WINDWARD CAPITAL MANAGEMENT CO. Risk Averse Asset Management

September 6, 2024 Web Comments

	WEEKLY CLOSE	% CHANGE YTD
DOW JONES IND	40,345.41	7.05%
S&P 500	5,408.42	13.39%
NASDAQ	16,690.83	11.19%

U.S. Stock Market Projections for 2025

Ever since the pandemic ended, Wall Street strategists have repeatedly underestimated the performance of the US stock market. In general, price targets advanced by many investment strategists have been especially difficult to process with any accuracy, for a number of reasons:

The outperformance of large-cap growth companies has skewed the traditional models used to translate macroeconomic conditions and interest rates into fair values for the S&P 500 Index. As we have previously reported in our Quarterly Reports and Web Comments, just five companies, Nvidia Corp., Apple Inc., Microsoft Corp., Alphabet Inc., and Amazon.com have comprised almost half of the benchmark’s performance since early 2020. With this having been said, it’s easy to see that performance models will be grossly inaccurate should the earnings stories of these companies move to a negative narrative.

We would couple the above explanation with the misjudgment surrounding the surprising strength of the US economy. At the beginning of 2023, the average estimate of economists surveyed by Bloomberg predicted the US economy would struggle throughout the year. Instead, it grew 2.5%, a number that is likely to repeat itself this year for the following reasons: employers are “hoarding” labor, consumers are eager to get back into restaurants and concerts, and the typical homeowner has a 3% mortgage rate, plus a lot of home equity.

The average strategist surveyed by Bloomberg still sees the S&P 500 ending the year at a median level 5,469.

That number is disturbing to us because the 2023-24 story seems to be remaining intact with about 81% of S&P 500 companies beating Wall Street estimates in the current earnings season. In addition, longer-term borrowing costs have begun to decline in advance of a Fed interest rate cut that appears likely to begin later this month.

We do realize that, at this writing, the S&P 500 is trading at about 21x, blended forward earnings, which is on the high side of history. Yet, high valuations when reinforced by strong fundamentals and great stories can remain on the high side for sustained periods of time.

In our opinion, there will be bumps in the road for equities during the remainder of the year, but we do see higher valuations throughout the year.

Have a nice weekend.

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