October 11, 2024

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Market Stats & Commentary

Market Vital Signs as of 9/30/2024

Stock Indexes	September	YTD	1 Year
S&P 500	2.14%	22.08%	36.35%
Dow Jones Industrial Average	1.96%	13.93%	28.85%
NASDAQ Composite	2.68%	21.17%	37.60%
Russell Mid Cap Index	2.23%	14.63%	29.33%
Russell 2000 Small Cap Index	0.70%	11.17%	26.76%
MSCI EAFE Developed Int'l Index	0.92%	12.99%	24.77%
MSCI Emerging Markets Index	6.68%	16.86%	26.05%
Bond Indexes			
BBgBarc US Aggregate Bond Index	1.34%	4.45%	11.57%
BBgBarc US Corp High Yield Bond Index	1.60%	7.88%	15.61%
Interest Rates	9/30/24	12/31/23	9/30/23
Fed Funds Target Range	4.75%-5.00%	5.25%-5.50%	5.25%-5.50%
10 Yr U.S. Treasury Rate	3.78%	3.94%	4.57%

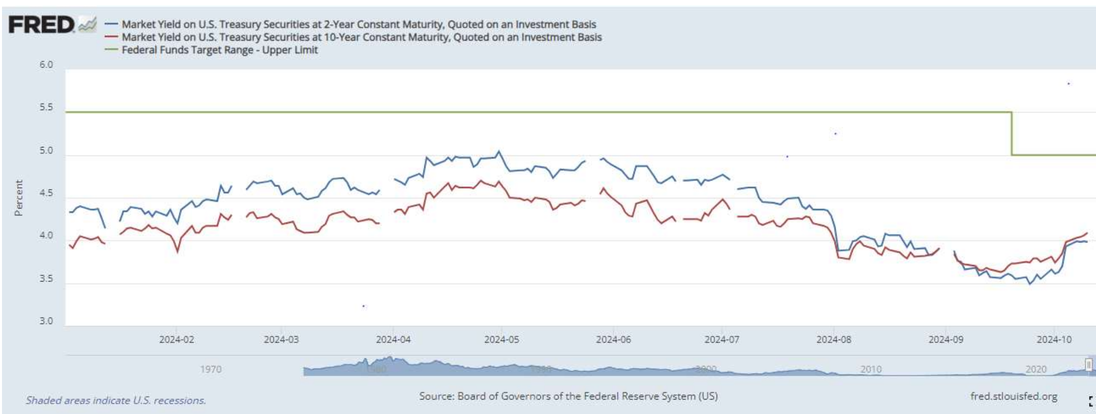
Source: Raymond James

August and September are historically the weakest months for the US stock market, so the strength seen over the past sixty days is all the more impressive. So, what caused all this unexpected pleasantness? There were two main drivers…

First, the US Fed finally pivoted monetary policy and not only cut short term rates but frontloaded the policy shift with a .50% cut and projected another .50% by the end of the year. It was what markets wanted to hear and they rallied accordingly.

Second, a few days later China threw the kitchen sink at its economy. Markets typically like stimulus plans and Chinese stocks looked like someone had strapped them to a missile and pointed it straight up. That's all fine and good, but the reason their government is throwing the kitchen sink is because their economy is completely in the soup, which is not good. The US threw extraordinary stimulus at the economy in the fall of 2008, but it took time for those policies to start to have effect. I suspect it will be the same with China now. Chinese stocks rallied like this after the government unexpectedly and abruptly ended its COVID lockdowns in December 2022 but fizzled after a few weeks when the reality of the economic situation set in. Will that happen this time? Only time will tell, but China has some fundamental economic (and regulatory) issues that I don't know if stimulus can cure.

Further Proof That Markets Do Strange Things Sometimes



As everyone reading this probably knows, the US FOMC cut short term interest rates by .50% on 9/18/24. Unfortunately, someone forgot to tell the bond market. Notice that after the cut both long and short term rates began moving up significantly.

Why does that matter? Well, the housing market has been waiting for the Fed to cut rates for at least a year and when they finally do, the market yields on Treasuries actually went up, pushing mortgage rates higher than where they were before the cut. Go figure…

The Little Economy That Could

The US Conference Board's Leading Economic Indicators index (along with most of the economists, market strategists, and yours truly) has been looking for a US recession since mid 2022. However, in case you haven't noticed, that has not materialized. It will, someday, but somehow GDP and most corporate earnings have remained surprisingly resilient thus far. The Fed's GDP NOW forecast for Q4 2024 currently sits at a robust 3.2% (https://www.atlantafed.org/cqer/research/gdpnow) and according to Reuters the current Q3 earnings estimates for the S&P 500 reflect a 4.9% year over year growth rate. Not exactly recession type numbers.

