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MARKET
UPDATE
2024 Q2

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The opinions expressed in this article are Mr. Hanson's own and do not necessarily reflect the position of all advisors at Ankerstar Wealth.

2Q 2024 Market (and Real Estate) Update:

With the first quarter of 2024 in the books, the equity markets are off to a great start with the S&P 500 index up 10% (a decent full year return in an average year!). The bond market was flat the first quarter. Overall, the market continues to reflect optimism in the economy going forward with the survey of economic projections forecasting 2024 GDP growth of 2.1%, core inflation ending 2024 at around 2.6%, unemployment rising to 4% by the end of the year (up from 3.9% now), and 3 interest rate cuts in the second half of the year.

These projections indicate we will not have a recession in 2024 but there are signs of a weakening economy as consumers have largely depleted their COVID-era savings and the savings rate has fallen to a paltry 3.8% of income. Consumer loans and delinquency rates have ticked upward which indicates households are struggling, mostly on the lower end of the income spectrum. This in turn is resulting in slower growth in retail sales. Spending on services (travel, experiences) is still red hot, fueled mostly by older and wealthier demographics.

As long as unemployment remains low (4% or lower), company earnings should finish 2024 strong but the key question will be "how strong". The market discounts future earnings to arrive at current prices and thus far, it is projecting a stronger economy and thus we have seen the rapid rise in the stock market. Any negative news (e.g., hotter inflation than expected, higher unemployment than expected) and the market could quickly sell off. However, the correct action is to stay the course with your portfolio within your overall risk range. It is healthy for the market to sell off from time to time to allow for consolidation. Our philosophy at Ankerstar Wealth is to invest for the long haul which means staying invested during market downturns (rebalancing though, is always in play). Markets have always (yes, always) come back over time and the snap back can happen quickly, so timing the market is an effort in futility. Our philosophy at Ankerstar Wealth is to invest with conviction in those areas where we strongly believe in long-term growth.

One such area is information technology and we continue to believe in the thesis that technology, specifically the potential for Artificial Intelligence, will boost productivity in the coming years which has always been a huge catalyst for positive stock market returns.

So where are we headed in the next quarter? I remain bullish for the rest of 2024 but not as bullish as I was 3 months ago as the market has gotten a little ahead of itself. Thus, we may see a pullback in this coming quarter but again, I emphasize the long-term outlook, especially in technology, is highly favorable. I expect the economy will remain strong with the market broadening out to other sectors besides technology. I continue to like small cap stocks that have positive earnings (S&P 600 index). While the bond market was flat the first quarter, it too should perform well going forward as the federal reserve will likely begin to cut interest rates. We continue to see solid real rates of return with short duration fixed income assets. Longer term duration fixed income will do well as interest rates are cut so expect to see a rebalance to long duration fixed income in the coming months.

Real Estate: Inventory remains low and will continue to remain low for the rest of 2024. Last quarter, I projected mortgage rates would drift lower sooner, causing inventories to rise but rates will remain elevated for the rest of 2024 (6-7.5% range for a 30-year fixed loan) which is bad news for home buyers but good news for homeowners. I expect price appreciation of 2-4% nationally for 2024 homeowners as inventory remains tight. Note: there was a sea change in how real estate agents are compensated stemming from class action lawsuits questioning the practice of requiring seller's agents to specify the commission being offered to buyer's agents when listing a property on the multiple listing service (MLS). Currently, listing agents and sellers set the price and sellers pay for the commission of both listing and buyer's agents. The lawsuits argued that this arrangement inflates commission rates which have been 5-6% on average for many years.

Listing agents will now be banned from offering commission splits to buyer's agents on the MLS and instead must negotiate with buyer's agents outside of the MLS and enter into contracts with clients to establish pay and services provided up front. The changes are set to take effect this July. Home buyers are likely to be more price-conscious when selecting an agent and might opt to save money by not using an agent at all or by paying a smaller fee in exchange for fewer services. Home sellers with multiple offers could opt to offer less compensation for buyer's agents or none. Lower commissions will likely push agents out of the real estate field. In the long run, these new commission rules could reduce home prices. According to Kiplinger, Americans pay about $100 billion in real estate commissions annually, the highest rate in the world. The overall impact of this ruling will be interesting to track in the coming years.

A final note: while not a near term concern, the rising level of U.S. debt to GDP is a long-term concern. The cost of servicing this debt will negatively impact U.S. growth in the coming years, exacerbated if interest rates remain elevated. This in turn will most likely mute long-term stock market returns in the coming years. I will address this topic in future updates. Please reach out to me anytime at joel@ankerstarwealth.com if you have any questions on this commentary or any other question. The Ankerstar Wealth team remains committed to helping you “Maximize Life by Maximizing Wealth”!

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