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To: Portfolio Management Clients

From: Colby Wolfe

Re: A Bumpy Couple of Weeks

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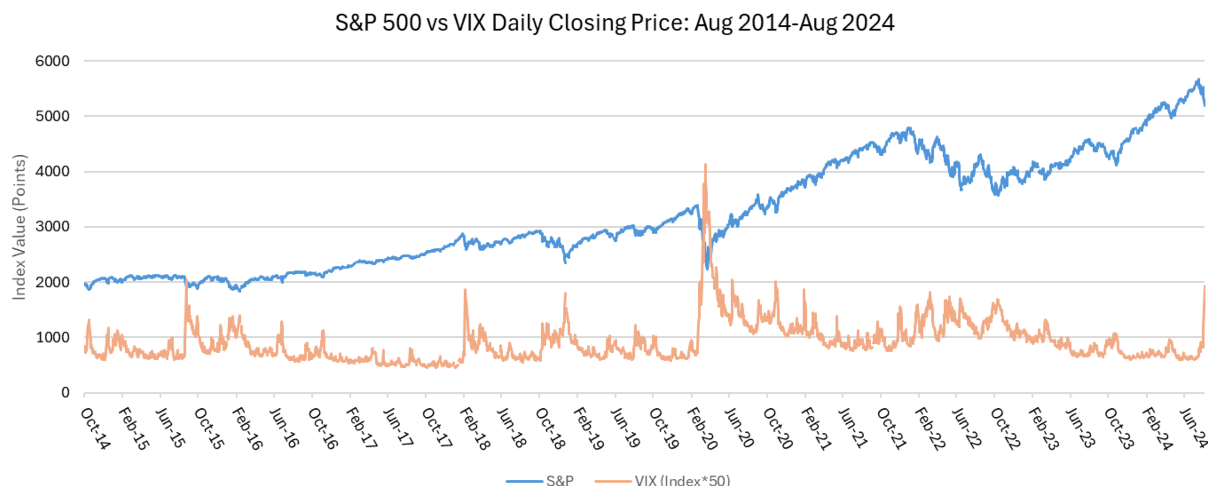
The first seven months of 2024 produced strong returns among Whitegate client portfolios, with returns ranging from 5-11% in the green, depending on the allocation strategy. While the major stock market indices continue their climbs, they have achieved some incredible milestones. Between the 7th and 20th of July, US equity Large Cap indices recorded new all-time highs. Apart from April, the S&P 500 is batting six for seven for positive monthly returns in 2024. As of July's month end, the S&P was up 14.55% for the year and has a 12-month return of 19.14%. Despite the recent market volatility, as of market close August 8th the S&P was still up 12.42% YTD and 18.99% for the previous 12 months.

On Wednesday, July 24, the US stock market experienced its most significant downturn since 2022. The tech sector, primarily measured by the NASDAQ, saw a 3.6% drop, and the broader S&P 500 slipped 2.3%. These losses, driven by underperformance from Google (-5%) and Tesla (-12.3%), were quickly recovered in the days that followed. The S&P rebounded over the next four trading days, approaching its value just before the slip.

Friday, August 2, saw the release of the July jobs report. Unemployment rose slightly to 4.3% from 4.1% in June, with a 12-month rise of .8%. Following the news of a weakening labor market, the CBOE Volatility Index (VIX) peaked at 29.66 on the 2nd, which is an increase of 39.36% from its opening. Monday, August 5th saw the VIX peak at a new 52-week high of 65.73, representing a +173.09% YTD change and a +182.2% spike from its 52-week low just two weeks earlier on July 19th. The VIX represents a popular measure of the stock market's expectation of volatility based on S&P 500 index options. It is often referred to as the "fear gauge" as it provides insight into market sentiment and investor uncertainty, particularly in the short term (30 days or less). **Simply put, when the VIX rises, we expect the market to swing "more than normal,"** as illustrated in the graph below:



The real question is, are we heading for a correction (a decline of 10% or more in any given stock market average), or a bear market (down 20% or more)? It's hard to say definitively what will happen in the short term. While volatility in the markets can quickly spike, it can dip just as fast. If you watch financial news, pundits are going to want to capitalize on what's happening, which is largely done by promoting fear. You will see words like "rout" or "crater," these are simply the headlines you will see by analysts trying to capture your attention and "get clicks." It doesn't mean they don't have valuable insight to share, some very well could, but this shouldn't concern you in the long run. **Days like July 24th and August 2nd are normal; they don't happen every day (nor would we want them to), but they are not a "global catastrophe."**

Overall, the markets have had a good run since the global financial crisis of 2008. Since its low during the crash in March of 2009, the S&P 500 is up 688%! There have been some blips and hiccups along the way, but we are far from the worst days of the S&P 500. A lot worse will happen in the future, we don't know how long or severe a bear market might be (remember March 2020 when we experienced a bull and bear market in the same month?), but that simply is the nature of the markets**. It's important to remember that your accounts are diverse for a reason. When the next market dip comes, whether it shows itself as a correction, bear market, or economic recession, diversity helps to ease the pain.** Our shared goal is to maximize the up-capture of the market and minimize the down-capture through robust diversification strategies and diligent maintenance. These strategies are designed to help us navigate through market volatility, ensuring that we can capitalize on market upswings while mitigating the impact of downturns.

We would be remiss if we didn't mention the domestic events that could be affecting the market and pushing up volatility. The recent Fed meeting and jobs report contained some promising and concerning elements. As stated previously, the unemployment rate for July sits around 4.3%, recording a fourth straight month of increase. Between the unemployment rate, lower hirings, and declining wage increases, labor markets have softened but are close to pre-pandemic levels. Core inflation continues to steadily decline, currently at 2.5% from June 2024, down from its peak of 9.1% in June 2022. The Federal Reserve's key indicator, Personal Domestic Final Purchases (PDFP), which represents the consumption side of GDP, is impressive, adding 2.2% to real GDP growth for the second straight quarter. The overall economy seems to be very strong; real GDP growth accelerated from Q1 (1.4%) to Q2 (2.8%), driven primarily by personnel consumption and business fixed investment (expenditures on machinery, equipment, and buildings that businesses make with the hopes of generating future returns).

The Fed is in the spotlight, and their next meeting in September is crucial. The markets have started to price in a full 1% point cut to the Fed Funds Rate by the end of the year. If the jobs report for August points to a continued softening in the labor market, there is a reasonable argument to be made that the Fed might not achieve the "soft landing" it desires. If the labor market is any indication that the economy may slow down, then the resulting drop in interest rates will foster more business and consumer investment and help to reverse the unemployment trend. Time will tell how it all plays out.

The volatility of the last two weeks hasn't changed how we manage portfolios. We see no reason to overhaul our investment approach for the short-or long-term. We should be happy that the pendulum still swings because we can invest in equities for less than their near-constant highs. Not only that, it offers a great chance to reflect on the investment risks we take and really assess if we can be comfortable watching our current portfolios react to these volatility swings. Warren Buffet once said, "Market fluctuations are your friend, not your enemy." Feel free to contact us if you have questions or simply to chat!