Mischler Capital Markets

September 3, 2024

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August: 10% mark-down turns into a monthly ~2% gain across indices. If you had the luxury of spending the month of August at the beach, the lakeside, traveling with your family, or if you had simply blinked, you might have missed the 10% +/- rout in major US stock market indices. For those who follow market technicians, these types of corrections have become a biennial event* (i.e. 10% correction every 1-2 years). Since 2000 there have been 16 years where the S&P has had at least a 10% drawdown.

As we observed in the opening section of our prior end-of-month equities market commentary ("A tale of two markets") July's relatively tepid stock market performance was pock-marked by a confusing mix of economic data, less-than-exciting quarterly earnings, and a slew of "we want to manage your forward expectations" messages from CFOs and corporate IR execs across multiple industry sectors.

We also suggested that August, a month with muted liquidity, could offer opportunities for those no longer in blackout periods to scoop up company shares at discounted prices.

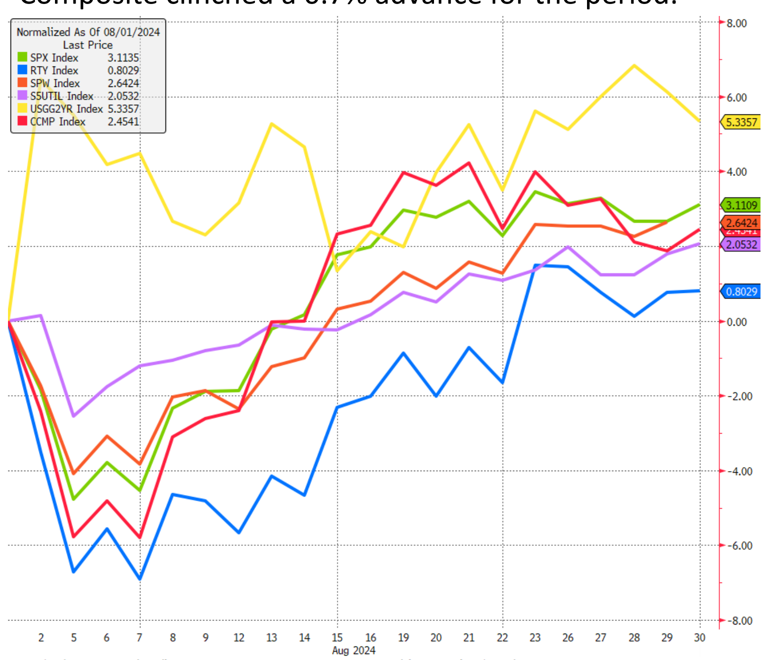
The great unwind of 2024 (so far?) The pin action in August had nearly all major indices mimicking themselves in terms of price moves, and the gutter balls at the onset of August were notably exacerbated by what global macro strategists will likely refer to as "the great unwind".

The real kicker that put a crimp in stock prices (for all of a handful of days) was, according to some, an anomaly. According to others, it was another black swan brought about by less-than-responsible global macro arbitrageurs. The sell-off (which started the last day of July) was attributed to a cohort of smarty pants hedge funds who were caught with their pants down after they had established outsized and highly-levered positions in the notorious "Yen Carry Trade". For at least several months, traders (including those from the most vaunted hedge funds) were borrowing JPY at low interest rates, and using the proceeds to amass large positions in "high growth" US equities.

On July 31, the BoJ surprised market participants and raised rates, and traders were forced (either by margin calls or simply stark mark-downs on P&L) to unwind the strategy, and divest their US equities holdings. Though US equity markets initially shrugged off that announcement (stocks rallied the last of July), the realization of the BoJ move caused the markets to sober the following Monday, and it happened en masse.

The disruption in global markets was momentarily nerve-wracking, and reinforced concerns regarding linkage between US, Japanese and Chinese financial markets, and the use of derivative strategies. In fact, teams of traders from several firms that count large pension funds as clients, have since been discharged from their duties for "going off the reservation."

Yet, before you could say "correction" five times fast, most stocks staged dramatic reversals from the early August lows. By the end of August's trading, the S&P 500 posted a 2.3% gain for the month, notching its 4th straight winning month, while the Dow climbed nearly 1.8%, and set another all-time-high. The Nasdaq Composite clinched a 0.7% advance for the period.



What sayeth September (and putting your buyback hat back on) If you missed any of the tens of dozens post-Labor Day pundits who thrive on making predictions, we'll summarize for you; historically, September (and October) are months with higher market volatility.