This seems at odds with the consumer data I have referenced over the last few months. Credit card delinquencies and personal loan delinquencies are still steadily rising and retailers continue to say that consumers are thinking more about how much they spend and what they spend it on. And yet GDP, corporate earnings, and market returns continue to grow at a healthy rate. It seems to me that something has to give at some point. Either the economy weakens or the consumer strengthens. Unfortunately I have misplaced my Raymond James issued crystal ball so I guess I will have to let the situation play out on its own and try to stay flexible as data continues to roll in.

Oh Yeah, There Is an Election Coming Up Isn't There?

In roughly three weeks no one will have to think about presidential elections for another three years or so. That in itself is cause for celebration. As I have said before, I believe how the economy and markets perform during any presidential term is more determined by where the US is in its economic cycle rather than which party controls the White House.

On November 6th, half the country is going to be unhappy. It is hard to imagine a scenario in which two political groups are more dug in on positions than our current environment. The reality is that there is a possibility of a knee jerk reaction in markets with either outcome. But knee jerk reactions are typically short lived and are outweighed by economics and corporate earnings, which are what I intend to focus on. As I see it, a large part of my job is to stay rational and data driven when markets and investors get emotional and I plan on doing that on November 6th and hopefully for another 20 years or so.

While I don't expect random people to be holding hands around campfires and singing Kumbaya, I do hope the political temperature of the country comes down and our elected leaders learn to compromise again to actually get things done. I miss the old days of Ronald Reagan and Tip O'Neill cutting deals after 6 PM over a bottle of scotch…

David

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Any opinions are those of David Yarbrough and not necessarily those of Raymond James. Expressions of opinion are as of this date and are subject to change without notice. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete.

Investing involves risk and you may incur a profit or loss regardless of strategy selected. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions. Prior to making an investment decision, please consult with your financial advisor about your individual situation.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

Index Descriptions

S&P 500: Representing approximately 80% of the investable U.S. equity market, the S&P 500 measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested.

Dow Jones Industrial Average Total Return: The Dow Jones Industrial Average is a composite of 30 stocks spread among a wide variety of industries, such as financial services, industrials, consumer services, technology, health care, oil & gas, consumer goods, telecommunications, and basic materials. The index represents approximately 23.8% of the U.S. market, and is price weighted (component weightings are affected by changes in the stocks' prices). Maintained by the Averages Committee, components are added and deleted on an as-needed basis.

Russell Midcap: A subset of the Russell 1000 index, the Russell Midcap index measures the performance of the mid-cap segment of the U.S. equity universe. Based on a combination of their market cap and current index membership, includes approximately 800 of the smallest securities which represents approximately 31% of the total market capitalization of the Russell 1000 companies. The index is created to provide a full and unbiased indicator of the mid-cap segment.

Russell 2000: Based on a combination of their market cap and current index membership, this index is comprised of approximately 2,000 of the smaller securities from the Russell 3000. Representing approximately 10% of the Russell 3000, the index is created to provide a full and unbiased indicator of the small cap segment.

NASDAQ: The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.

MSCI EAFE (Europe, Australasia, Far East) Index: A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. As of June 2, 2014, the index consists of 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Market Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2, 2014, the index consists of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and the United Arab Emirates.

Bloomberg Barclays U.S. Aggregate (BCAG): A representation of SEC-registered, taxable, and dollar denominated securities. The index covers the U.S. investment grade fixed rate bond market, with index components for asset-backed securities, government and corporate securities, and mortgage pass-through securities. Must be rated investment grade (Baa3/BBB- or higher) by at least two of the following rating agencies: Moody's, S&P, Fitch; regardless of call features have at least one year to final maturity, and have an outstanding par value amount of at least $250 million.

Bloomberg Barclays U.S. Corporate High Yield: Covers the universe of fixed rate, non-investment grade debt which includes corporate (Industrial, Utility, and Finance both U.S. and non-U.S. corporations) and non-corporate sectors. The index also includes Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. Must publicly issue, dollar-denominated and non-convertible, fixed rate (may carry a coupon that steps up or changes according to a predetermined schedule), and be rated high-yield (Ba1 or BB+ or lower) by at least two of the following: Moody's, S&P, and Fitch. Also, must have an outstanding par value of at least $150 million and regardless of call features have at least one year to final maturity.

U.S. government bonds and Treasury notes are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. U.S. government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury notes are certificates reflecting intermediate term (2-10 years) obligations of the U.S. government. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise.

International investing involves special risk, including currency fluctuations, differing financial accounting standards, and possibly political and economic volatility.

Investing in emerging markets can be riskier than investing in well established foreign markets.