Market Perspectives

September 2024

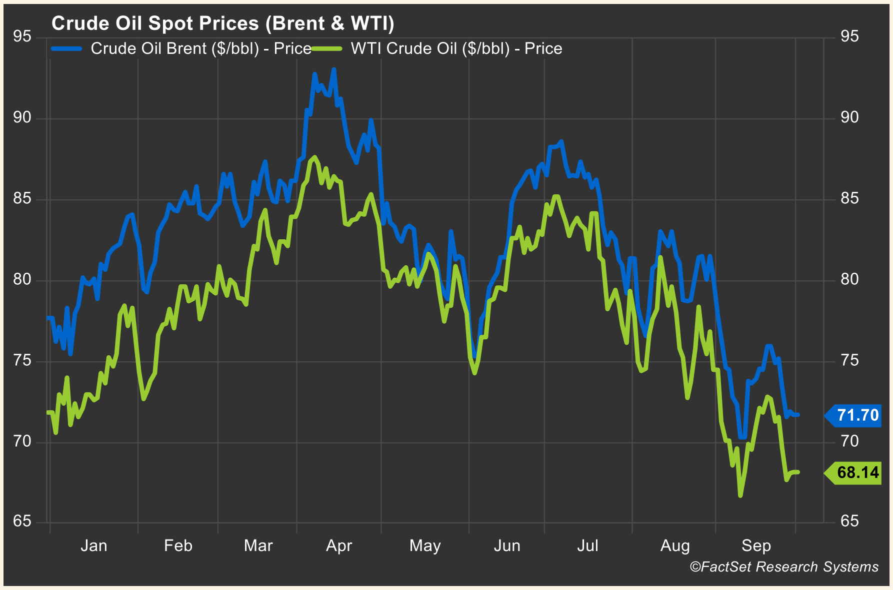
Onset of Fed rate cutting cycle propels stocks higher in September

Index	MTD	QTD	YTD	1 Year	2023
S&P 500	2.14	5.89	22.08	36.35	26.29
Dow Jones Industrial Average	1.96	8.72	13.93	28.85	16.18
Russell 2000	0.70	9.27	11.17	26.76	16.93
NASDAQ Composite	2.76	2.76	21.84	38.64	44.64
Europe, Australia, & Far East (EAFE)	0.97	7.33	13.50	25.38	18.85
MSCI Emerging Markets	6.72	8.88	17.24	26.54	10.27
Bloomberg Barclays U.S. Aggregate Bond	1.34	5.20	4.45	11.57	5.53

As of 9.30.24; Returns in percent

ASSET CLASS PERFORMANCE

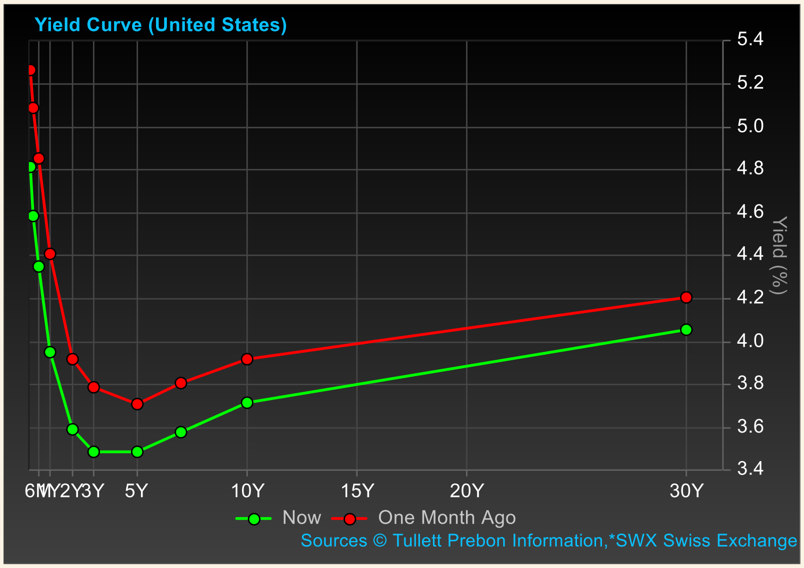
US equities finished higher in September with the S&P 500 and Dow Jones Industrial Average both rising for a fifth straight month, generating gains of 2.14% and 1.96% respectively. The S&P 500 and Nasdaq Composite (+2.76% in September) both ended September up more than 20% year-to-date while the S&P 500 continued to produce new all-time highs during the month. The Magnificent 7 companies led the market but performance by name was mixed. Tesla, Meta, Amazon, and Microsoft all beat the broad market, while Apple, Nvidia, and Alphabet lagged the market but still produced gains. Energy was the worst performing sector in September as oil prices fell on the expectation of weaker demand as well as the announcement that Saudi Arabia is abandoning its $100 per barrel price target and it plans to increase supply to regain market share.



