ECONOMIC UPDATE NOVEMBER 2024

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It was a rough ending to October. Most stock indices reached new highs during the month but then fell and finished with losses for the month. Large cap stocks in the S&P 500 Index were down -0.9% in October making their year-to-date gain 21.0%. Small cap stocks in the Russell 2000 were down -1.4% resulting in a return of 9.6% so far in 2024. The MSCI EAFE Index of developed market international stocks pulled back and lost -5.4% in October dropping its year-to-date return to 6.9%. Emerging market stocks also fell -4.5% in the month bringing their year-to-date gain to 11.7%. The yield on the 10-year Treasury bond climbed from 3.8% to 4.3% so the Barclays US Aggregate Bond Index lost -2.5% in October reducing its return to 1.9% year-to-date.

Initial estimates for GDP growth in the third quarter of 2024 came in at 2.8% after growing 3.0% in the second quarter and 1.6% in the first quarter. Although growth was lower than the 3.1% expected, recession concerns are low right now. Strategas identifies what they are calling a “liquidity bazooka” which will occur when the debt ceiling is reached in January. When this happens, the Treasury will spend from its general fund and won’t be able to issue new debt resulting in money flooding into the system until a new debt ceiling agreement is reached. In the past when this has happened, stock prices have responded positively – regardless of whatever was happening in the economy.

Companies have begun reporting earnings for the third quarter. Of those S&P 500 companies that have reported, 74% have beaten their earnings estimates and 59% have beaten their revenue estimates. Total S&P 500 earnings are expected to be up 4.4% from the same period last year and revenues are expected to be 5.2% higher. Looking forward, consensus projections show earnings growth picking up again in the fourth quarter and then into the first half of 2025.

Zack’s notes that the earnings for the Magnificent 7 companies are expected to be 20% higher than third quarter 2023. These stocks are having mixed results as they have been reporting earnings for the third quarter. Tesla and Alphabet have been rewarded while Meta and Microsoft were punished when guidance fell short of expectations. Although AI spending had been a driver for many of these firms in the past, it seems to be slowing and Zack’s notes that investors may be worried about the ability to monetize AI capital expenditures.

Although the inflation rate was above the Fed’s 2% target and the unemployment rate had reached 4.4%, the Fed cut rates in September by 50 basis points and indicated that cuts will continue. Analysts are expecting another cut in November and December of this year and continuing cuts next year until the Fed Funds rate is between 3.0% and 3.5%.

Money market and short-term rates have declined and the yield curve is no longer inverted between the 2-year and 10-year maturities on Treasury bonds. The 10-year Treasury bond yield should have support around 3.75% if the yield curve is to remain upward sloping.

We continue to encourage investors not to try and time the market by trading in and out and instead invest according to risk tolerance. However, if accounts have risen above risk tolerance targets, now may be a good time to rebalance and lock in some gains. If you have questions about the strategy for your account, please contact your advisor.