Think Strategically

A Look at the Second Half of 2024, Economy, Markets and Elections

June 30, 2024

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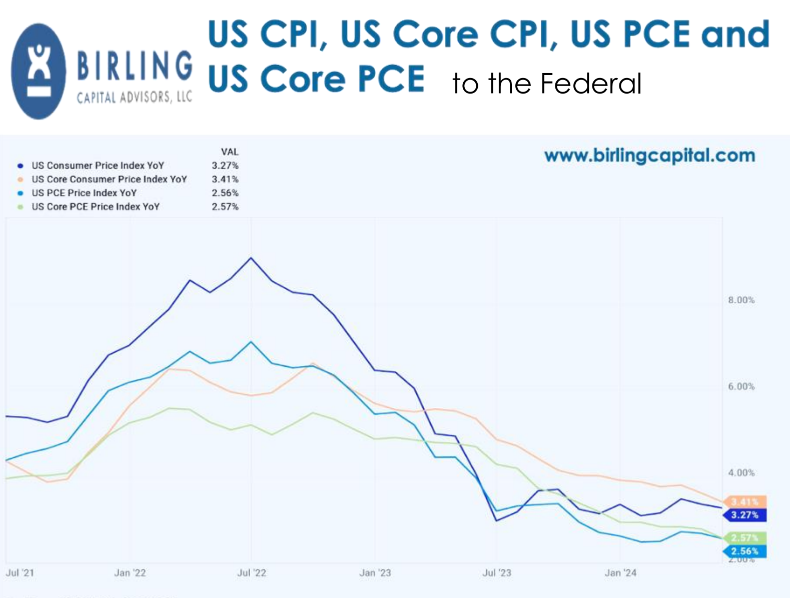
Reflecting on the First Quarter

The equity markets carried forward the momentum from 2023 into the first quarter of 2024, continuing their upward trend. Meanwhile, higher bond yields exerted pressure on investment-grade bond returns.

Equity Markets on the Rise, Bonds Under Pressure, as the markets experienced a rally in the first quarter, with our recommended equity asset classes all posting gains. U.S. large-cap stocks led the charge with a 10.6% increase. In contrast, Treasury yields climbed, with the 10-year yield rising by about 0.3 percentage points to 4.2% due to higher-than-expected inflation figures. This rise in yields put downward pressure on investment-grade bond returns.

The previous year was marked by narrow leadership, with a few mega-cap technology companies driving much of the S&P 500's gains. Sectors like technology, communication services, and consumer discretionary posted returns of over 40% in 2023, while no other sector exceeded 18%. The first quarter of 2024 continued to see strength led by communication services with 17.89%, followed by technology with 17.53%, and financial services with 9.34%.

As the markets adjust expectations for Fed Rate Cuts the Inflation data for the first quarter indicated a downward trend, though the journey to the Federal Reserve's 2% target. At the end of 2023, the Consumer Price Index (CPI) inflation decreased slightly from a 4.02% year-over-year increase to 3.41% in May 2024. The Consumer Price Index, which at the end of 2023 was at 3.14%, saw a rise to 3.27% in May 2024. On the other hand, the Fed's preferred inflation benchmark, the Core Personal Consumption Expenditures (PCE), had fallen from 3.18% at the end of 2023 to 2.57% in May 2024, and the PCE had also dropped from 2.70% at the end of 2023 to 2.56% in May 2024. Using the Fed's preferred metric, the Core PCE, we are 22.17% above the Fed's 2% inflation target rate; well on our way, but still, complete inflation control eludes us.



Economic Outlook

Recession risks have diminished, with the economy gaining strength in recent quarters despite the Federal Reserve's restrictive policies. While we anticipate continued expansion, we expect some slowing momentum as consumer spending shows signs of fatigue. Since the Second Quarter began, the Federal Reserve Bank of Atlanta GDP Now had the U.S. economy growing on April 26, 2024, at 3.90% GDP; thirteen forecasts later, the latest GDP Now reported on June 28, 2024, has 2.20% GDP, still good but 43.59% below the initial forecast of 3.90%.

Labor Market Softens

The labor market remains robust; while unemployment had been below 4% since 2022, in May, it reached 4%, with average nonfarm payrolls at 272,000. We still have a deficit between Total Nonfarm Job Openings at 8.059 million and Job Seekers at only 5.678 million, a 41.93% deficit. These indicators suggest a moderation in employment conditions. While we don't foresee a significant rise in unemployment, this moderation is expected to slow household spending, a key driver of above-trend GDP growth in 2023.

