MARKET REVIEW & OUTLOOK

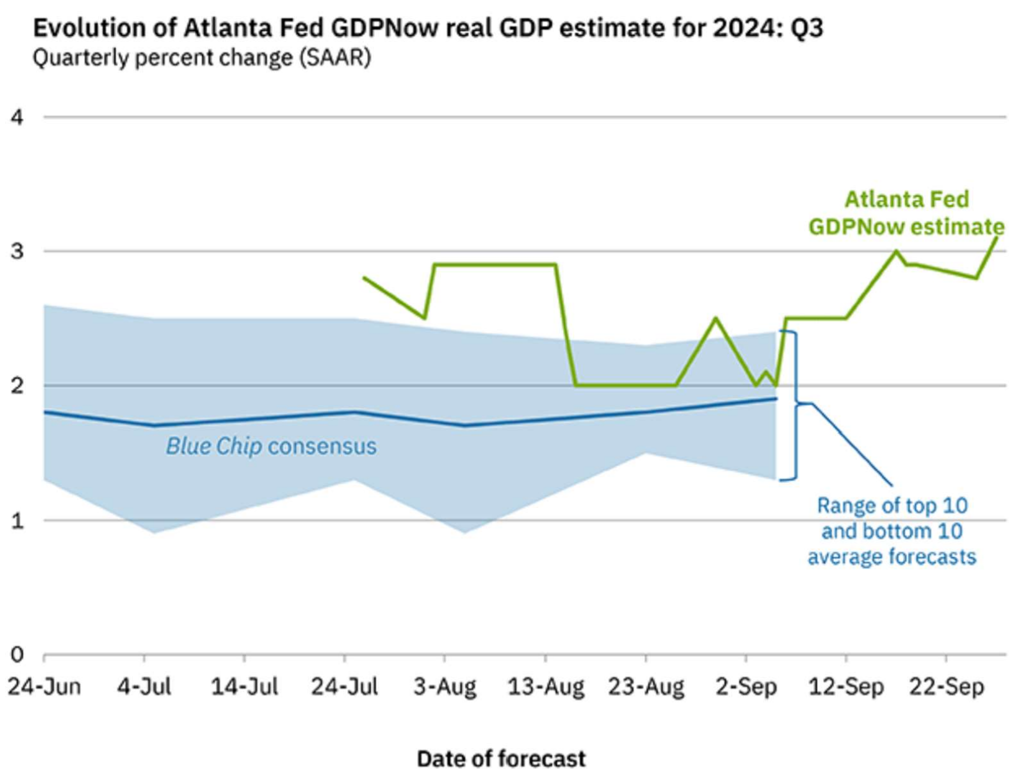
SEPTEMBER 2024

KEY TAKEAWAYS

- In a repeat of last month, the equity markets had a big early month decline, dropping nearly 5% in 4 days, before rallying back to all-time highs by month end.
- The U.S. 10-year Treasury Yields saw another drop in yields through mid-month, before rallying into month-end on the back of the Fed rate cut.
- Crude oil continues to swing between China's economic slowdown and geopolitical risks, which seem to be percolating, but the market has continued to largely dismiss.

The U.S. Economy

The final look at 2nd quarter GDP held at 3.0%, above the 2.9% expectation. Core PCE, the imbedded inflation measure, remained at 2.8%. The 3rd quarter estimates for GDP, from GDPNow, continue to strengthen, mimicking 2nd quarter at around 3% with the Blue-Chip consensus forecast still just under 2%, as shown in the chart below. Economic activity has strengthened, and the PCE deflator is moderating, but remains north of the sweet spot of "2%" inflation. So, growth is good, and inflation is working lower, but still a little elevated. Though the Fed still cut rates 50 basis points in September, hmmm. 🤔



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

Source : https://www.frbatlanta.org/cqer/research/gdpnow

Stocks and Bonds

The U.S. 10-year Treasury yield started with a drop of nearly 0.30% into mid-month, falling to nearly 3.6% and below the August low yields. The decline in yields stopped when the Fed lowered the Fed Funds rate by 50 basis points, which was surprising, not that they did it, but that even that day the market was betting 50/50 whether the cut would be 25 or 50 bps. Usually, the market has priced it in at least 80%. Nonetheless, the markets took it in stride and bond yields moved higher. The Fed suggested there would be more cuts, but not likely another 50 bps. Though the market is still pricing in another 3 rate cuts, with only 2 more meetings this year. China wasted no time and used the Fed rate cuts as their opportunity to turn on the liquidity spigots to help their ailing economy that is now struggling to even grow at a 5% rate. The further decline in yields provided another tailwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF rallied +1.34% for the month. The U.S. 10-year Treasury bond yield ended the month at 3.80%, down from August's close of 3.91%.

The Dow Jones Industrial Average gained +1.85%, the S&P 500 rose +2.02%, and the small cap iShares Russell 2000 ETF increased +0.70%. The international markets traded stronger than the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index climbed +0.96%, and the MSCI Emerging Markets iShares Core ETF Index jumped +5.44%.

