Morgan Stanley
INVESTMENT MANAGEMENT

# Equity Market Commentary

**SLIMMON'S TAKE** | APPLIED EQUITY ADVISORS TEAM | September 2024

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The following views and perspectives are formed by the work of the Applied Equity Advisors team in managing assets for investors.

**1** ***Sometimes the best thing to do is be patient.***

I think we are in one of those periods.

**2** ***With the change in the Democratic candidate for US President, I think the market is reverting to a repeat of the Presidential Election year cycle.***

Early in 2024, I thought this year's equity market might differ from typical Presidential election year seasonality simply because both candidates had already been or were currently President. Therefore, there would be very little uncertainty. For good or for bad, we knew what we would get whoever was the winner.

Sure enough, the VIX was relatively contained through most of the first half of the year. It never reacted to the surge in either candidates' popularity.

Yet that is no longer the case as we now have a challenger who has not previously been in charge, as in most election years.

So, let's pull out the Presidential year historical handbook:

a) A rally into mid-summer conventions as both candidates promise everything to everybody.

b) Followed by a more volatile fall as the uncertainty around the election weighs on investors' psyches.

   This is where we are, and I suspect this market volatility will *last potentially right up to election day*.

c) However, once the election is over and we have a clear winner in both Congress and the White House, the market tends to do very well into year-end.[1]

[1] Navellier and Associates. September 10th, 2024.

*I expect a strong rally into year-end with the market breaching its July highs*. Earnings revisions for 2025 have been excellent.[2] That will get more focus once the election is behind us.

**3** **Yet being patient does not mean sticking your head in the sand.**

In my investing experience, stock price movements diverging highly from fundamentals creates *attractive investing opportunities*.

Elections whip up emotions, and sadly, investors tend to take out those anxieties on their portfolio.

If investors are buying or selling certain stocks not based on what is going on at the company level, but rather on their perception of who will be in the White House in a few months…..oh, that gets me so excited!

**4** When the dust settles following the election and investors take a deep breath only to realize the world will not crumble even if their candidate lost, **investing then gets back to fundamentals.**

I think that will be the case again this year.

So, watch for these large divergences. That's what the Applied Equity team will be doing for our investors.

**5** **Finally, I am always more confident in the *consistency of behavioral finance* to frame predictions than I am in most any other methodology.**

I thought Morgan Housel's recent podcast simplistically explained exactly why. (He's one of my favorite behaviorists.)[3]

He succinctly posited that in some fields, knowledge is "secular". Fields such as medicine. Medicine today is far more advanced than it was 100 years ago.

Yet in some fields, knowledge is "cyclical", such as in investing.

"We have to be banged over the head with a hammer to learn on our own, generation after generation. *Investing is not cumulative knowledge.* With each generation, we must learn the same lessons about greed and fear and risk all over again."

My first response after listening was, "thank god".

If investor knowledge is cyclical not cumulative, then *there is the opportunity*. As a professional investor, that's what gives me comfort that we can continue to generate returns for our investors.

I could provide so many examples…investors derisking after a bear market…just as they did 100 years ago, or falling for hot products…just as they did 100 years ago. But I will leave that to the podcast.

It's worth a listen.

Andrew

[2] Factset bottoms up consensus S&P 500 estimates.
[3] Morgan Housel podcast Cumulative versus Cyclical Knowledge. August 29th, 2024.

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