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CAPITAL MANAGEMENT GROUP

The Hefter Report – August 2024

US Equity markets have firmed significantly from the August 5th lows as several macroeconomic trends have emerged, lowering market volatility.

As corporate earnings season winds down, it's notable that almost 60% of companies are either meeting or beating their consensus earnings estimates. Currently, 2Q earnings are on track to grow by 11% year-over-year, and for the full year 2025, the estimated data are pointing to 15% growth. This would indicate a forward multiple for the S&P 500 of approximately 20 times earnings.

Regarding interest rates, the Fed has signaled that we are moving toward an easing cycle. It's difficult to assess the pace that rates will decline, but we are anticipating a 25-50 basis point reduction in September, followed by additional rate cuts for the rest of the year. The weaker-than-expected employment data in the 3rd quarter gives us further confidence that monetary policy will remain accommodative. There are several additional factors that lead us to believe that the easing cycle will continue at a moderate pace into 2025-26. Among them are a low but still present probability of recession in the next 12 months, solid GDP growth estimates of 3-4%, declining inflation, and a 10-year Treasury Bond trading almost a full percentage point lower than a year ago. There are risks of course to our outlook. Primary among them is the possibility of expanding wars in the Middle East, Ukraine/Russia and even China/Taiwan. In addition, there is always a potential for accelerating unemployment and lower-than-expected growth, any of which could cause a contraction in earnings multiples and result in a market decline.

Our current favorite market sectors continue to be technology and consumer staples; however, we believe that growth in these sectors will come from a larger number of companies beyond the "Magnificent 7." We also like defense, aerospace and electric utilities as a long-term investment theme given our projections for increase demand from data centers.

We look forward to your comments, questions, and insights.

Steve, Ben, Charlie and Micah

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