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RAYMOND JAMES

The Dow Group Newsletter

3rd Quarter Summary - 2024

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September Market Review:

September is typically the weakest month of the year for stocks, but thanks to the much-anticipated federal funds rate cut, the S&P 500 turned in its first positive performance in a September since 2019, achieving its 43rd record high of the year.

“The Federal Reserve [Fed] is recalibrating policy, and we are likely to see a series of rate cuts over the coming months as it gets closer to neutral, which is ultimately market friendly,” Raymond James Chief Investment Officer Larry Adam said. The Fed took an unusual – but not entirely unexpected – step, cutting interest rates by 50 basis points (bps), rather than the usual 25, and is on track to successfully navigate a “soft landing” for the economy for the first time since 1995. The economy is showing resilience, the labor market remains stable, and inflation appears to be on a better path.

U.S. economy continues to normalize:
After last month’s surprising downward revision to employment numbers spanning from 2023 to early 2024, nonfarm payrolls for August were worse than expected at 142,000 new jobs – still strong compared to historical averages but a signal that the U.S. labor market is continuing to normalize. The job openings report was also lower than expected, and June’s numbers were revised lower, bringing job openings closer to pre-pandemic levels. At the same time, unemployment ticked down to 4.2% from 4.3% in July.

The services sector continued to expand in August, helping reduce market concerns about the strength of the U.S. economy. Manufacturing has struggled, but lower interest rates may help the sector out of its slump. Housing starts and building permits were higher than expected in August, and builders have accelerated completions, which increased by 9.2% from July to August and 30.2% year-over-year.

We’ll get into more detail shortly, but first, a look at the numbers year-to-date:

	12/29/23 Close	9/30/24 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	37,689.54	42,330.15	+4,640.61	+12.31%
NASDAQ	15,011.35	18,189.17	+3,177.82	+21.17%
S&P 500	4,769.83	5,762.48	+992.65	+20.81%
MSCI EAFE	2,241.21	2,447.79	+206.58	+9.22%
Russell 2000	2,027.07	2,228.45	+201.38	+9.93%
Bloomberg Aggregate Bond	2,162.21	2,263.44	+101.23	+4.68%
*Performance reflects index values as of market close on Sept. 30, 2024. Bloomberg Aggregate Bond and MSCI EAFE reflect Sept. 27, 2024, closing values.				

Market leadership broadens:

While large companies continued to gain in value, small- and mid-size companies saw the strongest returns for the month, underscoring the importance of maintaining in a diversified portfolio. The Technology sector is still settling following its outsized performance earlier in the year, while interest rate-sensitive Utilities and Real Estate sectors are enjoying their time in the limelight. Two out-of-favor areas have perked up in the last week – Consumer Discretionary, thanks to the Fed's rate cut, and Materials because of China's strength due to policy measures intended to perk up the nation's rocky position.

Long-term yields up, short-term down following rate cut:

After the Fed's September rate cut, the latest Federal Open Market Committee (FOMC) signaled an additional 50 bps in rate cuts by the end of the year and another 100 bps in 2025. Intermediate and long-term Treasury yields ultimately rose following the cut, steepening the curve. As expected, short-term yields fell in the leadup to the rate cut and in the days following: the one-year yield has fallen 73 bps since the beginning of August while the 10-year yield is down by just 21 bps. Bloomberg calculations are estimating 75 bps of cuts across the FOMC's remaining two meetings this year.

On a separate note, Muni-to-Treasury ratios are near their highest levels of the year, with the 10-year ratio at about 70% and the 30-year around 85%.

(Continued)

Important legislation excluded during "China Week":

While the House of Representatives spent significant energy on China-related policy earlier this month, several impactful and long-anticipated pieces of legislation were excluded from votes. Among them: provisions that would apply further scrutiny of U.S. investment into key Chinese tech, place new restrictions on data centers and reform the abilities of Chinese companies to import products into the U.S. duty-free via de minimis exemptions.

September also saw fears of a government shutdown averted, with Congress passing a compromise "clean" stopgap bill that funds the government through December 20. Legislators will now be directing their attention to the annual defense policy bill.

The bottom line:

While it's good to see the broadening of the market and the lowering of interest rates excites investors, plenty of variables could spark volatility in the weeks and months ahead, including the health of the economy, employment and Fed messaging.

If you have any questions, please do not hesitate to reach out. As always, I wish you and your family well. Thank you for your continued trust in our guidance.

- Ken -