Source: FactSet; As of 10.01.24

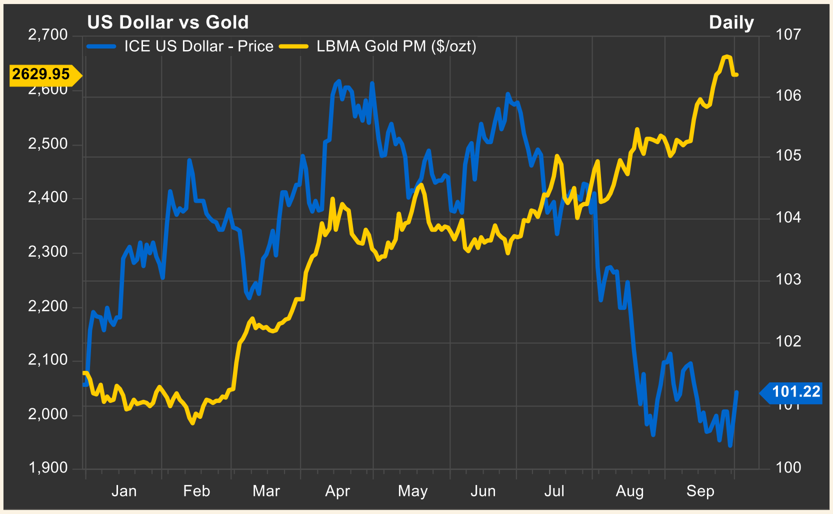
Foreign equities also rallied, with the MSCI EAFE index gaining 0.97% while the Emerging Markets Index rose 6.72%. The announcement of significant stimulus coming from the Chinese government was a major factor in the big jump in EM equities during the month.

Interest rates fell and bonds rallied in anticipation of the Fed rate cuts. Also, the Treasury yield curve un-inverted, i.e. 10-year yields rose above 2-year yields (see below), for the first time in more than two years. This move in rates generally occurs at the beginning of the Fed rate cutting cycle, so it was not unexpected. Importantly, the fall in rates pushed the Bloomberg US Aggregate Bond Index higher, as the index gained 1.34% during the month and posted a 5.20% gain for the 3rd quarter.



Source:FactSet; As of 10.01.24

The US dollar lost 0.9%, falling for a third straight month, while Gold rallied 5%, rising for a third straight month. Such a move in Gold vs the Dollar bears watching, as it could be signs of a coming inflation rebound or a decline in economic growth.



