MARATHON
FINANCIAL STRATEGIES

As we reach the halfway point of 2024, a sense of persistence defines the economic and market landscape. Trends from late 2023 have continued, with surprisingly resilient economic growth mixed with stubborn but decelerating inflation. The stock market thrived in this better-than-expected environment, having regained all the lost ground from 2022, while the bond market continues to grapple with policy uncertainty and remains largely range-bound.

While it's tempting to forecast a continuation of these trends, the analysis suggests an impending shift. The economy looks poised to cool down in the second half, while volatility is likely to rise – changes that will impact interest rates and markets. From the markets and upcoming U.S. election to the conflicts overseas and everything tied to these things, it's a lot to make sense of.

> "The economy looks poised to cool down, which will impact policy and markets. We already see a decrease in big-ticket purchases."
>
> - Marc Zabicki, Chief Investment Officer, LPL Financial

ECONOMY

We have a delayed landing, but still a landing

What drove the resilience in the economy in the first half? Or maybe the better question is "who drove all that resilience?" For the answer, we look to the nearly one-third of homeowners who refinanced during the pandemic and had more disposable income, in combination with high-income consumers who aren't as sensitive to higher rates.

As the economic distortions from the pandemic have played out, it's taken longer than anticipated but finally, we're starting to see signs of change. We expect the beginnings of a measured economic slowdown to begin in the latter half of 2024, which should provide the path for the Federal Reserve (Fed) to cut rates – once the data convincingly shows it.

LPL Research expectations	Action steps to consider
Slower spending Softening labor market	Stay focused on your long-term investment strategy.
Rate cut before end of year end	Keep an eye on interest rates. Rents and mortgage rates may come down. We expect home prices to stay steady, given tight inventory.

STOCK MARKET

Second half gains are already factored in

Stocks soared in the first half of the year, thanks to the strong economy and the prospect of lower interest rates. The S&P 500 started the year at 4,742 and reached a new high at the beginning of June – making back all the declines from 2022 and then some.

The strength in the stock market has been impressive. It also means that a lot of the good news may already be factored in, as the markets are forward looking. And with valuations high, future gains will rely heavily on earnings growth continuing to positively surprise. There may be some gains but be prepared for potential setbacks along the way – between geopolitical risks and the upcoming presidential election, volatility should rise.

LPL Research expectations	Action steps to consider
Market volatility will rise	Shore up your portfolio so you're ready to withstand market fluctuations Stay invested regardless of who wins the election – pulling money out has historically led to lower portfolio growth
S&P 500 will end the year between 4,850 – 4,950, lower than June's high	Don't feel a need to chase. Be patient and disciplined, buy on dips if you're looking to add to stock exposure
Potential for opportunity in size, style, sectors, and geography	▪ U.S. large caps with strong growth prospects (large caps are stocks from larger, well-established companies) ▪ Communications services, energy, and industrial stocks

BOND MARKET

"Boring" bonds deserve another look

Traditionally, investors sought out fixed income like bonds for their income-generating capability. It's been a few difficult years for bonds, but after yields peaked in 2023, bonds returned to offering attractive risk-adjusted returns. Granted cash has been an option since the Fed started raising rates. But once the Fed starts cutting rates, rates on cash will decline.

Higher quality bonds offer the ability to continue capitalizing on those higher rates, without taking on excessive levels of risk. Plus, bonds can offer some diversification and potential preservation or risk mitigation to portfolios, which is something to keep in mind, since we expect the stock market to be more volatile the second half of the year.

