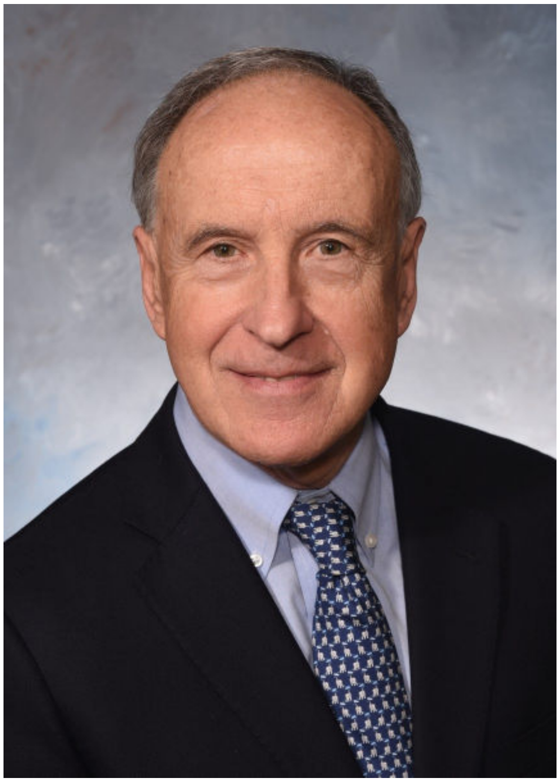
CHASE INVESTMENT COUNSEL
CORPORATION
PRESERVING & GROWING WEALTH
Since 1957

August 2024 REVIEW & COMMENTARY

PETER W. TUZ, CFA, CFP®
PRESIDENT & PORTFOLIO MANAGER

August 6, 2024



Peter W. Tuz, CFA, CFP®
President & Portfolio Manager

> "We constantly monitor short-term market volatility within the context of our long-term investment philosophy."

August 2024 Market Volatility

On Monday August 5th, US equity markets experienced a broad selloff resulting in the S&P 500 Index, Nasdaq Composite, and Dow Jones Industrial Average closing -3%, -3.4%, and -2.6% respectively. Several factors are given for the recent market turbulence including three most often cited: the August 2nd jobs data, Japan's carry-trade, and moderating enthusiasm around artificial intelligence.

The August 2nd jobs report was released after the most recent Federal Open Market Committee (FOMC) meeting where Fed Chair Jerome Powell suggested a rate cut, although not certain, could soon be on the table. Inflation has fallen from a high of 7.1% two years ago to 2.5% in June, according to the Fed's preferred gauge. However, the unemployment rate rose to 4.3% in July, up from 4.1% in June and 3.7% at the beginning of the year. It is important to remember the Fed's dual mandate – maximum employment and stable prices. While moderating inflation is a good thing, the steady rise in unemployment could be shifting the economic narrative from a "soft landing" to one that is not so soft. It remains unclear as to whether the Federal Reserve will react to this new data. While we know that markets do not like uncertainty, there is more data coming in the next few weeks that should paint a clearer picture.

The August 5th carnage in US stocks came quickly after Japan's stock market plunged the prior night, with Tokyo's Nikkei index falling more than 12%, its largest one-day fall since October 20, 1987. The weakness was caused by rising rates and a strong yen. Japan's stock market is now -25% from its July peak. A rapid unloading of "carry trades" also occurred August 5th, with some market participants unraveling a popular trading strategy in which an investor borrows in a currency with low interest rates (Japanese yen) and reinvests those proceeds into higher yielding assets elsewhere such as the U.S. Concerns about the carry trade had been rising for some time, because of the enormous amount of money involved. These concerns rose rapidly on July 31 when the Bank of Japan raised its target interest rates from 0.1% to 0.25%. If an investor borrows in yen and trades in dollars, and the yen gains value compared to dollars, more dollars are needed to pay back the yen-denominated loans. This makes "carry" trades less profitable or even unprofitable.

Shares of many large technology companies participated in the market selloff as skepticism over returns on investment in artificial-intelligence technology appears to be growing. While Big Tech earnings were mixed last week, a trend of higher capital expenditures associated with A.I. technology investment left many investors concerned about results. A major worry is whether the lofty valuations of many of these tech companies will pull back or whether their continued growth will support the stocks until they can show tangible profits from A.I. investments.

Amidst all the uncertainty in today's political and economic landscape, we want our clients to remember our well-defined, objective process for making portfolio decisions has worked in both strong and weak markets. We constantly monitor short-term market volatility within the context of our long-term investment philosophy. Please do not hesitate to contact us if you have any questions regarding your investments.