

On the good news front, July was another positive month for most investors. In fact, 2024 has been extraordinary so far in that April was the only 'negative return' month for most balanced portfolios in the first seven months of the year.

The strength in the markets can be attributed to (1) the Artificial Intelligence theme continuing to fuel growth for big technology names, (2) a broadening out of the stock market gains to include many undervalued more cyclical companies, and (3) a general consensus that the interest rate cycle has already reached its peak. I believe that all of these factors will continue to play a significant role over the next two years.

On the bad news front, (1) the quasi hysteria for Artificial Intelligence related stocks might have already peaked in July, (2) some fear that the high interest rates we have been experiencing over the past two years or so might push us into a recession, and (3) the August-to-October period can be more volatile (code for 'we can experience market drops'). I have noticed with great interest that large cap technology stocks such as Nvidia, Microsoft, Amazon, and Google peaked in July and have already experienced declines since then.

Before pushing on the Panic button, we should remind ourselves that the U.S. consumer is still robust and that inflation is continuing to cool down. So any market weakness we experience over the next few months is more likely to be a buying opportunity. In the meantime, I would not be surprised to see a range-bound market or even a decline in the stock market between now and early November. This would not be at all surprising given that *'history shows that the average year will have about three pullbacks of 5 per cent or more, and one 10-per-cent correction, according to a Bank of America strategy note'* (source: 'Nervous after recent market volatility? Here's what to do now', Tim Shufelt, Globe and Mail, August 7, 2024). We should also note that a stock market decline could be partially offset by an increase in the value of government bonds if rates continue to drop.

Finally, using the time-tested *'we can't control the markets, but we can control what we do and don't do'* market philosophy, the investment portfolios I help manage have for the most part been neutrally positioned relative to their desired/targeted equity asset mix. Furthermore, balanced portfolios can also be re-balanced when markets are very volatile. For example, if the equity market undergoes a significant decline, money might be moved from the fixed income side of the portfolio to the equity side. Re-balancing portfolios at opportune times helps smooth out long-term returns.