Data from Bespoke Investment Research found that over the past 100 years, September has by far been the worst month of the year for the Dow with an average decline of **1.24%**. Adding to the angst, one of many statisticians have stated "Since 1950, the S&P 500 has generated an average loss **0.7%** in September and finished higher only 43% of the time, making it the worst month for stocks on an average return and positivity-rate basis." The last four Septembers have also been notably weak, with the index posting declines of **4.9%**, **9.3%**, **4.8%**, and **3.9%**.

The data points lead one to suggest that <u>if</u> stocks do get rained on during September (as indicated by September 3), the rinse will be one of the best advertised events since the Summer Olympics in Paris.

That said, for opportunistic (and optimistic) treasury teams charged with executing 10b-18 programs, any material daily or weekly declines might prove an opportune moment to turn up volume when executing what is ordinarily a 'systematic approach' or continuous daily VWAP to share repurchase tactics. Said a different way (thanks to Ben Franklin), "if you watch the pennies, the dollars will take care of themselves."

What are CEOs, CFOs and IR executives saying? 73% of CEOs are optimistic or very optimistic about their organizations' performance, while many noted that strategic business issues, such as navigating uncertainty and managing growth, top their list of challenges heading into the fall.

1. **Disruptors**: For the third season in a row, geopolitical instability leads the list of disruptors for CEOs, at 60%, while inflation has increased as a worry for CEOs, from 27% in the Winter 2024 survey to 45% this survey.
2. **Generative AI**: CEOs continue to mine the potential benefits of GenAI, with nearly a quarter of CEOs using it regularly to support their own work. An increasing number of CEOs say they have implemented GenAI in their organizations to accelerate innovation and identify growth opportunities, while implementation overall is steady or cooling.
3. **The Presidential Election**: While most CEOs expect taxes, trade, and regulation to be most affected by the political cycle, they are focused on controlling what they can and preparing for any outcome. Their strategies include a range of internal measures such as risk management, supply chain diversification, and proactive communications to counter misinformation.

Wait, You're Worried about Geopolitical Instability? Mischler can help you! On August 12th, Mischler's Special Advisor LTG H.R. McMaster (Ret), and former National Security Advisor to the President, provided his thoughts and outlook re: geopolitical concerns, and *c*omplemented his thoughts with opportunities that Fortune executives might want to consider.

Excerpts for easy viewing:

1. Intro: "HR" on AI
2. Russia | Ukraine Update: What is the Real Objective?
3. The Middle East: Is an Energy Security Crisis Looming?
4. The US & China: Investable Yet? Is There A Solution?
5. Looking South: Are We Missing Opportunities?
6. What's Next: Posturing Presidential Candidates

Those who would like to arrange for a private conversation or to schedule a corporate onsite with Lt. General McMaster, please contact Rob Karr, Head of Capital Markets via phone or email rkarr@mischlerfinancial.com

