August 8, 2024

Protect and Preserve

On Monday, August 5th, we experienced a market drop of approximately 3% primarily due to the crash of the Japanese stock market. In the days following, we have seen the market rebound. Unfortunately, we expect the market volatility to continue in the coming months due to economic data.

Most of the data we review is 30% positive and 70% negative; but it definitely shows slowing growth in many ways. For example, there have been 39,147 job cuts in the first six days of August, from companies such as Hostess, Kellogg's, Nissan, Phillipps 66, SunPower and Axios. In addition, Intel cut their workforce by 15% and suspended dividends.

The manufacturing sector has now contracted for 20 out of the last 21 months as demand remains soft. Tight financial conditions and higher interest rates restrict investment spending and put pressure on the sector.

Although inflation numbers appear to be declining, consumer spending outpaces income growth as excess savings have been exhausted. In other words, income is still hindered by inflation but consumers are still spending and dipping into savings to pay for the goods and services they need.

According to the University of Michigan, consumer sentiment fell in July to an eight-month low. Despite this decline in consumer confidence, U.S. households control more wealth than ever before. Data from the Board of Governors of the Federal Reserve System reveal that U.S. Household net worth stood at $156.2 trillion at the end of 2023, up from $117 trillion at the close of 2019.

On another positive note, GDP for the second quarter of the year came in at 2.8%, beating the consensus of 2%.

Overall, investors continue to grapple with economic uncertainty and market volatility, and now await a response from the Federal Reserve on interest rates. Will the Fed cut rates in September or sooner? Will the cut be .25% or .50%? These questions are unanswered as the market continues to swing.

With so many unknowns at this point in time – global unrest, economic uncertainty and political concerns, it is our position to maintain the current allocation of your portfolio – especially through November. The last market correction in 2008 turned into a 40% decline in the market. For those in retirement years or close to it, the market risk outweighs the potential return.

We look to continue protecting your investments with U.S. Treasury Bills (which is still considered the safest investment) and earning 4.8% yield. Currently, Berkshire Hathaway (Warren Buffet) now owns more in Treasury Bills than the U.S. Federal Reserve, building up his cash to record levels. Our main goal is to protect and preserve your assets that you have worked so hard to accumulate.

As always, we at Kapusta Financial Group, would like to thank you for the trust and confidence you place in our team.