



October 2024

## INVESTMENT PERSPECTIVES

### **Investing at All-Time Highs**

As the third quarter of 2024 came to a close, we continued to witness the market reaching new all-time highs. Despite a mix of economic headwinds and shifting investor sentiment, major indices managed to push forward, buoyed by improving market breadth and expectations of a softer landing for the economy. We remain focused on identifying and investing in the best relative and absolute values available, regardless of the broader environment, this is more difficult in this environment as quality bargains are harder to find. We view volatility as an opportunity—a chance to identify compelling long-term investments that align with client objectives. In this *Investment Perspectives*, we examine the dynamics that give rise to both our concerns and our optimism and discuss how we are navigating the current environment to position your portfolio(s) for success.

In the third quarter, major US equity indices continued their upward trajectory, with the S&P 500 hitting all-time highs in mid-July before sliding into August and rallying to finish near record levels. The S&P 500 gained 5.9% in Q3, bringing its year-to-date return to an impressive 22.1%, the strongest year-to-date performance at the end of September since 1997. This performance was driven by a wider spectrum of companies as opposed to the narrow market leadership seen in Q2. The equal-weighted S&P 500 index fared better than the cap-weighted index, as some mega-caps pared strong year-to-date gains, illustrating less market concentration. The “Magnificent Seven” tech stocks that drove much of the first half gains had mixed results in Q3. Despite an initial hawkish repricing of Fed interest rate-cut expectations in Q2, Q3 saw increasing anticipation of rate cuts, leading to solid performance from a wider range of companies. This shift stemmed from a firming of expectations for an economic soft landing. The Federal Reserve's shift towards a more accommodative monetary policy, known as a "dovish stance," which typically favors lower interest rates and easier credit conditions to stimulate economic growth, along with a 50-basis point reduction in the federal funds rate (referred to as a "recalibration") contributed to this positive market sentiment. This approach by the Fed generally encourages borrowing and investment, which can boost stock prices and overall market performance.

### **Investor Behavior: Managing the Highs**

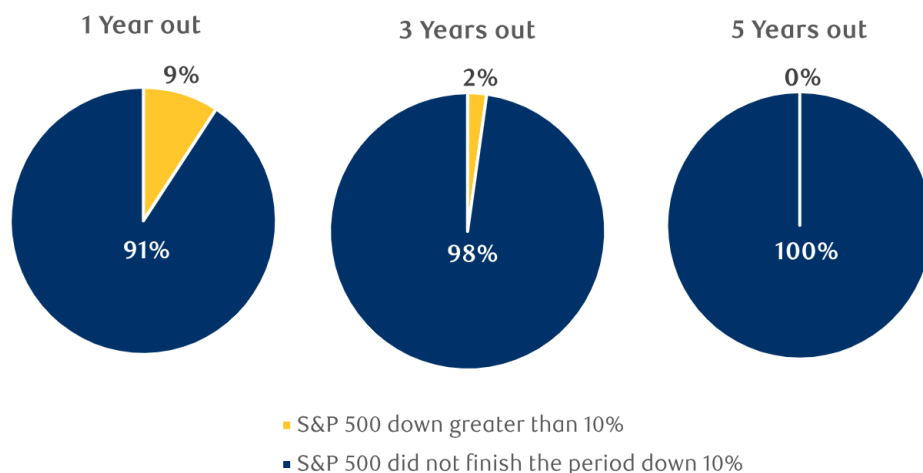
The S&P 500 has experienced a remarkable run in 2024, reaching multiple all-time highs throughout the year. By September 30, 2024, the index had set 43 new record closes year-to-date. Despite concerns about investing at market peaks, historical data suggests that investing after all-time highs can still be profitable. This counterintuitive phenomenon can be attributed to market momentum and the underlying strength of the economy that typically drives markets to new highs. A study examining data from 1990 to the present day revealed that investing at all-time highs led to higher average returns than waiting for a pullback or randomly picking any time to invest. The average 1-year return when investing at all-time highs was 13.5%, compared to just 7.1% when waiting for a 10% pullback. This suggests that the fear of "buying at the top" often leads investors to miss out on significant gains.

From a psychological perspective, investing at all-time highs can be challenging due to the natural human tendency to fear loss and seek to "buy low, sell high." This cognitive bias, known as anchoring, can cause

investors to hesitate when markets reach new peaks, potentially missing out on further growth. However, it's important to recognize that all-time highs are not rare events but rather a natural part of market cycles. To overcome the psychological barriers associated with investing at market highs, investors should focus on long-term fundamentals rather than short-term fluctuations. Historical data demonstrates that markets tend to climb higher over time, and periods following all-time highs are no exception. By maintaining a disciplined approach and understanding that emotions play a role in investment decisions, investors can potentially capitalize on the market's upward trajectory while managing the fear and anxiety that often accompany new market peaks.

