MONTHLY MARKET COMMENTARY

OCTOBER 2024 Executive Summary

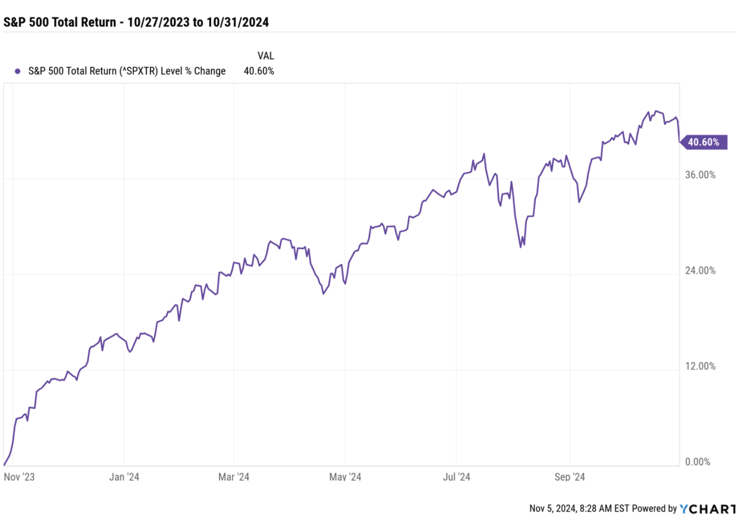
Benchmark Returns as of October 31, 2024

	For the Month	Year-to-Date		For the Month	Year-to-Date
S&P 500	-0.91%	20.97%	**Bloomberg Aggregate Bond Index**	-2.48%	1.86%
Dow Jones Industrial Average	-1.26%	10.81%	**Developed international**	-5.44%	6.85%
Nasdaq	-0.49%	21.24%	**Emerging Markets**	-4.45%	11.66%

Elections, Expectations, and Earnings

October began with the benchmark S&P 500 at an all-time closing high after the Federal Reserve cut the fed funds rate by 0.50% on September 18th. The closing highs continued into mid-October, adding to a remarkable bull run that began in October 2022. Stocks gave back some gains to end the month marginally lower, as a few high-profile third quarter earnings reports came in somewhat weaker than expected. But it was arguably a spike in interest rates across the maturity spectrum that gave investors pause. We'll look at large cap equities' remarkable run, examine the main factors cited for October's counter-intuitive bond activity, and recap third quarter earnings through the end of the month.

Ned Davis Research pegs September 30, 2022, as the start of the current bull market in U.S. equities. From that date through the end of October 2024, investors have been rewarded with a 64.3% gain, based on the total return of the benchmark S&P 500 index. Even after short-term weakness in the summer of 2023, the index has gained 40.6% since a pullback low on October 27, 2023. As we digest the results of the recent election, it is worth noting that stocks rallied in the last two months of the year after both the 2016 and 2020 elections. If 2024 follows suit, it would cap a solid year for stocks.



The Federal Reserve can only directly influence the level of short-term interest rates, but their 0.50% reduction in the fed funds rate in September changed the configuration of yields along the maturity spectrum. Specifically, a spike in the 10-year Treasury bond yield from 3.65% on the day before the Fed's rate cut announcement to a high of 4.29% on October 30th reshaped the narrative around the pace of further Fed rate cuts. Several factors were behind the sell-off in the bond market (remember bond yields go up when bond prices go down), including:

- Renewed inflation fears as economic reports – from the September labor report to Retail Sales – were stronger than expected. Historically, the Fed cuts rates when the economy is foundering. Further evidence that the pace of this rate cutting cycle may be slower than the markets originally expected was the release of the initial estimate of GDP for the third quarter showing growth at a solid 2.8%.
- Evidence that global fund managers made record shifts to equities from bonds in recent weeks (Source: Bank of America Global Fund Manager Survey, October 2024).
- The Fed's own discussions as revealed in the October 9th release of the September FOMC meeting minutes, as well as other recent comments by influential FOMC members.
- Speculative hedging of potential economic policy outcomes after the election.

Still, inflation reports are benign. The most recent PCE index revealed that on an annual basis, overall U.S. inflation was 2.1% in September. The rate-setting FOMC did not meet in October. At this writing, the CME FedWatch tool predicts a 97.3% chance of a 0.25% cut when the November meeting concludes Thursday, November 7th.

Market history is fascinating, and the interest rate/economic environment is important, but at their core, stocks are a claim on companies' now and future profits. Thus, the third quarter earnings season currently underway gives investors fresh information on this basic measure of valuation. A few AI disappointments aside, third quarter year-over-year earnings growth for S&P 500 companies stands at +9.8%. That is based on reports from 349 companies. Using a blended measure of actual reports and estimates for the reports expected over the next few weeks, the total figure is +8.4%, an improvement over the 7.5% growth in the same quarter of 2023. (Source: LSEG I/B/E/S as of November 1, 2024)

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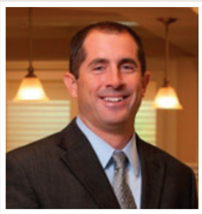
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