Investment and Economic Update
Third Quarter 2024

The rarest of economic events is the so-called 'soft landing,' where a robust economy (and long-time bullish markets) are gradually cooled without triggering a recession and bear market. We might be witnessing such a phenomenon today, though nobody will quite say we are out of the woods yet.

The third quarter experienced above-average returns across the board, piling onto the gains for the first two quarters to produce unusual returns for the year. Through the first three quarters of the year, the widely quoted S&P 500 index of large company stocks is now sitting on a 20.81% gain. As measured by the Russell 2000 Small-Cap Index, smaller companies posted a 9.95% gain in the year's first three quarters. The technology-heavy Nasdaq Composite Index has gained 21.17% in the same period.

Foreign markets are also experiencing above-average returns. The broad-based EAFE index of companies in developed foreign economies is now up 10.40% through the third quarter. Emerging market stocks of less developed countries, as represented by the EAFE EM index, is up 22.89%.

The bond markets responded to the Fed's lowering of baseline rates by experiencing modest rate declines all the way up and down the yield curve. Yields on 10-year Treasury bonds fell to 3.88%, while 30-year government bond yields stand at 4.25% today. Five-year municipal bonds are yielding a 2.35% aggregate rate, while 30-year municipal bonds moved from roughly 3.79% in the second quarter to 3.52% today.

As has been the case for most of 2024, the U.S. markets seem to be testing new highs every week or so, in a smooth ride with little volatility. That is not normal, but there are not any clear signs of a storm on the horizon. Manufacturing activity continues to be strong, construction spending is relatively robust, the unemployment rate, which seemed to be rising, has leveled off at a level that most previous economies would consider extremely bullish. Hourly wages for American workers continue to rise faster than inflation, currently at a 3.8% annual rate, compared with 2.5% inflation. That aforementioned inflation rate is very close to the Federal Reserve's 2% target, which might mean that the Fed has room to lower rates going into 2025.

Meanwhile, GDP growth is running at 3.4%, personal income and disposable personal income among consumers keeps rising (albeit incrementally) and consumption (a key component of economic growth) remains strong. As a direct result, corporate profits have continued to rise.

The chief worry now is oil supply disruptions as the conflict in the Middle East heats up. If the conflict escalates, the world would likely experience higher oil prices. The impact would be moderated in the U.S., which is energy-independent currently and actually exports fossil fuels, but global supply and demand has rippled into American gas stations (and production costs) in the past. Of course, there are bigger worries when two major conflicts seem to be escalating, and especially when they involve countries with nuclear capabilities.

Oh, and you might have noticed that there is a Presidential election going on in the U.S. The interesting thing about elections is that there is never any clear connection between who wins in November and what the markets will do in the immediate aftermath. Policies can affect the economy, but until we know what those policies will be, it is hard to judge what kind of impact to expect.

It is helpful to remember that the markets have continued to rise through both parties temporarily occupying the White House and holding majorities in Congress. There is no good reason to imagine that this long-term trend will suddenly change, though history does tell us to expect more volatility in the future, up and down, than we have experienced in the recent past. It is always helpful to have your seatbelt buckled.

Below, we have summarized some of the widely quoted indexes for your reference. As a reminder the challenge is, the DJIA is not the same as the S&P 500, which is not the same as the NASDAQ – and none of these indexes perfectly match your own distinct mix of assets and their expected returns, especially if you own a globally diversified portfolio with exposure to stocks and bonds, large and small companies, value and growth companies, and U.S. and non-U.S. based companies. The following returns are for the third quarter YTD, and a rolling one year; respectively:

S&P 500: 5.25%, 20.81%, 34.37%
Dow Jones: 8.07%, 12.31%, 26.61%
NASDAQ Composite: 1.73%, 21.17%, 36.68%
Russell 2000 (Small-Cap): 9.79%, 9.95%, 26.87%
MSCI EAFE (International): 6.65, 10.40%, 21.53%
Barclay's Capital US Aggregate Bond: 5.20%, 4.45, 11.57%