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Aptus 3-Pointers: May 2024 Highlights

Market Recap for May

May witnessed a positive market performance with the S&P 500 bouncing back by nearly 5%, driven by strong corporate earnings. The NASDAQ outperformed with a 6% increase, while small caps and international stocks lagged behind. Fixed income showed a modest recovery, highlighting ongoing challenges within the sector. April's brief downturn underscored the healthy nature of pullbacks, reminding investors of the inherent volatility in market cycles. The correlation between fixed income and equities remains noteworthy, particularly in a landscape marked by fluctuating interest rate expectations.

Election Year Dynamics

Historically, election years tend to exhibit positive market returns, especially when an incumbent is running for re-election. Since 1944, the market has shown an average return of 16% during such years. This phenomenon can be attributed to the increased likelihood of fiscal stimulus and other liquidity-boosting measures employed by the incumbent administration to foster a favorable economic environment. President Biden’s potential fiscal measures, including possible stimulus actions and policy adjustments, could further boost market liquidity, reinforcing the trend of strong market performance in election years.

The Impact of AI Investments

Artificial intelligence (AI) continues to be a significant trend, with US companies investing heavily in this technology. In 2023, AI investments by US companies totaled $67 billion, a 22% increase from 2022. Despite only 3.9% of US companies currently utilizing AI, the investment in AI is expected to drive productivity and economic growth over the long term. Companies like Nvidia are at the forefront of this trend, but the broader market is also poised to benefit as AI adoption increases. The potential productivity gains from AI are substantial, suggesting a long runway for growth and profitability enhancements across various sectors.

Shift Towards Asset-Light Models

The market is experiencing a shift towards an asset-light model, with companies increasingly relying on intangible assets. This trend has been beneficial for US companies, supporting higher valuations and profit margins. Since 1980, the composition of corporate balance sheets has shifted dramatically from tangible to intangible assets, with intangible assets now comprising approximately 95% of the aggregate assets of S&P 500 companies. This transition underscores the evolving nature of the market, where intellectual property, software, and other intangible assets

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play a pivotal role in driving value and competitive advantage. As the market continues to evolve, the emphasis on intangible assets is likely to sustain US market outperformance relative to international markets.

Investment Strategy Implications

Investors are encouraged to stay invested and leverage the ongoing market trends. The resilience of corporate earnings, the positive historical performance in election years, and the potential of AI and asset-light models suggest a favorable outlook for equities. Reducing over-allocation to fixed income and focusing on equities could mitigate longevity risks and enhance portfolio returns. The asset-light model, in particular, presents a compelling case for long-term investment in US equities, as it aligns with the broader trends of technological innovation and efficiency gains.

Conclusion

May's market performance, coupled with historical election year trends and the transformative potential of AI, underscores the importance of strategic equity investments. Staying invested and capitalizing on these trends can position investors for long-term growth and success. The convergence of fiscal policy, technological advancement, and evolving market dynamics provides a robust framework for informed investment decisions. By focusing on equities and leveraging the benefits of AI and asset-light business models, investors can navigate the complexities of the market and achieve sustainable returns.

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