GDP NOW

Date	GDPNow 2Q24	Change
4/26/24	3.90%	Initial Forecast
5/1/24	3.30%	-15.4%
5/2/24	3.30%	0.0%
5/8/24	4.20%	21.4%
5/16/24	3.60%	-16.7%
5/24/24	3.50%	-2.78%
5/31/24	2.70%	-22.86%
6/3/24	1.80%	-33.33%
6/6/24	2.60%	44.44%
6/7/24	3.10%	19.23%
6/18/24	3.10%	0.00%
6/20/24	3.00%	-3.23%
6/27/24	2.70%	-10.00%
6/28/24	2.20%	-18.52%

US & Puerto Rico Market and Stock Performance YTD

For the month of June 2024, the five indexes we follow mainly closed higher, with the Dow Jones up 1.12%, the S&P 500 up 3.47%, the Nasdaq Composite up 5.96%, the Birling Puerto Rico Stock Index down -1.75%, and the Birling U.S. Bank Index down -2.13%.

However, as we review these five indexes' performance during the first half of 2024, the results, for the most part, have been quite positive. Let's review them ranked from best to worst:

1. **Birling U.S. Bank Index** has a YTD Return of **18.98%,** with the highest return, reflecting strong performance in the banking sector. Key factors include Rising Interest Rates and Economic Growth.
2. **Nasdaq Composite** has a YTD Return of **18.13%,** is known for its high concentration of technology stocks, and has also performed strongly due to AI Focus and Earnings Growth.
3. **S&P 500** has a YTD Return of **14.48%,** representing a broad range of industries, and has seen substantial gains due to Diverse Sector Performance and Positive Corporate Earnings
4. **Dow Jones Industrial** has a YTD Return of **3.79%,** which includes 30 large-cap companies but has lagged other indexes due to Sector Composition and Mixed Earnings Reports.

Birling PR Stock Index, Popular, Firstbank, Oriental & Evertec Returns YTD 6.28.2024

5. **Birling P.R Stock Index** has a YTD Return of **1.32%.** The Index comprises four public companies with their main offices in Puerto Rico. Reviewing each individual stock, we see the reasons behind the index's lagging returns.

   - **Evertec, Inc.** has a YTD Return of **-18.78%.** The company's stock began 2024 at $40.94 and closed June 28, 2024, at $33.25, a decrease of $7.69.
   - **OFG Bancorp.** has a YTD Return of **-0.08%.** The company's stock began 2024 at $37.48 and closed June 28, 2024, at $37.45, a decrease of $0.03.
   - **Popular, Inc.** has a YTD Return of **7.75%.** The company's stock began 2024 at $82.07 and closed June 28, 2024, at $88.47, an increase of $6.36.
   - **First Bancorp.** has a YTD Return of **11.19%.** The company's stock began 2024 at $16.45 and closed June 28, 2024, at $18.29, an increase of $1.84.

Presidential Elections and the Markets

Even if you were not concerned with the U.S. Presidential Election, last Thursday's Presidential debate became a significant moment in U.S. History. President Biden presented a mixed performance. On the positive side, he demonstrated a strong command of policy details and emphasized his administration's achievements, including economic recovery measures and efforts to combat inflation. Biden also showcased his experience in foreign policy, discussing the importance of international alliances and national security.

However, there were moments when his delivery faltered. He occasionally needed help with clarity and articulation, leading to unclear responses. Additionally, his handling of specific criticisms from opponents appeared defensive, which might have resonated poorly with only some viewers. Even the N.Y. Times Editorial Board stated that President Biden's performance reinforced concerns about his age and capability, urging the Democratic Party to consider the nation's interests over Biden's ambitions.

As we progress through 2024, the upcoming U.S. presidential election is critical for investors. While political uncertainty may cause temporary market fluctuations, historical trends suggest that the stock market often performs well in election years, regardless of the election outcome.

Historical Performance of Stocks in Election Years

Looking back at the past 18 presidential elections since 1952, the S&P 500 has shown an average return of 7.5% during the final nine months of an election year. Notably, the returns were positive 83% of the time. This is compared to an average gain of 6.8% in the final nine months of all years since 1952, with positive returns 72% of the time.

Unique Aspects of the 2024 Election

This year's election is exciting because both leading candidates have already served as president. Historically, markets have performed well under both Donald Trump and Joe Biden. From 2017 to 2020, the S&P 500 saw an average annual return of approximately 16% during Trump's presidency. Under Biden, from 2021 through March 2024, the average yearly return was around 12.7%. This familiarity with both candidates might reassure investors, suggesting that the market could continue to perform well, irrespective of the election outcome.

The Final Word: Investment Strategy, and Diversification is the key

As the election approaches, investors might experience periods of market volatility driven by political uncertainty. We recommend using these opportunities to invest in high-quality assets aligned with long-term goals. This strategy can mitigate short-term risks while capitalizing on the positive market outlook.

In summary, while the 2024 U.S. presidential election may bring some market volatility, historical data and economic fundamentals suggest a resilient market performance, providing opportunities for informed investors.

Broadening market leadership underscores the importance of maintaining a diversified portfolio across various regions, styles, and sectors. Always ensure that your portfolio is well-diversified and aligned with your long-term objectives.

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