THE CAPITAL MARKETS

New Covenant Trust Company

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MARKET UPDATE AT A GLANCE

The Dow Jones Industrial Average (DJIA) finished July at 40,843, up +4.41% for the month and +8.37% so far in 2024. The S&P 500 closed July at 5,522, up +1.13% for the month and up +15.78% year-to-date. The NASDAQ Composite lost -0.75% in July, up +17.24% for the year. Small-company stocks as measured by the Russell 2000 ended July up +10.10% for the month, up +11.22% so far for the year. Real estate (+7.76%) was the best-performing sector in July.

2024 IS GEARING UP TO BE ANYTHING BUT BORING

Many investors perceive the "risk" in investing refers to only to the potential of markets going down, or of an investment losing money. In fact, investment risk is most often measured by variance, or volatility — by how wide the spectrum of potential outcomes is — both up and down.

In markets, higher returns come from higher risk, both to the upside and the downside, which is why more volatile assets, such as small-cap stocks, also have the highest returns over time.

While volatility should be a welcome and normal part of investing for growth, there occasionally will be episodes of a steady, calm march higher for markets, such as what we've seen for much of the past 18 months.

A common characteristic of a calm and rising market is a low level of perceived uncertainty. As uncertainty increases, the spectrum of possible outcomes expands, and traders on either end of that spectrum may rapidly shift if it becomes apparent in their minds that they are on the wrong side of a trade. This leads to elevated volatility.

If uncertainty and a wide dispersion of potential outcomes are key ingredients to market volatility, the stage appears set for a potentially choppy second half of 2024.

With around 80 days to election day in one of the most volatile election cycles since the 1960s, two wars persisting in Europe and the Middle East, sudden uncertainty in the underlying strength of the labor market and economy, and sky-high valuations in stocks, making anything less than perfection a disappointment — there is no shortage of uncertainty in markets in the near-term, and a stretch of elevated volatility should not be surprising for investors.

"Investors have shifted from worrying the economy is too strong ... to worrying the Fed is being too slow to cut rates as the economy slides. ... The rose-tinted spectacles are gone, and that means the market can't simply shrug off bad news, as it did earlier this year."

(Wall Street Journal, James Mackintosh, Aug. 11, 2024)

KEEP CALM AND (DON'T) CARRY ON

A major contributor to the recent spike in volatility is thought to have been an unwinding of the so-called "carry trade" on Wall Street.

Most simply, a carry trade implies borrowing money in a currency with low interest rates and investing those borrowed funds in higher returning assets.

Anytime borrowing, or leverage, is involved in an investing strategy, the risk increases significantly.

Borrowers may be forced to pay back some of their borrowing, known as a margin call, if the value of their investment declines.

Often, investors need to sell other investments to pay the debt when this occurs. When many investors are selling at the same time, it can spike volatility.

Exotic trading strategies like carry trades and leverage often look attractive when things are calm, but when they go wrong, they can go wrong in a big way fast.

The events in early August support, in our view, focusing on high quality and easy-to-understand investments, and remaining disciplined for the long term.

TIPS FOR NAVIGATING MARKET VOLATILITY

In early August, the NASDAQ index saw a period of 8 straight trading days with a move of over +/- 1%.

The only other periods in the last 20 years to see such a stretch of volatility were in March 2020 during pandemic lockdowns and during the Great Recession in 2008. The S&P 500 saw both its best and its worst days since 2022 in the same week during this stretch.

In the midst of such volatility, it may be helpful for investors to remember that one of the best ways to navigate volatility in markets is to not have to sell securities in the midst of a drawdown or correction.

This can be achieved by ensuring that only long-term, 5- to 7-year-plus time-horizon investments are allocated to the stock market, and by ensuring that any near-term cash needs are held back in reserve.

Another helpful approach to volatility is to maintain a perspective or context consistent with your investing horizon.

Despite the elevated volatility we've experienced in recent weeks, the S&P 500 fell only around 8% from top to bottom in early August and has recovered much of that at the time of this writing. Five percent corrections occur around twice a year, and 10% corrections roughly once a year on average.

