Convergence Commentary
October 2024 Market Recap

Quick Hits:

- Jobs numbers are mixed, and price normalization slowed.
- Stock prices fall as we head into a busy November.
- Take a look at historical performance between presidential parties and the stock market.

Market-Moving Highlights

The Federal Reserve began reducing short-term interest rates in September. The question of 'when' the rate cutting cycle would begin has long been answered. Now the world is left wondering how far the Fed will lower rates and how fast they will get there. That will largely depend on the path of the labor market and price inflation over the coming months.

Data in October started off strong when the Bureau of Labor Statistics reported that the US economy added 254,000 jobs in September, almost twice as many as expected, and the highest since March. That alone might have been enough to slow the pace of future rate cuts, but coupled with 3 hotter-than-expected inflation reports (CPI, PPI, and PCE) over the balance of the month, it was more than enough to shift the consensus outlook. The market today is pricing in one fewer rate cut for the year than it was a month ago.

Of course, expectations could change just as quickly over the coming month when new information arrives. Last Friday's jobs report was the worst since the depths of the COVID crisis, but may not alter the outlook since it included the short-term impacts of hurricanes and a labor strike. Only one thing is certain. With Fed Chair Jerome Powell and his colleagues vowing to make data-dependent policy decisions on a meeting-by-meeting basis, no path is preordained.

Index Performance

Index	1 Month	YTD	1 Year	5 Year
S&P 500	-0.9%	21.0%	38.0%	15.3%
Nasdaq Composite	-0.5%	21.2%	41.9%	17.8%
Russell 2000	-1.4%	9.6%	34.1%	8.5%
MSCI ACWI ex US	-4.9%	9.1%	25.0%	6.3%
Bloomberg US Aggregate Bond	-2.5%	1.9%	10.5%	-0.2%

In October, stock prices posted a monthly decline for the first time since April. Small cap stocks led the way lower in the US with a 1.4% drop, driven by a 4% drop in small cap Health Care. International equities were even worse, falling 4.9% as investors digested large gains in China from the prior month and a strengthening US Dollar. Bond prices fell, too, thanks to strong economic data that pushed down expectations for future Federal Reserve rate cuts. Despite the weak month, risk assets are still on pace for a banner year, with both the S&P 500 and NASDAQ Composite up more than 20% in 2024.

S&P 500 Sector Highlights & Commentary

Best-Performing Sectors		Worst-Performing Sectors	
Financials	2.69%	Health Care	-4.62%
Communication Services	1.94%	Materials	-3.49%
Energy	0.79%	Real Estate	-3.28%

Despite a monthly decline in stock prices in October, certain sectors managed to see gains, led primarily by the Financials and Communication Services sectors. After finishing near the bottom of the sector performance derby in September, the Financials sector bounced back in October with a strong Q3 earnings season, driven by profits from elevated interest income and resilient performance across consumer banking and wealth management.

The Health Care sector's underperformance in October stemmed from persistently high labor costs and workforce shortages, which has pressured providers. As a result, Health Care has fallen to the worst performing sector in 2024, reflecting a year-to-date return of just 8.91% in a market that has seen gains of over 20% during the same period.

What to Watch in November

Click here to read our reference guide for economic indicators.

11/05 – Election Day
US Presidential and Congressional elections will be held on Tuesday, November 5th. Election forecasters have deemed the matchup between former President Donald Trump and Vice President Kamala Harris a toss-up, as well as control of the House. The Senate race, however, appears tilted in favor of the Republican party.

11/07 – FOMC Interest Rate Decision
The Federal Reserve is set to announce its next policy decision on November 7th. The market today is pricing in one 0.25% cut, which would be consistent with the Fed's stated plan of gradually reducing rates as inflation approaches their 2% annual target.

11/13 – CPI Inflation
At 2.4%, last month's CPI reading marked the lowest level since February 2021 and highlighted continued easing in price pressures. This is the most timely report to watch for continued progress towards the Fed's inflation target.

11/15 – Retail Sales
Retail sales in the US increased 0.4% month-over-month in September 2024, slightly beating market expectations of 0.3%. That was well above the 0.1% gain reported in August, perhaps pointing toward building momentum in consumer spending as we head into the holiday season.

