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INVESTMENT MANAGERS

ECONOMIC UPDATE SEPTEMBER 2024

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Stocks extended their rally through August. Large cap stocks in the S&P 500 Index were up 2.4% for the month, bringing their year-to-date gain to 19.5%. Small cap stocks in the Russell 2000 pulled back slightly during the month, down -1.5% resulting in a return of 10.4% so far in 2024. The MSCI EAFE Index of developed market international stocks had another good month with a 3.3% return in August and 12.0% year-to-date. Emerging market stocks were also higher with a gain of 1.6% for the month and are now up 9.6% year-to-date. The yield on the 10-year Treasury bond fell from 4.1% to 3.9% so the Barclays US Aggregate Bond Index gained 1.4% for July and is now up 3.1% year-to-date.

The GDP growth rate for the second quarter of 2024 was revised higher to 3.0%, above the original consensus estimate of 2.0% and following the first quarter growth rate of just 1.4% (revised). Consumer spending continued to show strong results, and a McKinsey study of consumers indicates they intend to spend more in the 3rd quarter of the year than the 2nd. Much of the increases, however, are in non-discretionary categories.

Corporate earnings reports have mostly wrapped up for the 2nd quarter with very good results. Earnings growth for Q2 2024 finished up 10.9% versus a year earlier. The big tech companies benefiting from a wave in AI spending were again among the best performers.

The inflation rate remains above the Fed's 2% target. The Fed has said for months that their decision to cut rates will be data dependent. In early August, reports showed the July unemployment rate reached 4.3%. This rate is higher than the 4.1% the Fed projected for year-end; and on top of that, the Department of Labor announced a massive revision showing they overestimated job creation by 818,000 jobs over the past year. After this announcement, Fed Chair Powell indicated that the time has come for rate cuts beginning later this month.

It is widely expected the Fed will announce rate cuts of 0.25% - 0.5% at their September meeting. Strategas Research says the market is currently expecting 8 rate cuts by the end of 2025. If that holds true, the Fed Funds rate would be 3.25% - 3.50%. Money market and short-term rates will decline similarly. Strategas estimates the 10-year Treasury bond yield will fall to 3.75% which is only 15 basis points lower than the current level.

The market has been wanting the Fed to cut rates to help ensure a soft landing and ward off a recession. Strategas Research points out that on average, the market bottoms 213 days after the first rate cut of an easing cycle, and the average decline is 23%. Most easing cycles coincide with a recession. If we avoid a recession during this cycle, we may avoid the usual stock market decline. 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.

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