INVESTMENT STRATEGY UPDATE

MARKET REPORT
OCTOBER 2024

ASCENTIAL WEALTH ADVISORS

FED RATE CUT LIFTS MARKETS

The third quarter of 2024 marked a shift in interest rate policy by the US Federal Reserve (the Fed) as they moved into a monetary easing cycle by cutting interest rates 0.50% in September. Markets had eagerly anticipated this policy shift and moved broadly higher after the announcement. Market confidence in the prospect of the Fed achieving a “soft landing” for the US economy was bolstered by the decision to lower interest rates.

Fears of a resurgence of inflation have subsided with the Consumer Price Index falling to +2.6% in August 2024. This along with a slight uptick in the unemployment rate to 4.2% in August was enough to prompt the Fed to make a more aggressive initial rate cut. Markets interpreted this action as a commitment to support the labor market and keep the slowing economy from moving into recession. The Fed’s two mandates are stable prices and full employment, and this move suggested that they are now focused on balancing the two concerns.

Index	*2024 (through 9/30)*
S&P 500	+22.08
Dow Jones Ind. Avg.	+13.93
MSCI EAFE	+12.99
BC US Aggr. Bond	+4.45

Equity markets reflected optimism, shrugging off recession concerns and ignoring election and geopolitical uncertainty. In the third quarter, the concentrated outperformance in the Magnificent 7 and growth stocks from the first half of the year broadened out to other sectors. Value stocks outperformed growth stocks with the Russell 1000 Value Index rising by 9.4% for the quarter, relative to the Russell 1000 Growth Index up 3.2%, and the tech heavy Nasdaq trailing with a return of just 2.6%. Additionally, international stock returns outpaced US equities for the quarter. Though growth stocks are still the top performers year-to-date, these shifts could be an indicator of a rotation in markets that may continue.

Dow Jones Relative Risk Benchmarks	
Conservative	+5.51
Moderate	+10.48
Aggressive	+16.00

Bonds prices also rose due to the Federal Reserve’s interest rate reduction. The ten-year US Treasury yield moved dramatically from 4.36% on June 30th to 3.81% on September 30th. Markets are now pricing in another 0.50% rate decrease before the end of 2024, and another 1% drop throughout 2025. As a result, rates on cash alternatives have fallen, as well as borrowing rates on mortgages and other debt.

Though interest rate policy seems clearer, the last quarter of 2024 carries the uncertainty of the US elections alongside flaring geopolitical issues around the globe. Investors should be prepared for the potential for heightened market volatility and a pause in the market rally, which history suggests could easily resume post-election based on the current economic outlook.

OUR VIEW

FIXED INCOME:

The outlook for fixed income remains compelling from a total return perspective. Bonds are also displaying less correlation to stocks once again, helping to offset equity market volatility in portfolios. Yields on cash and short-term bonds remain high but will fall incrementally as the Fed continues to lower interest rates. Eventually investors with holdings in cash and cash alternatives will have to decide whether to accept lower yields or shift out of cash into other investments to capture higher yields and returns.   We are positive on bonds in general, and favor exploring options for optimizing yield in a falling rate environment.

US EQUITY:

US stocks have remained resilient in a growing but slowing economy. After the rally that has persisted since Q4 2023, equity valuations are rich, with the S&P 500 priced at 21.5 times earnings to end the third quarter. Certain stocks are more expensive than others, particularly in big tech, which is pushing up the index valuation due to its significant concentration. With corporate earnings projected to rise in the fourth quarter and profits strong, we remain positive on US equities but feel more selectivity and flexibility are necessary looking ahead. US elections may increase market volatility, and the outcome could have an impact on stocks at the sector and industry level. As result we are in favor of investments that offer higher income, a quality bias, and flexibility to respond more rapidly to changing market conditions.

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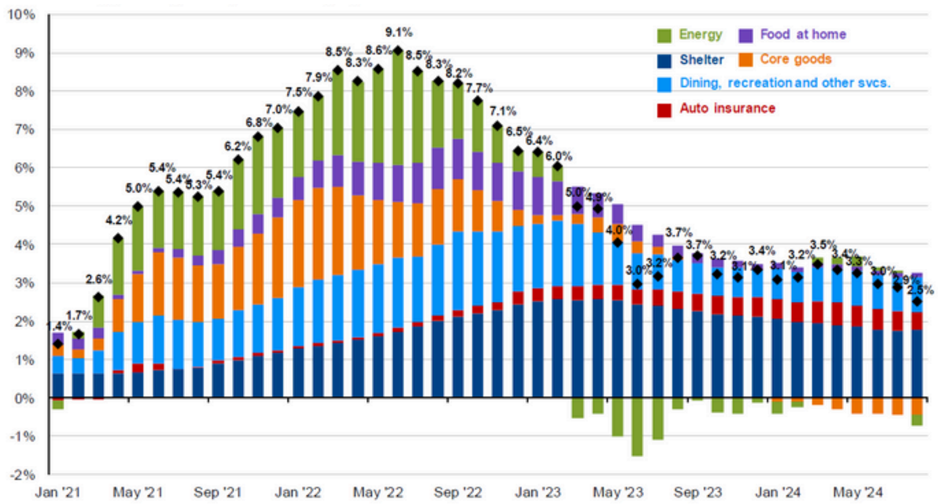
INTERNATIONAL EQUITY:
Foreign stocks also performed well despite an uptick in geopolitical tensions and some variations surrounding interest rate policy around the globe. China unexpectedly rolled out an economic stimulus package in September aimed at reviving its economy which has been struggling to recover from a real estate collapse. Emerging market equities bounced on this news, outpacing developed market equities as a result. We remain in favor of a cautious approach to international equities, particularly emerging markets, due to the ongoing threat of tariffs weighing on global trade and the uptick in geopolitical tensions in the Middle East and Southeast Asia.

INFLATION MODERATES

Contributors to headline CPI inflation

Contribution to y/y % change in CPI, non-seasonally adjusted



Source: BLS, FactSet, J.P. Morgan Asset Management. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners' equivalent rent, rent of primary residence and home insurance. "Food at home" includes alcoholic beverages.
Guide to the Markets – U.S. Data are as of September 30, 2024.

Inflation has receded from its peak in 2022 and is on the path to meet the Fed's long-term target of around 2%. This trend contributed to the Fed cutting interest rates in September 2024. Lower inflation does not necessarily mean falling prices, just that prices have stopped rising as quickly. Inflation is the general increase in prices over time, whereas deflation is a general decline in prices. A healthy economy typically has moderate inflation. The recent inflation spike was caused by a confluence of factors surrounding the Covid-19 pandemic, which created an imbalance of supply and demand.

The Trump administration deployed stimulus in 2020 as a response to the initial economic shock from the pandemic, and the Biden administration provided more stimulus to keep the economy going as it stabilized in the pandemic aftermath. Supply chains and the labor force were severely disrupted at the same time, leaving a shortage of goods and services. There were too many dollars chasing too few goods and services which caused prices to increase rapidly. Inflation peaked in 2022 at 9%, well above what most economists consider a healthy level. In 2022, the Federal Reserve was forced to raise interest rates to get inflation under control. Higher interest rates have slowed the economy by removing demand, at the same time supply has become more consistent, allowing price increases to moderate.

The above chart displays the components of the Consumer Price Index inflation gauge and shows how different components have varied in their contribution to price increases through this cycle. Some prices have actually fallen, such as those for durable goods and energy, while the cost increases for shelter and insurance are taking longer to moderate. In the end, the goal of the Fed is to continue cutting interest rates while maintaining inflation of around 2% and avoiding economic recession and a rise in unemployment.

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