

S&P 500 EARNINGS BREADTH BROADENS

After a few volatile weeks, global equities ended up about 2.6% in August. Following a 15% plus decline in the first three days of August, Japanese equities ended the month up 1.8%. In the U.S., defensive equities performed better than the more cyclical areas and mega cap stocks. Fixed income returns have benefited from recent declines in interest rates. The 2s10s curve (yield curve) has un-inverted. The 2-year Treasury yield declined as the market began anticipating interest rate cuts over the next 12 months. Credit spreads widened somewhat, but it mostly reflected heightened volatility in the rates market and less about the health of the corporate sector.

U.S. economic activity is likely to cool from its brisk pace in the first half, but we don't expect a contraction in the near term. The recent payrolls report and revisions released last month show that the job market is cooling from its earlier hot pace with no evidence of a downturn. Recent data has been broadly consistent with our soft landing base case and if anything, probabilities have coalesced even more around the base case.

Inflation is decelerating to more normal levels. With a cooling labor market, we would expect more progress on services inflation. The Fed has communicated that the "time has come" to begin cutting interest rates in response to falling inflation and slowing growth. The June ¹SEP had the Fed Funds rate at 4.1% by the end of 2025, while the market expects an additional 125 basis points (bps) of cuts. Potential unwinding of rate cut expectations could be a source of volatility. Despite recent moderation, the U.S.

growth outlook is much more constructive relative to Europe and China where slowing continues.

The S&P 500 saw 11% year-over-year earnings growth in the second quarter, of which nearly half came from stocks outside of the Magnificent 7. This is a change from the prior 2-3 quarters when their contribution was negative. We see a similar picture in the bond market where credit spreads have remained contained. The High Yield (HY) picture remains constructive with low default rates.

Our recommended 6-12 months tactical asset allocation broadly favors global equities over bonds. There are some valuation concerns around U.S. equities but strong earnings expectations and the broadening of equity markets keep us invested in them. Bonds may remain volatile if the market begins to price out rate cuts. This led us to go further underweight bonds. We do expect a bounce back in global equities but we removed our developed ex-U.S. equities overweight where the growth picture is a little muddy. The reductions in bonds and equities funded additions to Global Real Estate and Global Listed Infrastructure. Both asset classes should continue to benefit from the reduction in the rates environment. Investor sentiment was quite negative on Real Estate and we expect an improvement here as the asset class is highly leveraged to lower and declining rates. Further, Global Listed Infrastructure is particularly well positioned from an earnings and fundamentals perspective.

S&P 500 EARNINGS BREADTH BROADENED

S&P 500 ex-Magnificent 7 contributed 5.4% to 2Q S&P 500 earnings growth, the highest level since early 2023.

EARNINGS GROWTH CONTRIBUTION (%)



Source: Northern Trust Asset Management, Bloomberg, FactSet. Data as of 8/31/2024. Magnificent 7 = Mag 7. ¹SEP = Summary of Economic Projections.

BASE CASE EXPECTATIONS

Sticking the Landing

Global growth will move below trend but remain positive, supported by ongoing U.S. economic strength and labor market/consumer resilience. Inflation will remain above target but continue to proceed toward 2%.

Central Bank Transitions

Major central banks have started to cut policy rates and we expect more to follow suit as the year progresses. Economic growth may afford policymakers more time to confirm that inflation progress is sustainable.

RISK CASE SCENARIOS

Stubborn Inflation

Inflation does not move lower due to economic resurgence, tight labor markets, U.S. election induced pressures related to tariff or immigration policies, and/or disruptions from conflict in the Middle East.

Lagged Impacts

A soft landing is taken off the table as easing economic growth evolves into a traditional demand-led recession. In this scenario, a shallow recession is more likely than a deep contraction.

Indexes used and definitions:

MSCI ACWI: A free-float weighted equity index that includes both emerging and developed world markets.

S&P 500 Index: Widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

S&P Global Infrastructure Index: The S&P Global Infrastructure Index includes exposure to 75 companies from around the world that represent the listed infrastructure universe.

Prepared by Northern Trust Asset Management for United Bank.

NTAM is not affiliated with United Bank and permission to distribute this content does not constitute or imply any endorsement or sponsorship of any third party's product, services, or organization.

UNLESS NOTED OTHERWISE, DATA IN THIS PIECE IS SOURCED FROM BLOOMBERG AS OF SEPTEMBER 2024.

This document may not be edited, altered, revised, paraphrased, or otherwise modified without the prior written permission of Northern Trust Asset Management (NTAM). The information contained herein is intended for use with current or prospective clients of Northern Trust Investments, Inc (NTI) or its affiliates. The information is not intended for distribution or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. NTAM and its affiliates may have positions in and may effect transactions in the markets, contracts and related investments different than described in this information. This information is obtained from sources believed to be reliable, its accuracy and completeness are not guaranteed, and is subject to change. Information does not constitute a recommendation of any investment strategy, is not intended as investment advice and does not take into account all the circumstances of each investor.

This report is provided for informational purposes only and is not intended to be, and should not be construed as, an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Recipients should not rely upon this information as a substitute for obtaining specific legal or tax advice from their own professional legal or tax advisors. References to specific securities and their issuers are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such securities. Indices and trademarks are the property of their respective owners. Information is subject to change based on market or other conditions.

All securities investing and trading activities risk the loss of capital. Each portfolio is subject to substantial risks including market risks, strategy risks, advisor risk, and risks with respect to its investment in other structures. There can be no assurance that any portfolio investment objectives will be achieved, or that any investment will achieve profits or avoid incurring substantial losses. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Risk controls and models do not promise any level of performance or guarantee against loss of principal. Any discussion of risk management is intended to describe NTAM's efforts to monitor and manage risk but does not imply low risk.

Past performance is not a guarantee of future results. Performance returns and the principal value of an investment will fluctuate. Performance returns contained herein are subject to revision by NTAM. Comparative indices shown are provided as an indication of the performance of a particular segment of the capital markets and/or alternative strategies in general. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index. Net performance returns are reduced by investment management fees and other expenses relating to the management of the account. Gross performance returns contained herein include reinvestment of dividends and other earnings, transaction costs, and all fees and expenses other than investment management fees, unless indicated otherwise. For additional information on fees, please refer to Part 2a of the Form ADV or consult an NTI representative.

Forward-looking statements and assumptions are NTAM's current estimates or expectations of future events or future results based upon proprietary research and should not be construed as an estimate or promise of results that a portfolio may achieve. Actual results could differ materially from the results indicated by this information.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc. Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K, NT Global Advisors, Inc., 50 South Capital Advisors, LLC, Northern Trust Asset Management Australia Pty Ltd, and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

© 2024 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A.

ViewPoints reflects data as of 9/18/24.

Powered by



©2024. All Rights Reserved.