

Market Summary & Outlook

Recap

U.S. Economic Moderation and Cyclical Upturns Elsewhere

The U.S. economy is experiencing moderation, particularly affecting lower-income households due to higher interest rates. In contrast, other developed markets are seeing cyclical upturns, although their recoveries are limited, maintaining U.S. positional strength.



Global Inflation and Central Bank Policies

Global inflation is tentatively resuming its deceleration. Despite a recent inflation scare, continued soft inflation data is needed to confirm disinflation. Central bank rate cuts, including a potential Fed cut in September, are expected to be slow and shallow. Other central banks are also easing but will likely align their actions with the Fed's policy.



Investor Cash Positions

A significant amount of money is currently held in money market funds, with assets totaling a record \$6 trillion. This cash represents a potential tailwind for risk assets as rate cuts could reduce the attractiveness of cash holdings. Investors may choose to optimize their strategies for risk assets rather than staying in cash if rate cuts materialize in 2024.



Equity Market Risks and Opportunities

The equity market is vulnerable due to the narrow concentration of gains, particularly in technology stocks. However, strong earnings growth and increased AI adoption should continue to support equities through 2024. Investors should be cautious of the upcoming political and election-related volatility but remain focused on the long-term fundamentals of their holdings.


ABOUT THE FIRM


Virtus Capital is an independent investment advisory firm serving high net-worth individuals, families, and business owners.

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Performance

Equity Benchmarks	Returns as of 06/30/24		Bond/Commodity Benchmarks	Returns as of 06/30/24	
	3 Month	YTD		3 Month	YTD
S&P 500 PR	3.94%	14.48%	Bloomberg US 1-5 Year Treasury	0.77%	0.71%
DJ Industrial Average PR	-1.73%	3.79%	Bloomberg US 5-10 Yr Treasury	0.10%	-1.02%
Nasdaq Composite PR	8.26%	18.13%	Bloomberg US Inflation Protected	0.79%	0.70%
Vanguard Balanced Composite	2.00%	7.73%	Spliced Bloomberg USAgg Fit Adj	0.08%	-0.64%
MSCI ACWI Index	3.01%	11.58%	Bloomberg Municipal Bond	-0.02%	-0.40%
MSCI Emerging Markets	5.12%	7.68%	Bloomberg Commodity Index TR	2.89%	5.14%

*Data Source: Morningstar and Vanguard Funds

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Stock Talk

Our high-conviction thoughts for the upcoming market-cycle and where we see potential areas of competitive advantage or business challenges.

Virtus Capital’s tactical approach to portfolio design begins with a high-level qualitative analysis of market trends to uncover misunderstood areas of opportunity and underrecognized value. After identifying broad segments of interest, a sector specific, multi-factor fundamental analysis drives the portfolio’s selections and strategic asset allocation. Our disciplined and thoughtful investing style produces a repeatable, rules-based process that helps better identify and capture medium to long-term underappreciated market trends.



Additions

ROP



Subtractions

HRL

Roper Technologies (ROP) –Technology– **Moderate Buy** (Consensus)

GuruFocus Value

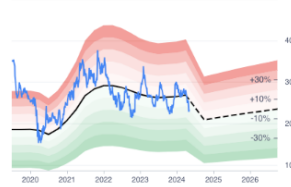


Price Target - \$598.89,

Roper Technologies is a diversified technology company that operates three segments: application software, network software, and technology enabled products. Roper acquires asset light, cash generative businesses and deploys excess cash to acquire further portfolio companies. The firm operates a highly decentralized model with portfolio company management holding autonomy and accountability for key operational decisions, and a small, centralized team overseeing capital deployment.

Hormel Foods (HRL) –Consumer Staples– **Moderate Sell** (Consensus)

GuruFocus Value



Price Target – \$31.71,

Historically meat-focused, Hormel Foods broadened its lineup to include other protein offerings and become a branded food company. Major brands include Hormel, Spam, Jennie-O, Columbus, Applegate, Planters, and Skippy. Hormel has lowered its earnings guidance in recent quarters and has seen trouble with their turkey division, a key profit producer for the company. The remainder of 2024 looks challenged for Hormel Foods, as management works to bring facilities back to full production and looks for consumer inflationary pressures to subside.

Market Commentary

Global Markets

Stocks again defied gravity and maintained their upward trajectory to close out the first half of 2024. The U.S. stock market benchmark, S&P 500, gained nearly 4% and along with its tech-heavy brethren, the Nasdaq Composite, set multiple record closing highs. The S&P 500 individual components posted 20 new 52-week highs and 4 new lows while the Nasdaq Composite components recorded 51 new highs and 114 new lows. Interest rate cuts still remain top-of-mind for equity investors, with expectations for the Fed to cut interest rates in 2024 greatly reduced from consensus earlier in the year. We remain skeptical that the Fed will cut rates without a more significant decaying of domestic economic factors in the labor force along with decelerating inflation.

