

Breaking News: The October Employment report was shockingly bad, printing only 12,000 versus expectations of 106,000 and way below last month's report of 254,000. Due to rounding, the unemployment rate remained at 4.1%. Maybe this will give the Fed cover for a rate cut on Thursday.

Back to our regularly scheduled programming...

KEY TAKEAWAYS

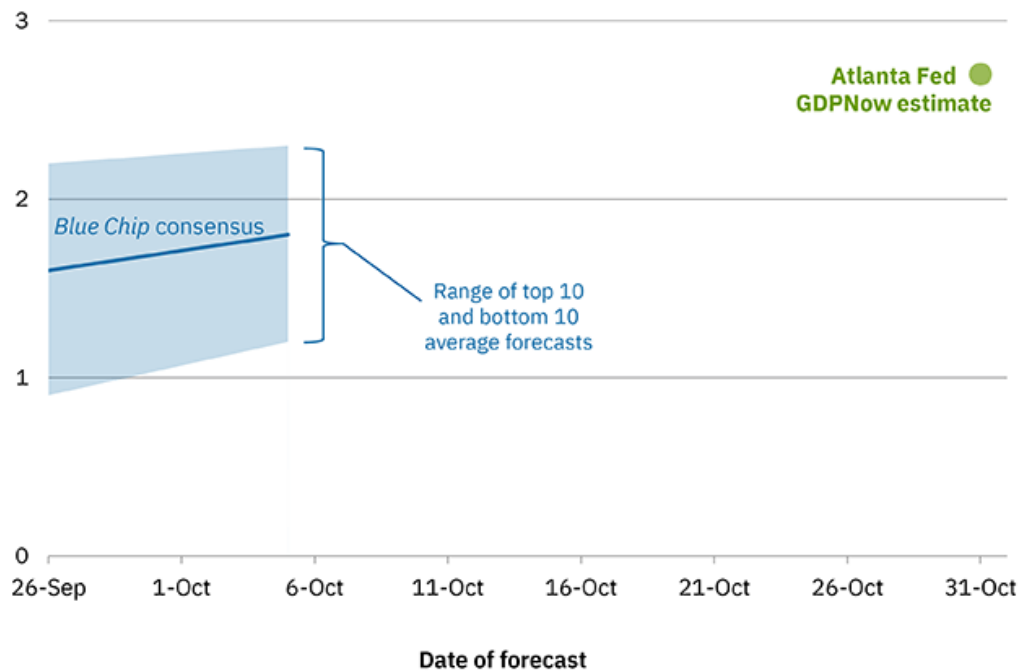
- The equity markets rallied to all-time highs mid-month only to rollover and give back all the gains, finishing the month with a splat and a losing month.
- The U.S. 10-year Treasury Yields saw one way trading, which was yields up throughout the month, finishing near the highs and likely contributed to the late month stumble in equities.
- Crude oil end to end was only up \$1. However, the repeated swings in tension between Israel and Iran continue driving rotations in crude prices.

The U.S. Economy

The first look at 3rd quarter GDP came in at 2.8%, below the 2.9% expectation. Core PCE, the imbedded inflation measure, fell to 2.2%, but slightly above expectations of 2.1%. Now it is time to turn to the 4th quarter estimates for GDP, from GDPNow, which comes in similar to 3rd quarter at around 2.8% with the Blue-Chip consensus forecast again just under 2%, as shown in the chart on the following page. Economic activity has held steady, and the PCE deflator is almost down to the sweet spot of "2%" inflation. It seems like a goldilocks scenario, but the market and Fed still expect more rates cuts as soon as two days after the election.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2024: Q4

Quarterly percent change (SAAR)



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 spring in its' step and really hopped on the strong September jobs report, continuing higher throughout the month. The market seems to be seeing a combination of good economic data and likely continued big government spending regardless of who becomes President. The Fed is still focused on the job market, though September's report didn't provide much support for additional rate cuts. We will find out soon as the Fed meets again on Thursday after the election, the market is still pricing in some likelihood of another, though smaller, 25 bps cut from the Fed. The sharp increase in yields was a strong headwind that High Quality fixed income could not overcome, which as measured by the iShares US Aggregate Bond ETF declined -2.52% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.28%, up significantly from September's close of 3.80%.

The Dow Jones Industrial Average declined -1.34%, the S&P 500 decreased -0.99%, and the small cap iShares Russell 2000 ETF lost -1.42%. The international markets traded weaker than the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index dropped -5.47%, and the MSCI Emerging Markets iShares Core ETF Index fell -3.12%.

