MARKET OBSERVATIONS
AUGUST 2024

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INVESTMENT COUNSEL

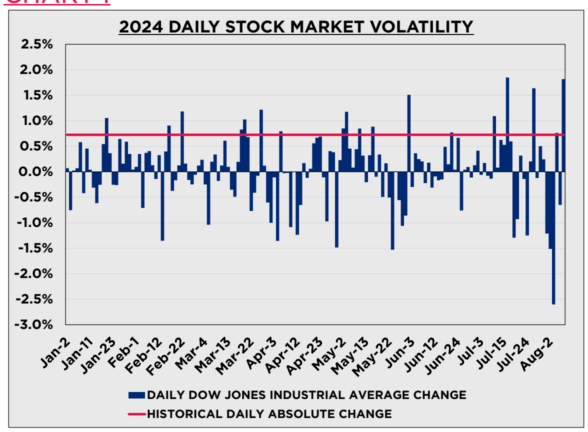
Volatility

Recent stock market volatility has raised investor concerns, and understandably so. Reports on labor markets have indicated a slowing trend, bringing focus once again to the likelihood of a hoped-for "soft landing" ahead (lower inflation with no recession). At the same time, policy changes in Japan resulted in the unwinding of leverage positions and the largest one-day decline in the Japanese stock market since 1987. This disruption raised concerns over the prospects for other unforeseen risks mutating to market downside. A review of recent stock market volatility with some historical perspective can help provide context for market trends and investing ahead.

PERSPECTIVE

The recent increase in stock market volatility can be seen in Chart I. Many daily price changes for the Dow Jones Industrial Average ("DJIA") have been well above the historical average. Over the past 128 years, the average absolute daily price change for the DJIA has been 0.7%. This means that on any given day, the DJIA could rise or fall by 0.7%. 50% of the time, daily price changes have been within ±0.5%. Over the past month, 74% of daily price changes have been outside of this range. Higher market volatility begets higher investor concern which in turn can trigger portfolio changes. At such times, staying the course with current investment positions likely is best until a thorough assessment of market return opportunities and risk challenges is undertaken.

CHART I



The DJIA posted a one-day loss of -2.6% on August 5. This loss was the largest for one day since the -3.9% decline on September 13, 2022. Of note, the DJIA has posted a cumulative 27% price increase from then to now. Table I shows recent DJIA losses relative to historical experience. The odds of the one-day loss on August 5 were very low at 1.6%. Such a "one-in-a-hundred" loss certainly would raise investor concerns. The three-day loss as of August 5 and the five-day loss as of August 7, each in excess of -5%, were notable and disconcerting as well. And the historical odds of these outcomes were very low. Such losses for each time frame last were experienced in June 2022, so investor sensitivities likely had lessened over time making an awakening even more abrupt.

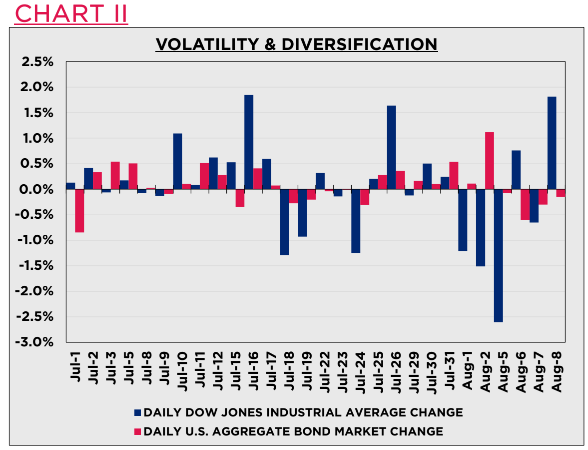
TABLE I

DOW JONES INDUSTRIAL AVERAGE LOSSES

Period	Actual Loss	Historical Odds
One Day - 8/5/2024	-2.6%	1.6%
3 Days Ended 8/5/2024	-5.2%	1.0%
5 Days Ended 8/7/2024	-5.1%	2.3%

Portfolio diversification between stocks and bonds certainly lessened the adverse impact on portfolio values from recent stock market volatility. Chart II captures daily price changes for both the DJIA and the U.S. aggregate bond market. Expectations are for bond market volatility to be lower than stock market volatility. This has been the outcome most recently. On many of the recent days of stock market losses, bonds also provided gains. The higher risk of stock investing has brought higher returns over time, but bond allocations have provided a path to reduce overall portfolio volatility and raised the odds of investors staying the course with otherwise sound strategies.

CHART II



INVESTMENT IMPLICATIONS

Stock market volatility has been more favorable than not. Over the past 128 years, DJIA daily price gains have been positive over 52% of the time. This supports the case for long-term investing. Periods of unfavorable volatility, as experienced most recently, raise concerns and the perception that an appropriate response is a change in portfolio strategy. Such a reaction to short-term experience could put the achievement of long-term investment goals at risk. The most important response is to reaffirm individual goals, time horizons and risk tolerance.