Market Update

By Bruce VonCannon

It has been 56 years since incumbent U.S. President Lyndon Johnson voluntarily stepped down at the height of the Vietnam War announcing he would decline to seek a second full term. Many pundits have suggested Joe Biden do the same since his disappointing 1st debate with former President Donald Trump as the two are positioned to face each other again in the November general election.

Will President Biden remain on the Ballot?

June 30, 2024

(June 30, 2024)- Fifty-six years ago on March 31, 1968 of that year U.S. President Lyndon Johnson shocked the American electorate with his surprise announcement on national television that he would not seek a 2nd presidential term. Johnson, who had succeeded John F. Kennedy after he was assassinated in November 1963, presided over a period of extraordinary American affluence and achieved landmark legislation in civil rights and social welfare programs. However, Johnson's popularity in late 1967 had begun to wane because of the growing opposition against his administration's escalation of the war in Vietnam.

Recently following a poor presidential debate performance against GOP rival and former President Donald Trump on June 27th, there have been calls for President Joseph Biden to step down and not seek a second term. While some similarities between the tenures of Johnson and Biden do exist, there are significant differences between the two scenarios as well. Both Johnson and Biden were members of the Democratic Party, yet Johnson was only 60 years old at the time when he declined to seek office for 2nd term while Biden is a much older candidate, in fact turning 82 years old this year. Johnson was humiliated by the intensified fighting and growing stalemate in Vietnam following the 1968 Tet Offensive and at least three other candidates within his own party announced candidacy openly opposing him in presidential primaries.[1]

Biden, by contrast, has faced no significant opposition to his candidacy in the primaries, and rumblings about his age seem largely the result of a poor performance on a nationally televised TV debate with former President Trump. As of this date, no potential rival candidates for president within Biden's own party publicly oppose his nomination. In fact, past presidents Clinton and Obama as well as Vice President Kamala Harris have strongly endorsed him as well as younger Democratic Party state and congressional leaders who

[1] Three fellow Democratic Party Senators entered the 1968 presidential race as anti-war candidates to oppose Johnson's policies: Senators Eugene McCarthy of Minnesota, Robert Kennedy of New York, and George McGovern of South Dakota (who entered the race after Kennedy was assassinated in June 1968).

potentially could succeed him. Sudden calls for his resignation after the June 27 debate come primarily from party pundits, journalists, and a handful of donors who mostly have never served in elective office. While Biden's debate performance was indeed underwhelming, the performance of his opponent, Donald Trump, was by most objective observation replete with many inaccuracies and outright untruths. It was unfortunate that the debate format featured no live audiences to applaud the candidates' comments and microphones were muted at the end of each candidate's answer to moderator questions. The June 27th debate format also did not allow for simultaneous fact checkers who might have otherwise been available to assist the two CNN moderators (Jake Tapper and Dana Bash) to correct untruthful or inaccurate statements by either candidate. Trump, clearly appeared to possess higher energy that evening than Biden, and exhibited his usual incendiary language, ad hominem attacks, and a copious number of factually incorrect statements.

The competing visions of America represented by these two candidates could not be more different. One is that of a populist (i.e. Trump) looking back nostalgically to a post World War II America which bustled with affluence but clearly fell short in terms of racial equality and emancipation of women's rights. Tumpworld is isolationist and openly anti-immigrant. The other vision represented by President Biden is that of looking forward and embracing an America today that is far more diverse in its social demographics and has an economy more dependent on growth from service and technological sectors than manufacturing. Biden does seek to protect American workers as evidenced by his support for more investment in America's infrastructure and a rebirth in American manufacturing. His relationship with trade unions across America is closer than that of any president since Franklin D. Roosevelt. However, Biden's platform also embraces the selective aspects of globalism including support for the WTO and international cooperation on climate change. Biden has sought to repair relationships with America's traditional NATO allies in Europe and longstanding Asian allies that date to the 1950s. Biden, once Chairman of the Committee for Foreign Relations in the US Senate, believes in holding together the rules based world order that has existed since 1945.

What both candidates must address in their appeal to voters between now and November helps explains this looming election battle between two elderly men for the heart and soul of American voters. Over the past 60 years, distribution of wealth in America has become increasingly in favor of shareholders and the elderly. This is a trend that accelerated rapidly in the first two decades of the 21st Century. Federal minimum wage in 1948 was $0.75/hour which in today's wages would likely equal something close to $8.51/hour. However, Federal minimum wage today in America is $7.25/hour ... the equivalent of $1.26/hr lower than it was nearly 75 years ago. This contrasts sharply with the growth in productivity of the American worker which has expanded by over 80x during the same time period. Had US minimum wage grown in tandem with rising productivity over the past six decades, it would be the equivalent of $22.18/hr in today's dollars.[2] Meanwhile, productivity has expanded at a rate in excess of 100% of the expansion of minimum wage during this time period. It has resulted in a shrinking American middle class.

