VOLATILITY UPDATE – LETTER FROM OUR CIO

AUGUST 5, 2024

We wanted to send a quick update on the recent market volatility, as these short-term moves can be unsettling for many. Even though the general markets are up nicely this year, we can't help but watch the red on the screen and wonder why. I wanted to share some thoughts that I had as well of two others whom I respect their opinions.

In a note published on August 3, 2024, Torsten Slok from Apollo Global Management, Inc. highlights: "The soft July employment report is inconsistent with the hard data for economic activity. There are no signs of a slowdown in restaurant bookings, TSA air travel data, tax withholdings, retail sales, hotel demand, bank lending, Broadway show attendance, and weekly box office grosses. Combined with GDP in the second quarter coming in at 2.8%, the bottom line is that the current state of the economy can be described as slowing, but still a soft landing."

In a note published on August 5, 2024, Dr. David Kelly, the Chief Global Strategist at J.P. Morgan Asset Management writes "We live at a time when extreme voices get the most attention and so it is tempting, following a string of weak economic numbers, to yell the word "recession". However, a balanced assessment of demand and supply suggests that we are, thus far, merely transitioning to slower growth. A slower growth path is a more vulnerable one, particularly because excessive monetary ease is more likely to weaken than strengthen the economy in the short run. Nevertheless, barring some outside shock, the baseline scenario should be a slowdown scenario, even as volatile markets remind investors of the importance of diversifying and paying attention to valuations."

We recognize that the mood on the economy has changed in recent weeks. Mixed leading indicators have seen GDP growth surprise to the upside, coming in at 2.8% for the 2nd quarter, well above the 2.1% consensus expectation. However, we have seen higher-than-expected weekly unemployment claims and a softer-than-expected employment report, both in terms of payroll job gains and the unemployment rate. Softer economic data, combined with further signs of diminished inflation, has already led the Fed to signal an intention to cut rates in September. Fed Funds futures markets have priced in an approximate 50 bp cut in September and 100 bps in cuts by the end of 2024.

Investors are weighing the risks of the near-term scenario – i.e. Will the US economy experience a recession or just slower growth? And we must anticipate how the Federal Reserve will respond. We continue to monitor the economic growth landscape, inflationary trends, the Fed response, the impact on short-term and long-term interest rates and valuations across markets. This coupled with the increased rhetoric around the US elections, could drive volatility to remain for some time. As we navigate through this uncertainty, maintaining a diversified portfolio and staying attuned to evolving market dynamics is paramount to us at Legacy Edge Advisors. We continue to monitor the political and economic risks and stand ready to act when necessary. We continue to maintain that the markets will shrug off the political uncertainty and continue to focus on economic activity. Lastly, we believe that a slowdown is more likely than a recession, easing the market's mind to focus more on solid corporate earnings as we move through the remainder of 2024.

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