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September 2024 Market Commentary

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Stocks sidestep the September "scaries". The S&P 500 was higher in the month of September for the first time since 2019, as the Fed kickstarted the interest rate cutting cycle by delivering a larger-than-expected 50 basis point reduction (the first rate cut since March 2020), which helped bolster stocks. The S&P 500 gained 2.1%, the NASDAQ advanced 2.8%, and the Dow Jones Industrial Average added 2%. The Fed noted the slowing pace of job growth as a key factor in their decision to lower rates and signaled more cuts are likely. The market anticipates another half a percentage point reduction in the fed funds rate before the end of the year. Eight of the 11 S&P 500 sectors were positive for the month, led by Consumer Discretionary (+7.3%) and Utilities (+6.6%), both beneficiaries of lower interest rates. Outside the US, China's stock market surged on renewed optimism around new monetary and fiscal stimulus programs.

Witches brew of potential volatility is simmering... We remain generally constructive on the longer-term outlook for equities, given a soft landing looks increasingly possible. Yet, in the next few weeks, we could see some added volatility leading up to the presidential election. The race remains tight, and we would not be surprised if investors grow increasingly uneasy about the potential for a disorderly outcome. In addition, the next nonfarm payrolls report will be released on November 1, which will likely be a key input for the Fed in determining their next rate decision when they meet on November 7. Moreover, geopolitical tensions continue to intensify. After Iran fired some 200 ballistic missiles at Israel last week, investors breathed a sigh of relief after Israel did not respond by attacking Iranian oil or nuclear targets. Yet, a potential Israeli response may still be forthcoming, which could ratchet up the conflict or disrupt global energy markets and weigh on risk assets. After the recent market run-up, S&P 500 valuations look stretched at current levels, with the price-to-earnings ratio well above the 10-year average and quickly approaching 2021 peak levels. At these valuation levels, combined with extended sentiment readings, the market is more susceptible to unexpected or negative news in the short term, which could make the next few weeks choppy.