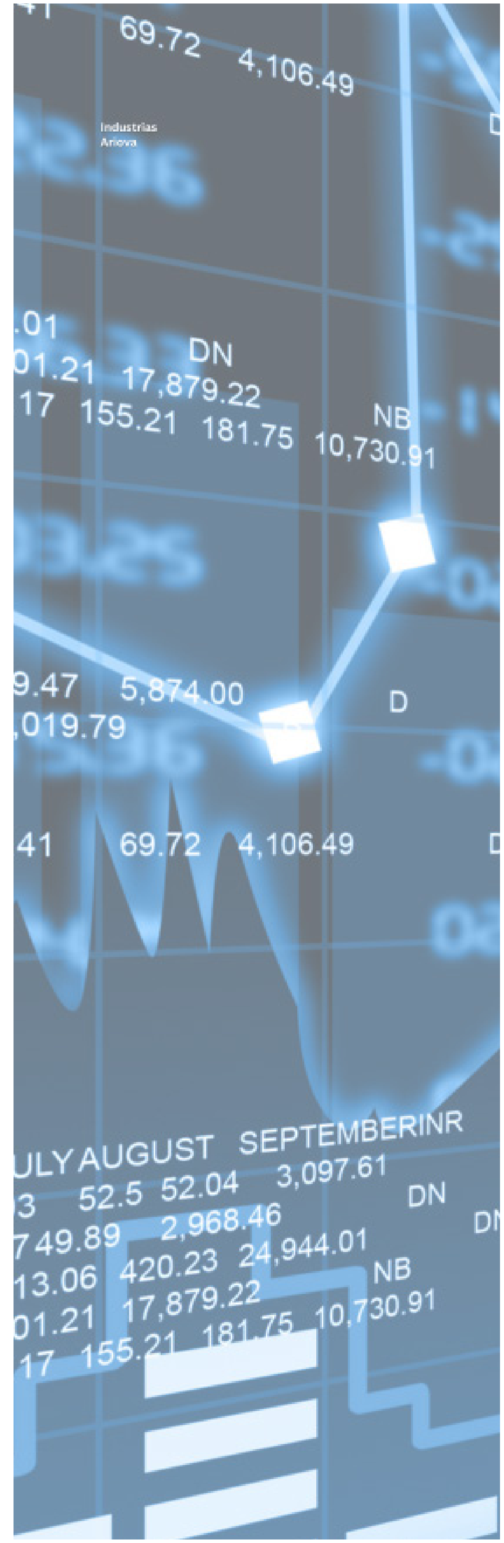
Long-term investors have and will see this sort of volatility often; it's a healthy and necessary part of earning the higher returns stocks have offered investors consistently for over 100 years.

"The jolt marks the start of a more anxious phase for a record-breaking market that has methodically boosted Americans' wealth and propped up the consumer spending that is central to the U.S. economy. As investors parse each jobs report or corporate earnings release for clues about what could drive equities' next move, many of the factors behind their unusual lull in recent months are increasingly in question."

(Wall Street Journal, David Uberti, Aug. 13, 2024)

Market Metrics

Index or Metric	Close as of 6/30/2024	Close as of 7/31/2024	Change Previous Month End	2024 YTD % Change
Dow Jones Industrial Average	39,118.86	40,842.79	+1,723.93	8.37%
S&P 500	5,460.48	5,522.30	+61.82	15.78%
NASDAQ Composite	17,732.60	17,599.40	-133.20	17.24%
RUSSELL 2000	2,065.00	2,254.48	+189.48	11.22%
Fed Funds Rate	5.25% - 5.50%	5.25% - 5.50%	UNCHANGED	
2-Year Treasury	4.71%	4.29%	-0.42%	
10-Year Treasury	4.36%	4.09%	-0.27%	
Crude Oil $ per Barrel	$81.54	$77.91	-$3.63	8.74%
Gold $ per Troy oz.	$2,339.60	$2,473.00	+$133.40	19.36%
UK Point in U.S. $	$1.2641US=1£	$1.2844US=1£	$ WEAKER	0.76%
Euro in U.S. $	$1.0717US=1	$1.0821US=1	$ WEAKER	-2.04%
Canada $ per U.S. $	$1.36835C=$1.00US	$1.38145C=$1.00US	$ STRONGER	4.77%
Japan Yen per U.S. $	160.86¥=$1.00US	150.46¥=$1.00US	$ WEAKER	6.72%



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