

October 2024

Market Update

September has a reputation for being a difficult month for stocks, but this September every broad equity and asset class was positive save for the slightest decrease in oil/gas prices. Of course the Fed's first interest rate cut in years didn't hurt, but the market's reaction to the cut was fairly muted as it had already been expected and was largely priced in.

For the month the S&P 500 was up 2.1%, and that return was tilted to slightly favor large growth stocks (+2.8%) over large value stocks (+1.4%). Small cap stocks were up +0.7%. International developed stocks we up 0.9% and emerging markets were up 6.7%. Interest rates continued to fall, helping bonds (+1.3%) and real estate REITs (+3.2%). REITs are up 16.8% over the last quarter and are the best broad asset class over that time period. Commodities overall were up 1.7% even though oil and gas fell, but gold continued with its recent rise and gained another 5.7% (up 12.9% over the last quarter – second only to REITs).

While the mood for stock market investors has been celebratory since the start of 2023, the market has been whistling past valuation numbers that keep moving higher. The S&P 500 is now trading 45% above its long-term valuation average with large growth stocks trading nearly 60% above their average. The rest of the market is trading very close to average valuations. As we've noted, current price has been the dominant factor in determining future returns, and with the prices of so many companies at high levels we would expect the future returns of these companies to be much more muted compared to their returns over the last decade.

While not a perfect match, our current time has many similarities to what we saw in 2000. There had been a prior decade of outsized returns, a concentrated and expensive US large cap stock market, and the promise of the internet spurring new economic growth. The 2000s though became known as the "Lost Decade" when some of the most dominant companies saw their stock prices get cut by more than half and the S&P had a negative return over 10 plus years. During that same decade though REITs, US value, small, mid-cap, and international companies turned in positive returns.

Today's market is thankfully not as expensive as it was in 1999, but it is more concentrated and it assumes that AI will soon spur on much faster economic growth. While we may not see negative returns over the next decade, it wouldn't be a surprise for the market to rebalance as it did in the 2000s.

Our base case for 2024 is that GDP(Gross Domestic Product) will slow from 2023's level. While we didn't experience the recession many feared, higher interest rates and higher debt pressure on US households will have a slowing effect on spending and growth. Household net worth will remain bolstered by home values and investment accounts which have remained high. Inflation should continue receding but may not get to the 2% target. With both inflation and economic indicators slowing, the Fed will implement rate cuts in an attempt to manage a soft-landing for the economy.

Performance Summary – YTD

The S&P 500 is up 22.1% and small caps are up 11.2%. Developed international markets are up 13.0%. Growth stocks have outperformed but value stocks have narrowed the gap recently. With interest rates falling bonds are now up 4.5% and REITs are up 14.2%. MLPs are up 18.6%, gold is +27.2%, and commodities are +1.7%. High Yield, TIPS, short-term bonds, and floating rates are up 4.1% to 8.0%.

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All earnings data comes from Standard and Poors' S&P 500 Earnings and Estimates Report as of 8/31/2024. Asset class performance numbers come from Morningstar as of 9/30/2024.

The S&P 500® is widely regarded as the best single gauge of large cap U.S. Equities. There is over USD 9.9 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 3.4 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

GDP is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year. GDP growth rate is an important indicator of the economic performance of a country.

REITs, or real estate investment trusts, are companies that own or finance income-producing real estate across a range of property sectors.

A master limited partnership (MLP) is a business venture in the form of a publicly traded limited partnership. It combines the tax benefits of a private partnership with the liquidity of a publicly traded company.

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