LPL Research expectations	Action steps to consider
Rates on cash accounts will decrease when the Fed cuts interest rates	Replace some cash holdings with bonds to lock in higher yields for longer
Bond yields are still elevated and likely to say around current levels	Examine these investments and strategies to help generate income: ▪ AAA-rated agency mortgage-backed securities ▪ Preferred securities ▪ Laddered portfolios ▪ Holding individual bonds to maturity

GEOPOLITICS, CURRENCIES AND COMMODITIES

A more complex landscape

Over the last few years, we've seen the rise of competing power blocs and escalating regional conflicts. While diplomatic efforts have prevented wider conflicts so far, clearly these tensions have lead to uncertainty. Markets have been less reactive to current conflicts, but this could change rapidly if things were to escalate. The increasingly uncertain geopolitical environment is one reason we believe you'll want to keep a tight watch over the second half of the 2024.

It's important to remember that markets are inter-related. What happens in the stock and bond mark markets can have impacts on commodities and currencies and vice versa. That's why we're offering a few insights. Consider them as food for thought, things to potentially discuss with your financial professional:

- Demand for precious metals was high this spring – including gold and silver. In this world of uncertainty, demand may continue.
- Industrial commodities, especially copper, have been on an upward trajectory. Their rise aligns with momentum both the U.S. and China are seeing in manufacturing as well as the need to build AI-supporting infrastructure.
- Given high interest rates at home, the U.S. dollar continues to be relatively strong. Interest-rate cuts from the Fed could begin to weaken the dollar if inflation begins to show more clear signs of reaching the Fed's 2% target.

ALTERNATIVE INVESTMENTS

Turn market divergences and volatility into opportunities

As expected, 2024 has seen a rise in market divergences, which has led to opportunities in the alternatives space. We anticipate this trend to continue and we also expect that volatility will begin to rise more meaningfully. This environment will favor alternative strategies like global macro, multi-strat, and managed futures and including them into portfolios with stocks and bonds should help further bolster them.

THE BOTTOM LINE

Economy at a Crossroads

The global economy is in a late-cycle transition, characterized by slowing growth and potential for increased volatility. This creates a complex environment for investors, requiring a more nuanced approach.

Volatility on the Horizon

Expect increased market fluctuations across assets in the latter half of 2024. This could be driven by factors like central bank policy changes, geopolitical tensions, and election uncertainty.

On Bonds and Cash

The increase in yields has made fixed income an attractive option again. Focus on income generation. Investors can best navigate the late-cycle economic environment by adding high-quality bonds, offering attractive risk-adjusted returns, and lower overall portfolio volatility. Consider moving away from cash, with the Fed likely to cut rates in the second half.

On Stocks

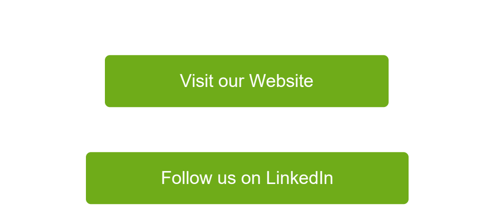
Maintain a disciplined and more patient approach towards equities. Prioritize risk management and look to capitalize on buying opportunities during potential market corrections.

Overall

In this environment, we are suggesting investors prioritize bonds and remain disciplined when it comes to stocks, as the ride in the second half of 2024 could be bumpier. In our view, steps should be taken to bolster portfolios against a market that may be a bit less friendly in the latter months of the year. By prioritizing income generation and remaining patient and disciplined with stocks, we believe investors can successfully navigate the upcoming potential uncertainty.

The first half of the year, and the unexpected resilience that came with it, confirms why we believe it's so important to have a plan for the road ahead. It sets you up to navigate the twists and turns that will inevitably arise and do so in a way that's true to your north star — achieving your financial goals and aspirations. We're here to help you navigate upcoming turning points and continue to work toward achieving your goals. As always, please reach out with questions.

Schedule a Meeting



Wes Littlejohn
CFP®, CPA
Founder & Financial Planner
770.493.6555
Wes@MarathonFinancialStrategies.com

Sally Littlejohn
CPA
Partner & Head of Operations
404.444.0262
Sally@MarathonFinancialStrategies.com

Office 770.353.6346
Text 470.683.6863
200 Ashford Center North, Suite 400, Atlanta GA 30338

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http://www.marathonfinancialstrategies.com/