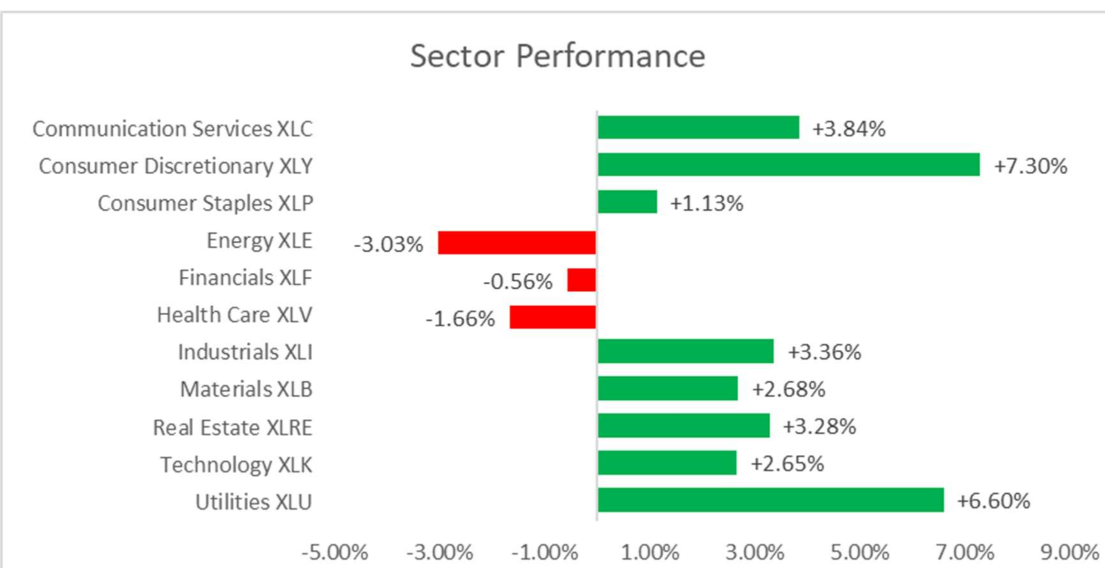
September's performance was mostly green, red Energy had more company this month.

The best performers were…

- Consumer Discretionary: +7.30%
- Utilities: +6.60%
- Communication Services: +3.84%

The worst performers were…

- Energy: -3.03%
- Health Care: -1.66%
- Financials: -0.56%



Source: https://www.morningstar.com

Oil Report

Crude Oil traded mostly in the upper $60's and low $70's, with more of a basing pattern this month. The broadening out of hostilities in the Middle East with Israel bombing even more Iranian proxies, has sparked some concerns of real escalation being possible. The Ukraine/Russia conflict seemed to take a back seat to the Middle East. China's economy is still facing many headwinds and as mentioned previously, China took the Fed rate cut as cover to provide some stimulus to their economy to spark economic growth. Whether it sparks demand for oil remains to be seen, but it sparked their stock market with gains of +30% in two-weeks. The rumors continue that OPEC+ will increase production in December, but so far that is only coming from the media. The current NYMEX WTI Crude Oil futures settled at $68.17 posting a loss of over 7% from the prior month's close of $73.55 a barrel. RBOB gasoline was similar to Crude for the month and also declined over 7% vs. August's close. Hurricane season, at least as it relates to number of storms and impact to energy infrastructure has been relatively low. However, the people of Eastern Tennessee and Western North Carolina are definitely saying one was way too many as the storm did a 360 loop over that area and dumped massive amounts of rain and caused severe destruction and damage. Interestingly, it's not the energy infrastructure that has people's attention, but rather the 2 mines in Spruce Pine, NC that are the only known deposits of High-Purity Quartz in the world that the semiconductor industry is heavily reliant on for silicon wafer production.

The Rest of the Data

The August ISM Manufacturing Index increased to 47.2 from July's reading of 46.8, remaining below 50. The ISM Services Index increased modestly to 51.5 in August, from July's print of 51.4. Any reading below 50 generally indicates deteriorating conditions, whereas a reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing moved higher in the normal range and Services prices maintained close to elevated levels. Consumer confidence dropped to 98.7 in September, which compares to an upwardly revised 105.6 in August. The unemployment rate eased to 4.2%, while the economy added 142,000 jobs in August, missing expectations of 165,000 jobs. The Consumer Price Index for All Urban Consumers (CPI-U) was up another +0.2% in August, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate eased further to +2.5% on a non-seasonally adjusted basis. The CPI ex Food and Energy held at 3.2% over the last year. The economic data is good, and inflation, while remaining above the Fed target of 2%, is getting closer to target and employment stabilized. On paper the economy seems to be in reasonable shape, but the Fed still made a larger than would be expected cut of 50 basis points. They argue that the current rate is too restrictive and thus the need to cut by more than 25 basis points. The Fed continued to echo concerns about not wanting to see employment weaken further and left the market expecting more rate cuts, though disagreement as to whether more 50 bps cuts are coming or the more traditional 25 bps. We will continue to monitor employment along with economic activity and inflation reports.

Summary

The market is still trying to figure out if a soft landing is at hand. Economic data has generally been good and better than expected. The stock market, i.e., the S&P 500 has been hitting record highs and 10-year bond yields seem content in the upper 3% range. Oil prices are either pricing in recession or world peace, guessing it is not the later. The Fed seems committed to trying to stave off further economic weakness as they feel inflation will continue to decline. What’s not to love?!?! It is strange that things seem good on the surface, but just below is a general uneasiness. Maybe it’s just the upcoming election or maybe it is just a veneer of good masking something bad. For now, the markets are focused on current or expected future good and so too shall we. This is the biggest reason we are so focused on understanding your risk tolerance and building an allocation to match that rather than guessing based only on market outlook.

As always, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients’ portfolio in concert with the clients’ risk tolerance and long-term goals. The markets will always face different “worries”, today it is inflation/war vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

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