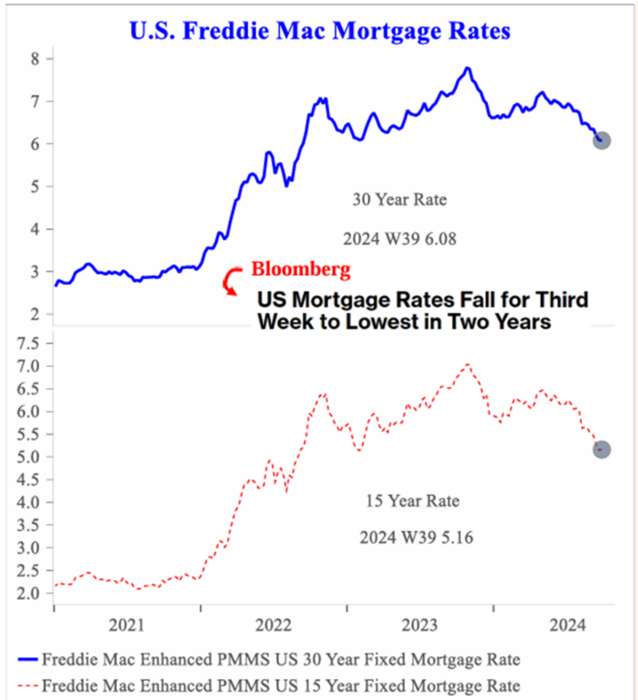
Source:FactSet; As of 10.01.24

It is important to note that several indicators are signaling that the US economy may be entering a late cycle, i.e. slowdown, phase. These include the onset of Fed rate cuts, the Gold rally, the Oil price decline, a rise in the unemployment rate, and a steepening yield curve. These factors, combined with an S&P 500 trading at a forward Price/Earnings multiple of almost 24x (very extended by historical measures) leaves us to believe that some equity market volatility is very possible over the near term. Historically in years when the S&P 500's performance through September is similarly as strong (+20% or more), October has tended to be choppy with a median performance of –2% so any pre-election volatility in stocks won't surprise us.

SEPTEMBER MARKET DRIVERS

There were a number of developments that boosted risk appetite in September. The Fed commenced its rate cutting cycle with a more aggressive than expected 50 bp rate cut at the September meeting, while projecting that they expect to cut another 50 bp this year and 100 bp in 2025. The rise in the unemployment rate to 4.2% combined with a continued decline in inflation spurred the Fed to cut rates. Despite the projections provided at the September Fed meeting, how rapidly they move the Fed Funds rate lower will largely be determined by how much unemployment rises over the coming months. However, it's a bit like "threading the needle" as the Fed will seek to cut rates at a pace that results in neither renewed inflation nor a recession.

The soft-landing narrative remained largely intact in September with initial unemployment claims falling to the lowest level since May. In addition, the Atlanta Fed's Q3 GDP estimate was at 3%+ late in the quarter, in line with the above-trend growth seen in Q2. The consumer resilience theme found some support from continued solid consumer spending as well as lower energy/gas prices and a pickup in home refinancing activity that resulted from the fall in rates (see below). Favorable stock inflow trends were another tailwind with US equity inflows annualizing at more than $360 billion, the second largest on record. Finally, the big story late in the month revolved around the more aggressive than expected policy support from China, including a pledge to ramp up fiscal stimulus.

