. It's like the paradox of being a college football fan. When your team is expected to be great, victories feel more like relief than joy, and losses feel like the end of the world. Just ask the Florida State fans this week. On the other hand, we North Carolina fans can still enjoy ourselves. At least for a week.

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