Turning attention to financial markets as we reach the midway point of 2024, it may suggest to us why Biden remains resolute to stay in the race despite his disastrous first debate.   Simply said, the US economy continues to be the best performing economy in the world. Unemployment is at historically low levels [3] and inflation, having hit a peak of 9% just over a year ago, has now dropped to a more moderate level below 4% Year-on-Year.   GDP growth at mid-year 2024 is tracking at 2.3% annual rate, only slightly less compared to 2.5% in 2023. Such economic data builds a cautiously optimistic picture for the 2nd half of 2024. An appropriate moniker for the US economy might be "trending well but not out of the woods yet." A note of caution should be heeded as the labor market in the U.S. remains tight which could stoke inflationary pressures. US immigration policies remain tighter than what existed a decade ago leaving no safety valve on the constraints for labor particularly in service sector jobs. Inflationary pressures also exist from rising costs of raw materials and fossil fuels. No doubt the embargo of Russian energy supplies has put more pressure on global energy suppliers to increase production. While the Bloomberg

[2] Historical data source is from NYU Professor Scott Galloway and his NY Times bestseller book "Adrift: America in 100 Charts"(2022)

[3] Unemployment rate stood just below 4% in 1st quarter of 2024. Economists normally accept 4% as the normal benchmark unemployment rate, anything above it alarming, anything below it trending toward full employment.

Commodity index is up only +3.3% Year-to-Date, Brent Crude Oil/barrel is up +14.6% and Gold up +14.5%.

Year to Date the S & P 500 index is up +14.48 %. However a significant portion of this increase is the result of three mega stocks : Microsoft, Nvidia, and Apple who collectively take up 20% of the S & P 500 index. In fact, there are six trillion-dollar mega cap stocks (Microsoft, Nvidia, Apple, Google, Amazon, and Meta) whose total weighting account for 31% of the S & P 500's performance. These six stocks were up an average of 10% the past month while the remaining 494 stocks were down an average of -2.8%. In total 150 companies stock prices rose while 353 companies' shares lost value .... that is, 70% of shares declined in value this past month.[4] This paints a more guarded picture of the overall stock market performance.

Should there be reason for the US Fed to cut rates, it is likely that this could be stimulative for equity markets as well as bond markets. However, statements by the US Fed after the past FOMC meeting on June 11-12 continue to suggest the Fed cares more about keeping inflation under control rather than concern over unemployment and stimulating markets via a short term rate cut. With such a mixed outlook for the coming half year, it is advisable for investors to seek diversification in their portfolios in order to cushion the likelihood that more than one scenario could play out. Historical statistics show that when the stock market is positive at mid-year, the return for the year for most US and global indices will be positive. More specifically, when the index tracks above 10% at mid-year, S & P 500 and Nasdaq indices average returns close to 8% and 13% respectively at the end of the year. This statistical data would be a justification for staying invested in the equity markets! [5] We continue to see opportunities for investors four equity sectors: Industrials, Healthcare, Information Technology, and Communications. We expect a slightly less robust performance in Consumer cyclical and Consumer defensive sectors.

The three main risks to financial market growth and stability remain largely unchanged over the past half year. They are:

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[4] Stock research provided by Alvin Chow of DrWealth publication (June 17,2024)

[5] Research by Basque Julius Baer (2024)

i) the troublesome continuation of the war in the Middle East following the Israeli intervention into Gaza following the horrific October 7 attacks,

ii) the battlefield stalemate in Ukraine with Russian troops continuing without success their desire to conquer Ukraine now entering its third year, and

iii) the looming U.S. Presidential and general election which pits two octogenarian candidates (again!) who have starkly different visions of the United States and global world order and control over both houses of U.S. Congress. It is the third of these three major risks, the U.S. election, which will increasingly impact markets as we head into the second half of the year. Other factors also loom in the background as potential disruptors of global markets. They include global climate change and the increasing number of weather events in the form of unprecedented heatwaves and tropical storms. Also threats to stability could arise from growing tensions in the South China Sea with the increasing number of fishing boat incursions across contested territorial boundaries between China and the Philippines. One also cannot ignore the rising number of incidents in maritime waters and airspace around the Taiwan Straits.

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About the author:
Bruce VonCannon is a native of North Carolina USA and currently a Managing Director with Vanheel Management Ltd., a Hong Kong SFC and U.S. licensed independent asset management firm founded in 2002. His career spanning 27 years in international banking and wealth management has included assignments in New York, Taiwan, Hong Kong, Singapore and Geneva. He is the author of "A Guidebook for the Asian Investor" (2017) published in hardback and e-book by Palgrave MacMillan and in Chinese language copy "未来博弈 "(2021) by Beijing University Press.