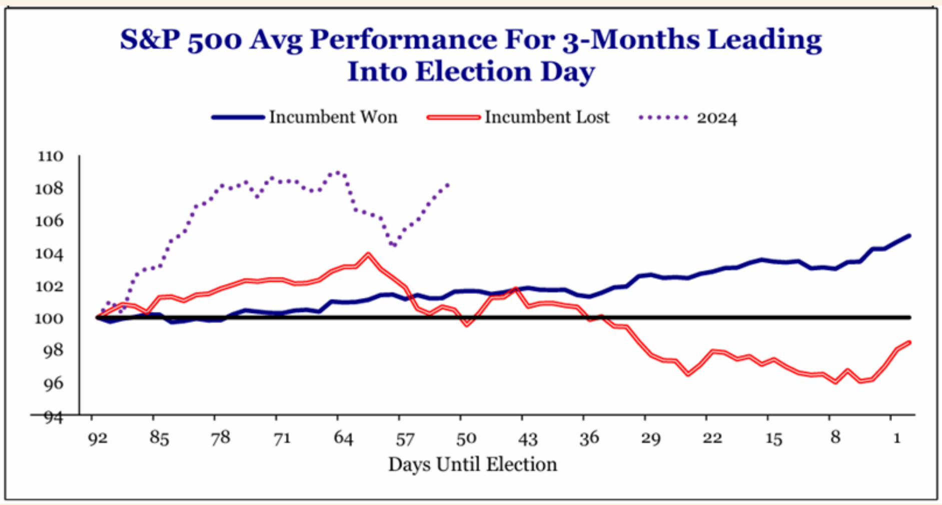


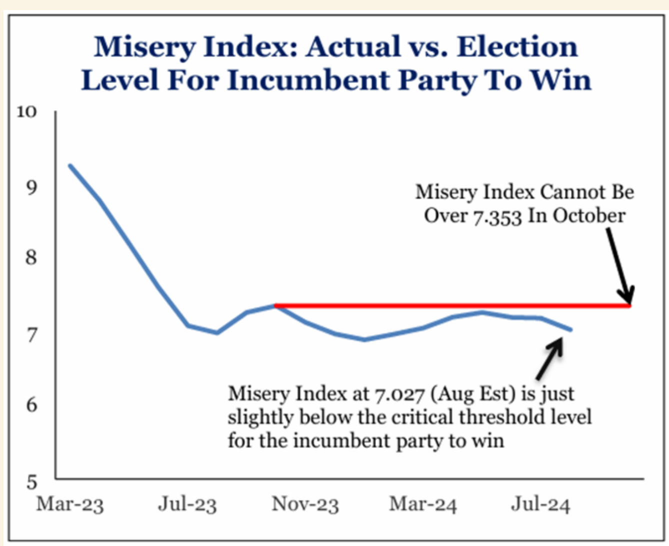
Source: Strategas; As of 09.30.24

While the market cheered the aggressive Fed cuts in September, it's important to note that the Fed has historically begun a rate cutting cycle as the economy is entering a slowdown or recession. In fact, the last two times the Fed began the cycle with a 50 bp cut were just prior to the recessions of 2001 and 2008. Ultimately, for the soft landing to materialize, it's imperative that US GDP and corporate earnings grow at a reasonable rate over the next 15 months, while the unemployment rate remains below 5%.

IMPACT OF PRESIDENTIAL ELECTION

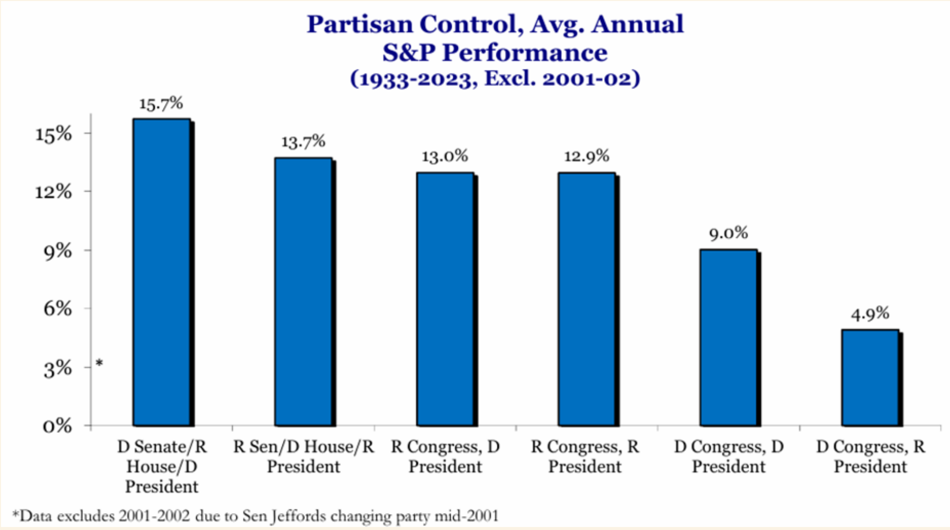
With roughly 30 days remaining in the US Presidential election, the landscape has begun to clear up a bit. Although the polls indicate the likelihood of a very tight race, certain economic indicators are beginning to shed some light on the potential winner. Specifically, the performance of the S&P 500 for the 90 days preceding the election has correctly predicted the winner in 20 of the past 24 elections, while the Misery Index, which combines the unemployment rate and inflation, has worked in 15 of the past 16 elections. Both indicators are projecting Harris as the winner today.





Source: Strategas as of 9.30.24

However, it appears today that the current polling favors Republicans re-taking the Senate, which, assuming the Democrats win the White House and the House of Representatives, would then result in the desirable state of balanced government. Because such a state generally prevents the passage of legislation that may approach an extreme, and allows the free market to operate as designed, it has historically produced the best market returns (see below).



Source: Strategas; As of 9.30.24

INVESTMENT PORTFOLIO IMPLICATIONS

Given the high potential for risk asset volatility over the near term, we believe portfolio diversification is extremely important for investors today. Therefore, a portfolio of US and foreign equities as well as investment grade and high yield fixed income remains appropriate. In addition, the low correlation and risk-to-reward benefits that private investments offer continue to make sense in our view.

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