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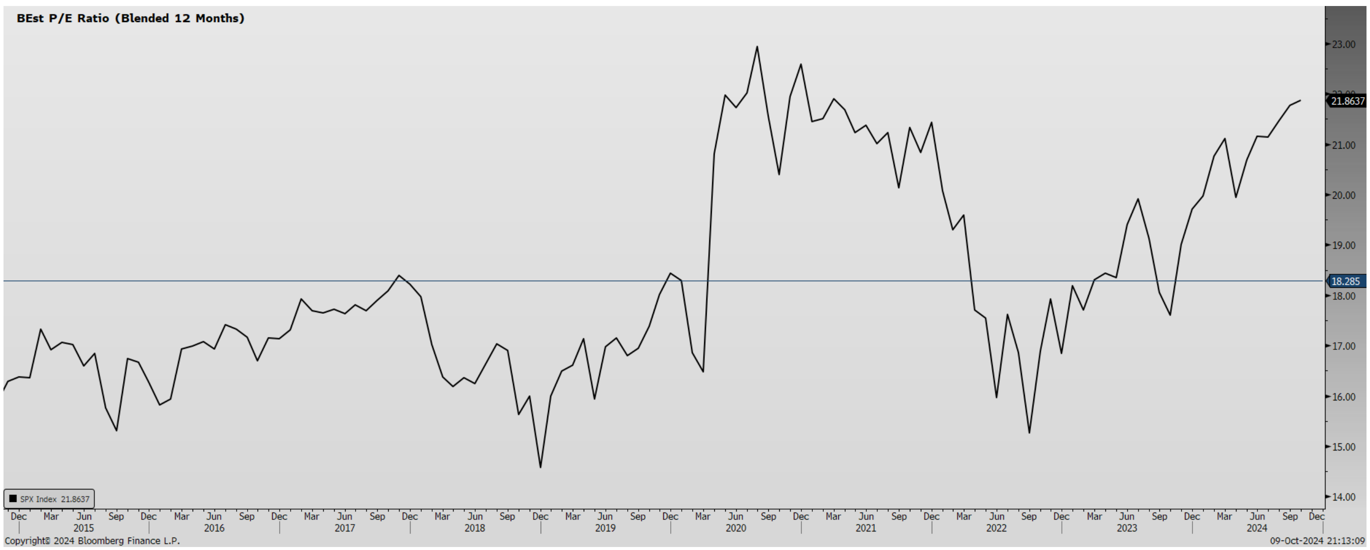
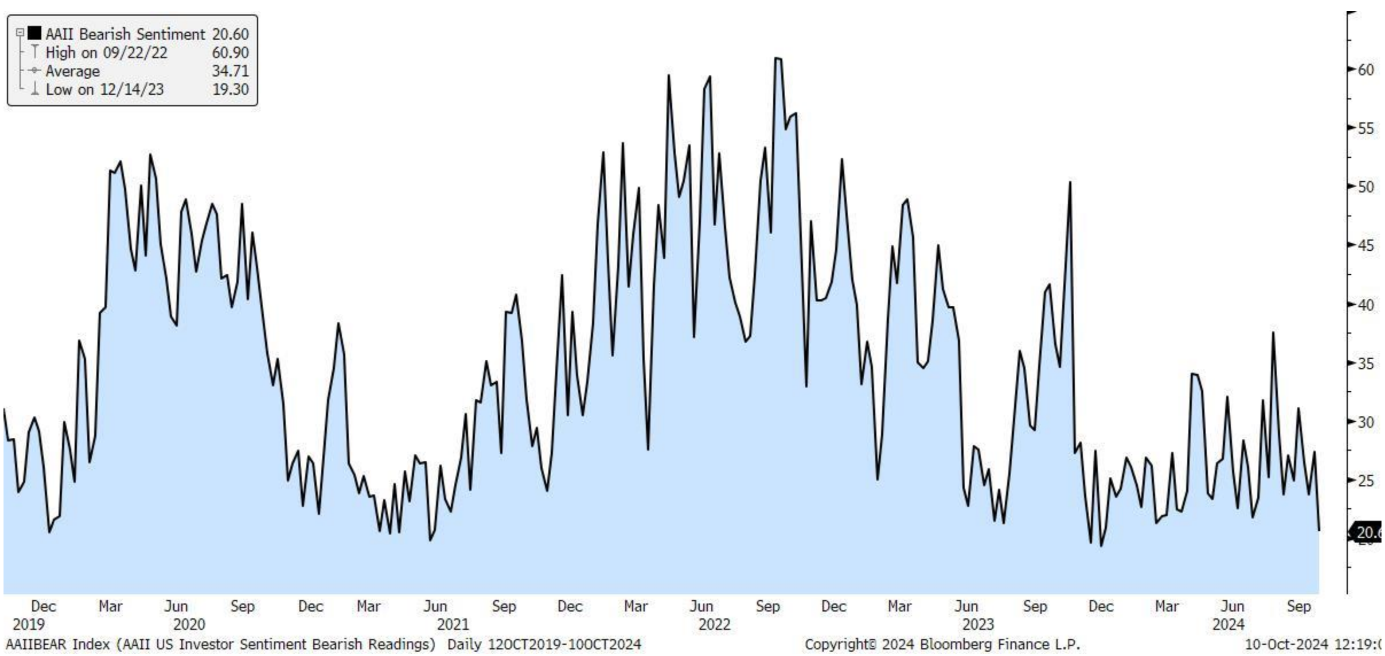
S&P 500 P/E near 22X, well above the 10-year average of 18.3X and approaching 2021 peak



Bears hard to find with AAII Bearish Sentiment near lows



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…but don't get spooked. Again**,** while we expect some near-term volatility, our longer-term outlook remains positive—the interest rate cutting cycle has just begun, the labor market is moving more into balance but not collapsing (September's numbers were strong across the board), the economy looks increasingly likely to avoid a recession, and if conditions do deteriorate, the Fed will likely take a more aggressive approach to cutting rates. Accordingly, we will likely use pullbacks to add exposure to areas that could benefit from lower rates over the next 12-18 months and where valuations are more reasonable compared to the broader market. Transportation, which has been mired in a prolonged downturn, pockets of consumer-related names that could benefit from lower rates and where we have been underweight for most of the last year, and companies leveraged to housing, where there seems to be agreement between both political parties to increase supply, are areas of interest for us on pullbacks. Lastly, the S&P 500 finished the third quarter at a new 52-week high, and according to Bespoke Research, the prior six times when this occurred, the index has been higher every time in the fourth quarter with an average gain of 6.4%.

As always, we would enjoy hearing from you. Please reach out with any comments or questions.

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