ABUNDANCE
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The Dashboard

October 2024

Economy

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- (=) Households

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Market

- (=) Valuations
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On September 18th, the market got its long-awaited interest rate “cut” from the US Federal Reserve (Fed). The Fed took its benchmark upper-limit target interest rate from 5.5% to 5.0%, marking the first time interest rates had been reduced since before the global pandemic. This rate cut was particularly important because:

- It was the first reduction since the Fed began its aggressive interest rate hiking cycle in early 2022
- It implies that the Fed believes inflation is sustainably on a path back to its 2% target
- It provides investors with reassurance that the Fed recognizes some of the cracks forming in the economy and is willing to act[1]

The confirmation that the Fed was changing course toward an easing of monetary policy conditions led assets higher in September. For example, many US stock and bond indices gained 1-2% during the month. In what may turn out to be another strong year for investors, many equity indices are currently up more than 10% and bonds have advanced about 4% so far year-to-date.[2] The economy has remained resilient, innovation has persisted, and long-term investors have been rewarded for their patience over the past two years.

Financial Conditions

The unemployment rate has increased modestly in recent months and that fact was not lost on the Fed in their decision to begin cutting interest rates. However, both the current 4.2% unemployment rate and layoffs remain low by historical standards.[3]

Inflation

While the labor market remained resilient, inflation continued to trend toward the Fed’s long-term target level. The Bureau of Labor Statistics reported that the US Consumer Price Index rose 2.5% in August relative to levels a year before. This is the fourth consecutive month in which year-over-year inflation was below 3%. Over the last year, energy and vehicle prices have declined while housing continues to climb.

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[1] Source: https://www.federalreserve.gov/newsevents/speech/powell20240823a.htm
[2] Source: YCharts
[3] Source: Bureau of Labor Statistics

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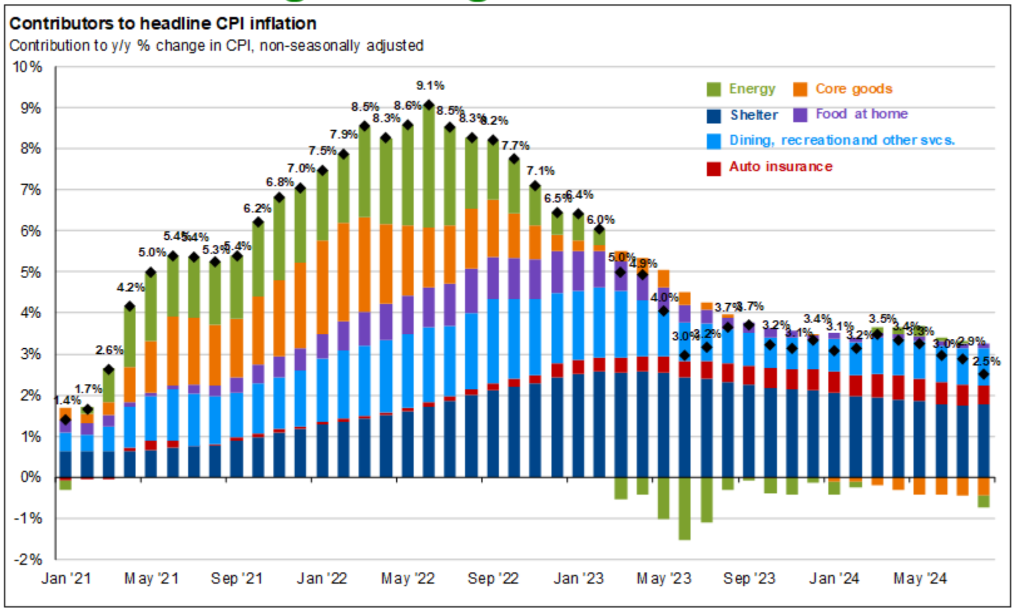
Inflation Moving in the Right Direction



Economic Growth

The Atlanta Federal Reserve's GDPNow model, updated on October 1st, indicated an estimated annualized GDP growth rate of 2.5% for the third quarter of 2024. This figure is in-line with long-term averages and further confirms that the US economy does not appear to be at risk of recession near-term.

Much of the concern for investors this year has been the potential for a Fed-induced recession, and market futures now imply that investors collectively expect the Fed to reduce the Federal Funds rate to 3% by the end of 2025.[4] We believe this creates the potential for increased volatility through the end of 2024 and into 2025 if reality does not match expectations. For example, if the economy continues to surprise in its resiliency, and lower interest rates spark increased demand for home buying and building, the Fed may be forced to hold interest rates higher than market participants now expect to prevent a resurgence in inflation.

The broader point is that markets are never "perfectly priced", but rather tend to oscillate like a pendulum between periods of optimism and pessimism. Today, we believe the economic environment is on solid footing, and despite some large US technology stocks being expensive, many other parts of the equity markets appear to be reasonably priced. While some investors may be a bit overly optimistic in the short-run, we continue to find investment opportunities that appear attractively priced for our clients.

As always, we appreciate your trust in our firm as we navigate the complexities of today's investment landscape.

Past performance may not be representative of future results. All investments are subject to loss. Forecasts regarding the market or economy are subject to a wide range of possible outcomes. The views presented in this market update may prove to be inaccurate for a variety of factors. These views are as of the date listed above and are subject to change based on changes in fundamental economic or market-related data. Please contact your Advisor in order to complete an updated risk assessment to ensure that your investment allocation is appropriate.

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[4] Source: Bloomberg Fed Funds Futures Implied Pricing as of October 2, 2024
Chart Source: JP Morgan Guide to the Markets

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