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“We remain skeptical that the Fed will cut rates without a more significant decaying of domestic economic factors...”

Core PCE rose 0.2% in June, above forecasts for a 0.1% increase and following an increase of 0.1% in May. The PCE Price Index year over year rose 2.5% in June, in line with forecasts and following an increase of 2.6% in May.

After navigating the post-COVID period well, the U.S. economy is now experiencing a slight slowdown in growth. Conversely, the Euro area, the UK, and other developed nations, which had weaker post-COVID growth, are seeing a modest economic upturn. However, while U.S. economic dominance persists, Europe’s recovery is limited by weak credit demand and fading economic surprises. China’s growth, driven mainly by net exports, is also constrained, with the property sector and credit growth remaining weak.

The U.S. economy’s resilience suggests that any slowdown will be minor. Despite global economic upturns, the limited nature of these recoveries means the U.S. will likely remain the strongest performer. Additionally, numerous elections worldwide this year increase the risk of trade tariffs and geopolitical tensions. With rising government deficits, fiscal discipline debates are expected to dominate market attention.

The recent slowdown in U.S. growth was expected due to tighter Federal Reserve policies impacting economic activity. Consumers are spending down savings and relying more heavily on credit card usage, especially in the lower socio-economic areas of the population. Unlike mortgage rates, which many households secured at low levels before inflation and tighter Fed policies, high interest rates on credit cards and auto loans are unavoidable for many. Thus, while mortgage debt payments as a percentage of disposable income remain stable, consumer debt payments have risen sharply, with credit card delinquency rates increasing faster than mortgage delinquencies.

Supporting Data Points:

- **Interest Rates:** As of Q2 2024, the average credit card interest rate stands at around 20.71%, significantly higher than the sub-4% mortgage rates many households locked in before the Fed's tightening cycle began.
- **Consumer Debt:** Consumer credit increased at an annual rate of 7.1% in May 2024, with revolving credit (primarily credit cards) rising at a rate of 11.2%.
- **Savings Rates:** The personal savings rate dropped to 3.2% in June 2024, down from a peak of 33.8% in April 2020.
- **Credit Card Delinquencies:** The delinquency rate on credit card loans at commercial banks rose to 2.67% in Q2 2024, compared to 1.81% in Q2 2023.
- **Corporate Earnings:** Retailers like Walmart and Dollar General have reported increased sales from value-conscious consumers, indicating a shift towards lower-cost options.

“Thus, while mortgage debt payments as a percentage of disposable income remain stable, consumer debt payments have risen sharply...”

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“Key investment themes observed in the first quarter are expected to persist, with stocks maintaining their upward trajectory...”

Outlook

The concentration of market gains has not seemed to concern growth-oriented investors, with the current equity market rally heavily reliant on the performance of the "Magnificent 7" technology stocks and no immediate foreseeable end to their upward momentum. However, the AI boom and strong earnings reports have kept investors willing to pay premium prices for these companies. Despite high valuations and concentrated investments, these stocks are likely to continue their upward trend over the long term. Additionally, continued (but slower) economic growth throughout the remainder of 2024 should encourage broader risk appetite and earnings growth across various companies and sectors, with healthcare and energy both experiencing recent tailwinds due to subsiding inflation concerns. Of note, both of these sectors being less overvalued relative to their higher returning peer-sectors, YTD, offer potential for strong second half returns if risk assets stay favored by investors.

With recent corporate earnings reports indicating that U.S. consumers are shifting towards value-focused spending and lower-cost retailers, we think it prudent to evaluate the increasing defensibility of our concentrated equity portfolios to account for a slowing economy where consumer spending is less robust than in recent days. As we navigate through these dynamics, close monitoring of market developments and prudent security selection remain imperative to valuing risk-reward, as we approach historically high valuations of the top returning stocks of 2024. Virtus Capital helps investors achieve their unique financial objectives through customized, research-driven portfolios that aim to capture long term investment trends and themes.

-JG

Q2, 2024 Quote:

“When you want to test the depth of the stream, don’t use both feet.”

-Chinese Proverb

About the Author



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Managing Executive of Virtus Capital, Jon is a Certified Plan Fiduciary Advisor, CPFA® and holds a master's degree in finance from Georgetown University. He is passionate about helping individuals and organizations reach their vision of success. Jon leads a team of experienced financial professionals, delivering premier investment advisory and retirement plan consulting services across the nation. Virtus Capital is an independent investment fiduciary firm that provides organizational decision makers and high-net-worth investors objective, expert financial advice to accomplish their goals and objectives.

Sources

- (1) Guru Focus Graph and data ROP: <https://www.gurufocus.com/stock/ROP/summary>
- (2) Guru Focus Graph and data HRL: <https://www.gurufocus.com/stock/HRL/summary>
- (3) Vanguard Return: https://institutional.vanguard.com/content/dam/inst/iig-transformation/pdf/total_return_chart.pdf
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