11/27 – GDP, Third Quarter Second Estimate
The GDP advance estimate release in October showed that the US economy expanded at an annualized rate of 2.8% in Q3 of 2024, a slight deceleration from Q2's growth rate of 3%. Personal consumption drove the gain with an impressive 3.7% increase, highlighting strong consumer demand. We will get an updated look at how the US economy performed as a whole near the end of the month.

Market Wrap

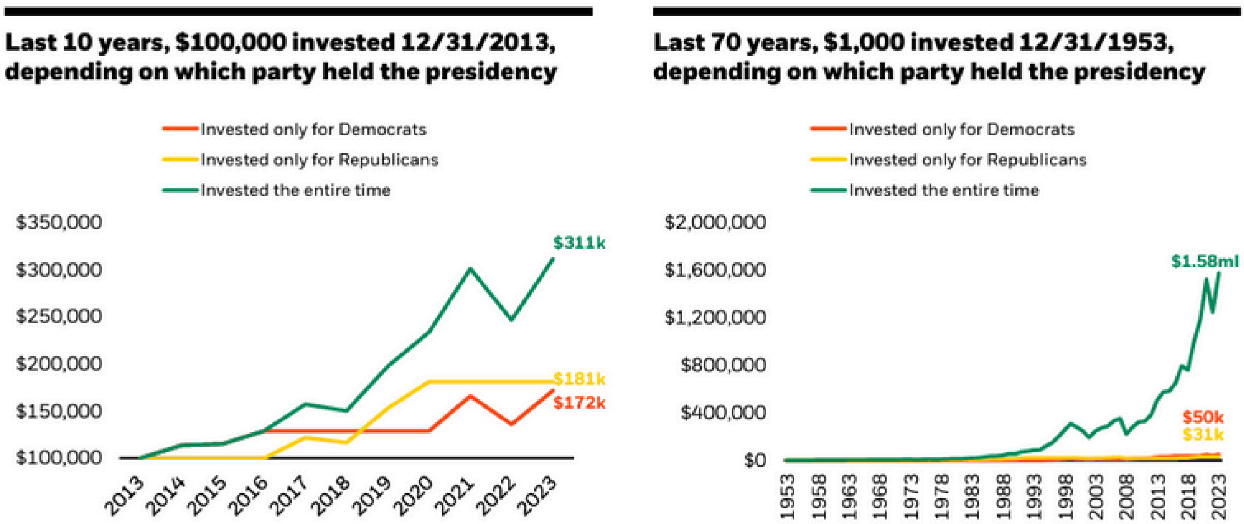
It's that time again.

The election results will bring excitement for some and leave others disappointed. Whatever side you find yourself on, you're likely concerned with how it will affect your investment portfolio. Elections always come with emotions, which can impact the decisions you make. We always strive to take emotions out of investing, and instead focus on fact. Elections do not change this. The facts have shown that, while policies set by politicians can have an impact on economic activities, markets can and have performed well under both presidential parties.

After Donald Trump shocked the world on election night in 2016, equity futures markets cratered 5% on the news. By the end of the following day, though, stock prices were 1% higher than they'd been the morning before, when a Clinton presidency was baked into the outlook. Over the next 4 years, the S&P 500 rose at an annual rate of 14%, well above the long-term average. A new administration after the 2020 election brought with it plenty of policy changes, but one thing stayed the same: equity prices continued to rise. Since Biden's election, the S&P 500 has risen at a 16% annual rate.

It can be tempting to make changes to your investment strategy - or even pull out of the market entirely - when your preferred candidate doesn't win, but that approach doesn't have a great track record. Whether you're looking at just the past few terms or the last several decades, only investing during Democratic or Republican presidencies has meant leaving behind a bulk of stock market returns.

It's time in the market that matters... not the president's political party



Morningstar as of 12/31/23. Stock market represented by the S&P 500 Index from 1/1/70 to 12/31/23 and IA SBBI U.S. large cap stocks index from 1/1/54 to 1/1/70. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

Our point isn't that presidents and policies don't matter. They do. But they aren't the only thing that matters. Stocks can go up (or down) no matter who's in the White House. Instead of looking at the presidential party, we focus on the data and indicators that are more highly correlated with market performance.

Sources

Bureau of Economic Analysis
Bureau of Labor Statistics
Census Bureau
BlackRock
Market performance data sourced from Ycharts and Optuma

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Your Investment and Research Team

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