Market corrections from all-time highs are less common than many investors might believe. Since 1950, the S&P 500 Index has reached over 1,250 all-time highs. An analysis of these peaks reveals that significant downturns following such highs are relatively infrequent. Specifically, instances where the index finished more than 10% lower over various time frames after hitting an all-time high have been rare. This historical perspective may provide reassurance to long-term investors who are hesitant about entering the market during periods of uncertainty or perceived market peaks.

How frequent are market corrections following all-time highs?

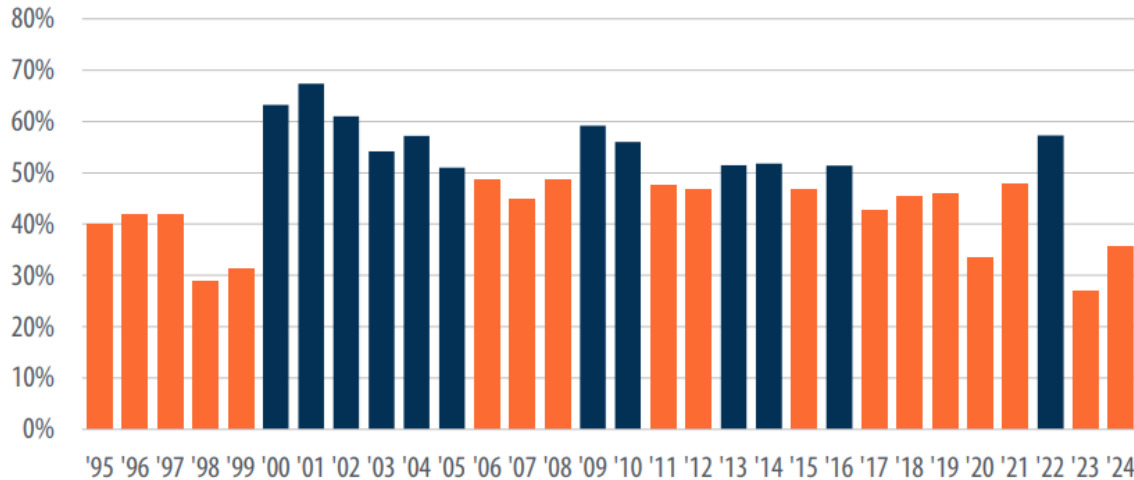


Source: RBC Global Asset Management

### Market Breadth: A Welcome Shift

In the third quarter, market breadth—a measure of how many stocks are participating in a market movement, indicating overall market health—improved as several large-cap technology stocks no longer dominated. This broader participation among stocks suggests a more robust and potentially sustainable market rally. This shift was evident in the performance of the equal-weighted S&P 500, which outperformed its market cap-weighted counterpart by rising 9.1% compared to the 5.9% gain seen in the traditional S&P 500 index. In the third quarter, ~66% of S&P 500 companies outperformed the Index, a significant change from the first half of the year when only ~24% of companies had outperformed.

## Percentage of S&P 500 Index Members Outperforming the Index in 2024



Source: First Trust Advisors

This broadening of the rally is encouraging, as it indicates that investors are finding value across a wider range of sectors rather than relying solely on a few mega-cap leaders. The increased participation across various market segments suggests a more robust and diverse investment landscape, potentially offering greater opportunities for market participants. While the current year-to-date figure of 36% outperformers represents progress, it still lags behind the long-term average of 48% observed over the past 29 years. This suggests there's still room for further market breadth improvement as we progress through the remainder of 2024.

We view this shift as a positive sign for the sustainability of the broader market rally. Historically, narrow market leadership has been a red flag, often preceding market pullbacks or corrections. As such, a wider base of advancing stocks provides a more solid foundation for future growth. However, valuations remain high, with over 80% of S&P constituents above their 50-day moving averages—a sign that investors should be mindful of the potential for volatility and inevitable periodic pullbacks.