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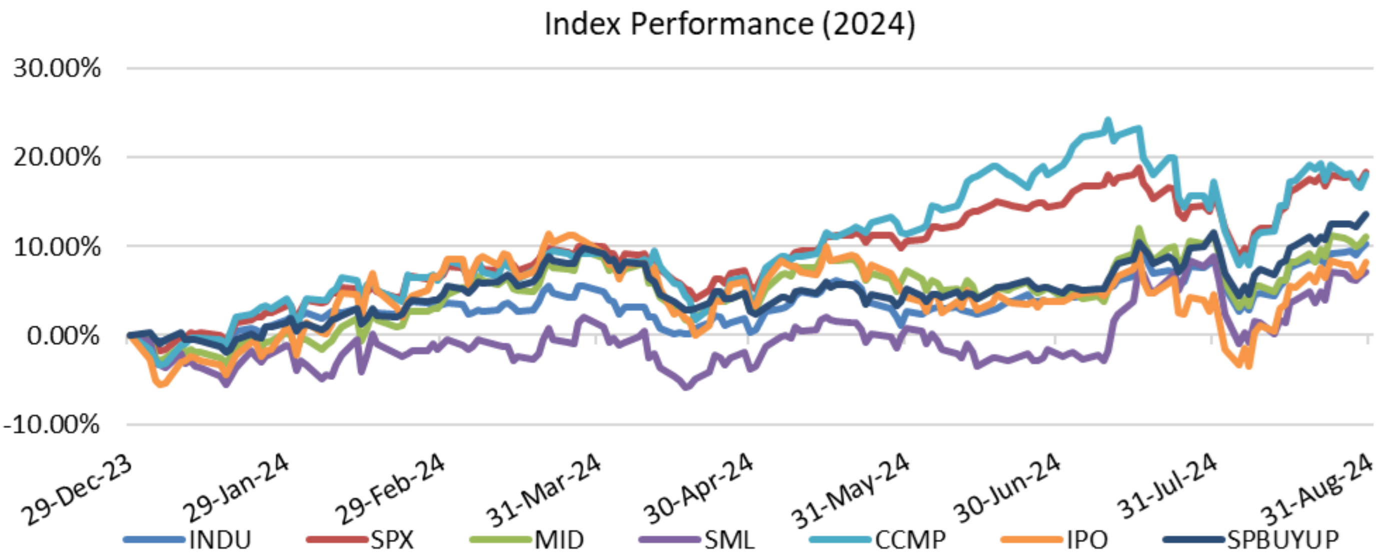
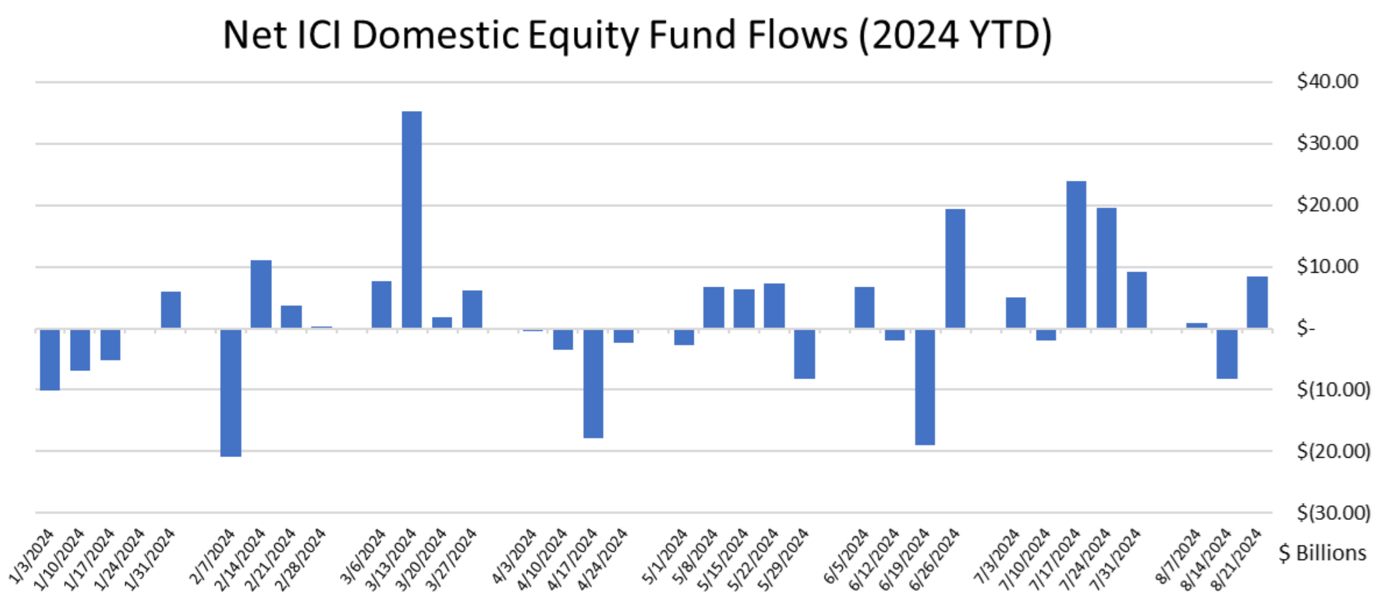
Market Benchmark and Sentiment Data





	Spot Price	YTD	MTD	% YTD High	% YTD Low
INDU	41,563.08	10.28%	1.76%	0.00%	11.53%
SPX	5,648.40	18.42%	2.28%	-0.33%	20.47%
MID	3,091.52	11.14%	-0.21%	-0.75%	14.85%
SML	1,412.57	7.15%	-1.62%	-1.62%	13.77%
CCMP	17,713.63	18.00%	0.65%	-5.01%	22.08%
IPO	4,676.85	8.25%	3.48%	-2.87%	14.54%
SPBUYUP	30,544.30	13.65%	1.89%	0.00%	15.92%
VIX	15.00	20.48%	-8.31%	-61.11%	26.48%

*As of close of business 08/30/2024