Pinnacle | Consulting Group

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We are halfway through 2024. It has been an eventful and rewarding time for investors. However, it has not been all clear skies. It never is. We know that responsible investing can be gratifying. It can also be counterintuitive and unforgiving. As your partners, we always strive to keep you informed regarding the markets. We also share our thoughts on successfully getting you and your family "all the way home."

Halfway there…

The good news is the S&P 500 index is up over 15% in the first half. However, the market leadership was very concentrated. About 60% of the gains in the first half were dominated by a handful of mega-cap technology stocks. While the index was up 15.3%, the average stock in the index was up only about 5%. According to Dow Jones Market Data, that is the largest spread in at least 34 years.

Other indices also failed to keep up with the S&P 500. Smaller U.S. stocks and international stocks trailed. These indices were up 1.7% and 5.3%, respectively. The old market adage, a rising tide lifts all boats, didn't prove true. Even given the narrow leadership, most portfolios likely experienced reasonable advances for the first half.

Bonds were more of a mixed bag, at least so far. To combat inflation, the Fed raised interest rates 11 times in this tightening cycle. In 2024, bond investors hoped things would improve. Many experts had forecast the Fed would cut rates quickly and predictably, boosting bond values. Investment markets, however, rarely move predictably and pay no attention to the consensus opinion. Strong economic reports showed that the economy and inflation were not slowing as much as hoped. As a result, bond prices dipped.

Year-to-date, the Barclays Aggregate, a measure of the total bond market, edged down 0.7%. Municipal bonds were nearly unchanged at -0.4%. Some may ask, if bonds are much more attractive than in previous years, why are bonds not doing better this year?

Good question! Since inception, 90% of the return of the Barclays Aggregate Bond Index came from the "coupon" or interest rate. The remainder comes from price movements along the way. While there are no guarantees, higher rates portend higher returns going forward. All that said, bonds are an important part of many allocations. They can provide ballast and income to portfolios when equities turn volatile. Patience is a necessary part of sound investing.

Principles and perspective for the second half and beyond

Inflation and interest rates will likely command much attention. Progress has been made, but it has at times been halting and unsteady. There will be lots of predictions and forecasts about investing and the “next big thing.” As we approach the presidential election, there will likely be more uncertainty, noise, and predictions.

Solid principles can help… a lot. Renowned investor Howard Marks is the 78-year-old co-chairman of Oaktree Capital Management, which manages $192 billion dollars. He is known for his wisdom and getting directly to the point. He once said, “You can’t predict but you can prepare.”

We think that summarizes our approach to financial advice. There are things, in life and investing, that defy prediction. We know how to deal with that. We use mathematics, market history and common sense in our investment process. Given the strong returns and narrow leadership in the equity markets, we examine allocations for concentration and resulting risk.

Thank you for the trust you have placed in us.

Sincerely,

Donald E. Garcia

Sources: CNBC, S&P Global, Wall Street Journal, Dow Jones Market Data, The Economist, Federal Reserve Bank, Oaktree Capital Management, Barclays Indices, Bloomberg Indices, MSCI