### Election Cycle Volatility

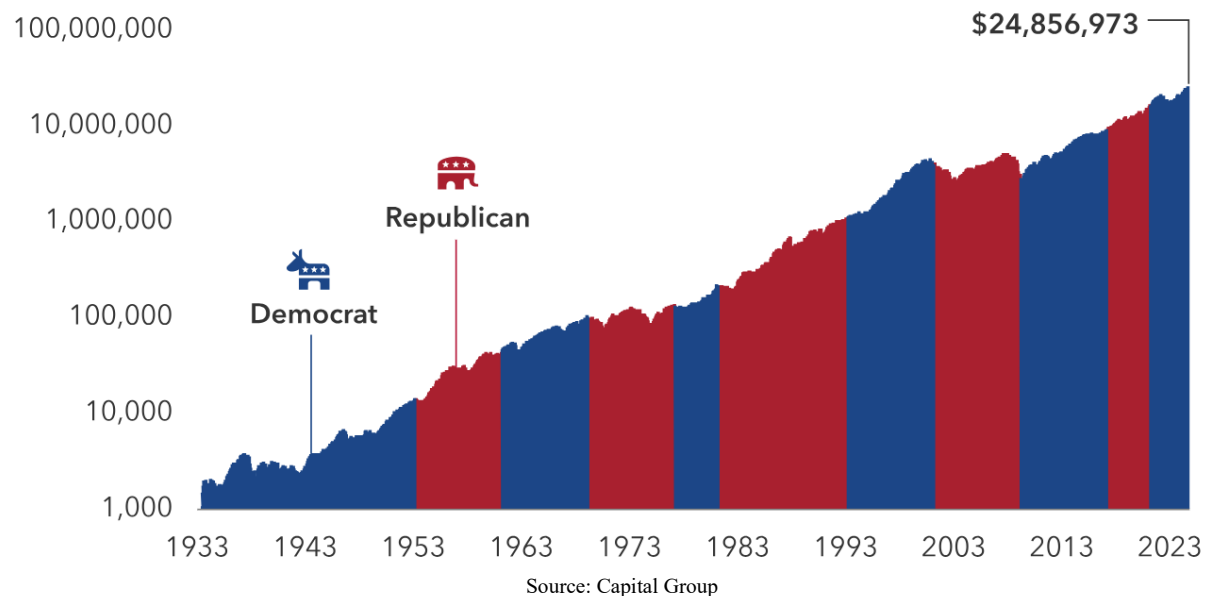
As we approach the upcoming election, it's natural to feel concerned about potential market volatility. Historically, election years have shown some interesting patterns in market behavior that are worth examining. From 1928 to 2020, the S&P 500 index has demonstrated remarkable resilience during presidential election years. On average, the index has returned approximately 11% during these periods, showcasing the market's ability to generate positive returns despite political uncertainty. Even more impressively, 83% of these election years have seen positive performance, indicating a strong tendency for markets to rise during these cycles.

However, it's important to note that market volatility tends to increase in the months leading up to an election, reflecting the uncertainty surrounding potential policy changes. This heightened volatility is often characterized by more frequent and larger price swings as investors react to polling data, debate performances, and policy announcements. Typically, this volatility peaks in September and October, with the S&P 500 experiencing average declines of 0.3% and 0.5% respectively in these months during election years.

While elections can create short-term market fluctuations, our investment strategy remains focused on high-quality, growing businesses that are well-positioned to thrive regardless of political outcomes. This approach is grounded in the understanding that company fundamentals and long-term economic trends are ultimately more influential on stock performance than short-term political shifts. This strategy is

supported by historical data showing that over the long term, markets have trended upward through both Democratic and Republican administrations. In fact, since 1933, the overall market trend has been upward through eight Democratic and eight Republican presidencies. This bipartisan growth trend underscores the resilience of the U.S. economy and the ability of well-managed companies to adapt and thrive under various political environments.

### Growth of a hypothetical \$1,000 investment in S&P 500 Index



By maintaining a portfolio of fundamentally strong companies, we aim to weather any election-related volatility and capitalize on the enduring growth potential of exceptional businesses. These companies typically have strong balance sheets, consistent cash flows, and competitive advantages that allow them to navigate changing regulatory landscapes and economic conditions. It's crucial for investors to focus on long-term fundamentals rather than short-term political events. While election outcomes can cause temporary market reactions, they rarely alter the long-term trajectory of well-positioned businesses. By maintaining a disciplined, long-term investment approach, investors can potentially benefit from the compounding effects of quality investments while avoiding the pitfalls of emotional, politically-driven decision making.

### In Conclusion

The third quarter of 2024 highlighted the market's resilience, supported by improving breadth and sustained optimism surrounding AI, technological advancements, and a dovish stance (explain) from the Federal Reserve. Despite concerns about election cycle volatility, the market continued its upward trajectory, driven by enthusiasm for emerging technologies and the belief that interest rates may stabilize. Even as we navigate the complexities of macroeconomic uncertainty and all-time market highs, it's crucial to recognize that the key to long-term success isn't about perfectly *timing* market entry or exit. Instead, the focus remains on the value of *time in the market*. Staying invested allows for the power of compounding to take effect and helps to capture the benefits of market growth over time, even amid the inevitable ups and downs.

Our approach remains centered on maintaining a balanced, diversified portfolio that emphasizes high-quality companies capable of weathering the inevitable bouts of volatility. We continue to favor businesses with strong fundamentals, robust cash flows, and the ability to adapt to changing

environments. Additionally, we are selectively trimming exposure to positions where we believe the current optimism has been fully priced in, reallocating that capital to opportunities with more compelling risk-reward profiles. This disciplined reallocation allows us to continuously refine client portfolios, ensuring that they are positioned to seize emerging opportunities without taking undue risks. As always, our primary goal is to ensure that client portfolios remain well-prepared to capitalize on potential market gains while providing downside protection in an increasingly complex market environment. By staying agile and attentive to shifting conditions, we strive to strike the right balance between growth and risk management in your portfolios.

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