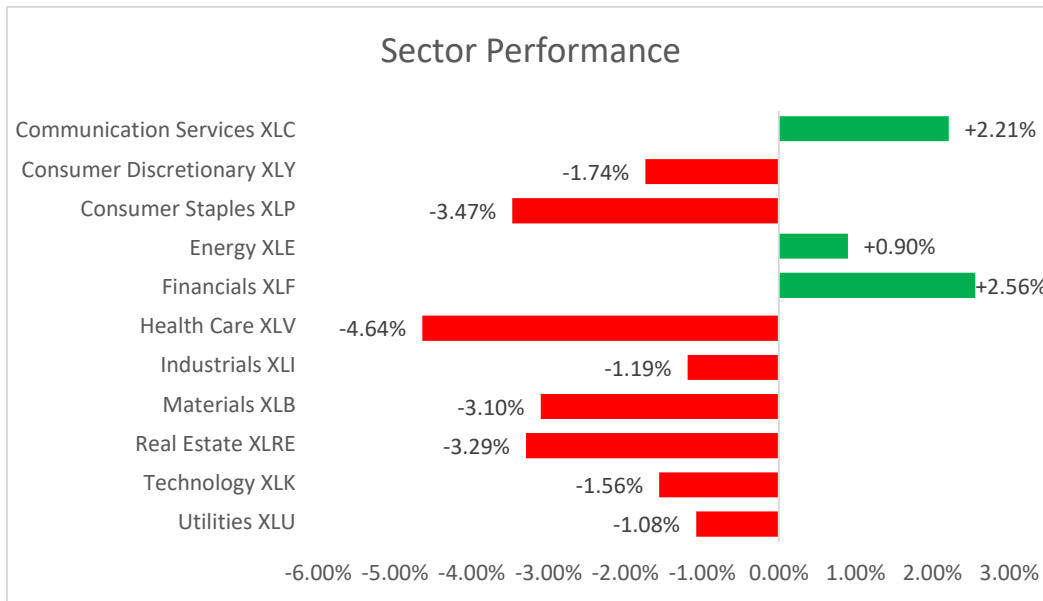
October's performance was mostly red, but a couple of decent greens snuck as well.

The best performers were...

- Financials: +2.56%
- Communication Services: +2.21%
- Energy: +0.90%

The worst performers were...

- Health Care: -4.64%
- Consumer Staples: -3.47%
- Real Estate: -3.29%



Source: <https://www.morningstar.com>

Oil Report

Crude Oil traded mostly in the upper \$60's to mid-\$70's, with spikes on rising tension between Israel and Iran and then drops on lack of escalation. The Ukraine/Russia conflict continues to be taking a back seat to the Middle East. China's weakening growth continues to gain attention as does efforts of the Chinese government to stimulate their economy. Saudi Arabia is starting to walk back expectations of further supplies on weakening demand and the lack of upward movement in oil prices. The current NYMEX WTI Crude Oil futures settled at \$69.26 posting a gain of almost 2% from the prior month's close of \$68.17 a barrel. RBOB gasoline was like Crude for the month and increased almost exactly 2% vs. September's close. Hurricane season finally seems to have passed and while the Southeast got hit hard, impacts to energy infrastructure were relatively low. Now it is time to prepare for the winter cold. 😊

The Rest of the Data

The September ISM Manufacturing Index remained unchanged at 47.2 from August's reading of 47.2, remaining below 50. The ISM Services Index jumped to 54.9 in September, from August's print of 51.5. Any reading below 50 generally indicates deteriorating conditions, whereas a reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing dropped below the normal range and Services prices moved to elevated levels. Consumer confidence soared to 108.7 in October, which compares to an upwardly revised 99.2 in September. The unemployment rate eased again to 4.1%, while the economy added a solid 254,000 jobs in September, doubling expectations of 125,000 jobs. The Consumer Price Index for All Urban Consumers (CPI-U) was up another +0.2%, a trifecta, in September, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate eased further to +2.4% on a non-seasonally adjusted basis. The CPI ex Food and Energy bumped up to 3.3% over the last year. The economic data is good, improving?, 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 good shape, but the Fed still cut rates and by a larger than expected 50 basis points in September, policy error? The Fed continues to argue that the current rate is too restrictive and thus the need to cut rates further. Also mentioned previously, we won't have to wait long to see if continuing to cut rates remains on the agenda. We will continue to monitor employment along with economic activity and inflation reports.

Summary

The market seems to be weighing many factors; is a soft landing, no landing, or hard landing at hand? Who will be President? Not sure which of these factors is driving the pops versus the drops, but it seems to be flip flopping daily as we have seen strong days immediately followed by weak days and vice versus, with the net result being little change. Seemingly as we move past the election and the Fed meeting, we get a more sustained direction beyond one day. Again, the economic data has generally been good and holding up better than many people expected. We will continue to filter out the noise and focus 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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