QUARTERLY
Market
REPORT

3RD QUARTER - 2024

A divisive election, geopolitical events, recessionary concerns, and the Fed's inaction and subsequent action all seemed to cause volatility to spike in the third quarter and could continue to raise challenges for investors through the final quarter of 2024.

CALM FIRST HALF GIVES WAY TO INCREASED VOLATILITY IN THIRD QUARTER

Markets were relatively calm in the first half of the year, but volatility spiked in mid-July, and investors experienced their first real roller coaster of 2024 through the remainder of the third quarter. The higher volatility caused a significant pullback in August and again in early September, but markets were once again approaching their previous record highs by the end of the quarter.

Equity Performance as of Sept. 30, 2024					
Equity Index	Q3	YTD	1 YR	3 YRS	5YRS
S&P 500:	5.53%	20.81%	34.38%	10.19%	14.12%
NASDAQ:	2.57%	21.17%	37.60%	7.98%	17.86%
DJIA:	8.21%	12.31%	26.33%	7.74%	9.48%

Sources: Morningstar. Index Performance: Return (%). https://www.morningstar.com/markets?CustId&CLogin&CType&CName&_LPAGE=%2FFORBIDDEN%2FCONTENTARCHIVED.HTML&_BPA=N. Accessed Oct. 1, 2024.

ECONOMIC, RECESSIONARY AND GEOPOLITICAL CONCERNS

A variety of factors pushed volatility upward. We saw a rotation away from technology, green energy and other sectors early in July,[1] after President Joe Biden's performance at the presidential debate seemed to bend the odds of re-election in former President Donald Trump's favor. Industries such as oil and gas and defense were viewed as the beneficiaries if Trump was elected, and small caps spiked as investors saw them as benefiting from lower regulations and less red tape from Trump policies.

That all changed in mid-July when Biden announced he was ending his re-election bid and Vice President Kamala Harris was installed as the new Democratic nominee. The "Trump trade" fizzled in response as the presidential race once again became competitive.

The volatility continued into late July as concerns of an economic slowdown and potential recession were raised once again. The concerns came despite second-quarter gross domestic product (GDP) jumping to 3.0% from 1.4% in the first quarter.[2] And the Consumer Price Index (CPI) finally dropped below 3% to 2.5%, showing that inflation is finally slowing.[3] Still, consumers are feeling the pinch as prices are about 20% higher than they were four years ago.[4]

Then in early August, the Bank of Japan raised rates to their highest levels in 15 years.[5] Traders who had been borrowing cheaply from Japan and using the funds to buy other assets were suddenly forced to stop the practice, and markets experienced a significant pullback in response.

Fortunately, volatility declined somewhat in September. However, it remained slightly elevated due to three primary factors: concerns about conflicts in the Middle East, uncertainty around the U.S. presidential election and the Federal Reserve's next move after a surprising 50 basis-point cut.

THE FEDERAL RESERVE'S IMPACT ON MARKETS

Markets have kept a close eye on the Fed, hoping for an announcement that they would soon begin cutting rates. The expectation had been that we might see five or six rate cuts in 2024; those expectations were quickly dashed by the Fed, who maintained their "not yet" approach well into September.

The Fed finally took action in mid-September, lowering the fed funds rate by 50 basis points (.50%) to 4.75-5.00% and marking its first rate cut since 2020.[6] The Fed will also have two more opportunities to lower rates this year, at their meetings in November and December.

POSSIBILITY FOR RECESSION

The much-ballyhooed recession has not come to fruition, although we aren't out of the woods just yet. Second-quarter corporate earnings (reported in the third quarter) were mixed but decent overall.[7] However, consumers are showing signs of fatigue as prices remain elevated and wages struggle to keep up. Many Americans are also carrying higher credit card balances with higher interest rates, making spending more difficult.[8]

The potential for recession is very much still with us, especially if consumer spending continues to slow. Much is riding on the Fed's ability to balance its dual mandate of lowering inflation and keeping employment (and, ultimately, the economy) stable. We will wait and see if they are able to achieve this balancing act during the fourth quarter and what further actions they take with rates.

FINAL THOUGHTS

Looking ahead to the next three months, the economic, recessionary and geopolitical factors that spiked volatility in the third quarter are still present. This year's highly divisive presidential election will likely continue to create uncertainty about which sectors could benefit next year. Ongoing questions around the Fed's rate cuts — including when and how much more — will continue to affect markets. And continued global conflicts, such as those in the Middle East, will play into energy prices and affect inflation in the coming months.

If you haven't done so lately, we recommend scheduling a time to talk with your advisor and review your financial plan to make sure your investments are aligned with your goals. Have an honest discussion with your advisor about the type of risk you are willing to take on and adjust your approach as needed.

Short-term events and data may increase market turbulence, particularly as we get closer to the November election and learn more about the Fed's plan for interest rates. Your advisor can help you avoid making emotion-based decisions and work with you to stick to the plan as you work toward your long-term goals.

SOURCES

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