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# Wealth Advisory Market Update

October 7, 2024

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Market Update

**Equities:**

The Federal Open Market Committee (FOMC) reduced the federal funds rate by 50 basis points, leading to an equity market rally into the quarter end. Technology was the driver for the month, as the Nasdaq rose 3.2% while the Russell 2000 rose just .5%. The initial reaction to the start of the rate cut cycle has been positive. However, we expect the euphoria to wane, as the FOMC is cutting rates for a reason.

We still see an economic slowdown in the future. In our opinion, the only reason we have not entered into a recession already is the record amount of spending by the government. The United States is currently adding more than $1 trillion in new debt every 100 days. We have not seen spending like this in history, outside of a major war or economic crisis.

Our equity positioning follows our overall outlook on the economy. In addition to owning large cap names, we overweighted sectors that are less affected by slow economic growth. We remain overweight utilities, healthcare, and staples. Our positioning will remain defensive until economic conditions improve. Looking ahead, the market is entering a “blackout” window as it relates to share repurchases. With seasonally low volumes continuing, this is something to pay attention to as corporations are the largest buyers of equites in the market.

**Economic Indicators and Monetary Policy:**

After the Fed’s decision to reduce rates by 50 basis points, the market is hoping to see another 50-point cut in November. As we have discussed in our letter about the FOMC decision, “…when the Fed goes with a larger reduction, they are concerned with something in the economy.” Fed Chairman Jerome Powell said that the economy and labor market remains resilient, however we have our doubts. Inflation remains above the Fed’s 2% target. The latest inflation report, the Personal Consumption Expenditures (PCE) index, showed core inflation rising from 2.6% to 2.7% annually. With inflation remaining anchored, the stock market at all-time highs, real estate at all-time highs and the unemployment rate sitting at 4.1%, it would not make sense for the Fed to begin easing if the economy was in a good place. Our opinion is the Fed has shifted their focus from the inflation front and is trying to save the economy from a prolonged slowdown.

On this first anniversary of Hamas’s attack on Israel, the geopolitical risks have risen significantly between Iran and Israel. Recently Israel has eliminated the leaders of two of Iran’s proxies, and they continue to attack Hezbollah positions in Lebanon, including through communication devices used by these groups. Iran has since retaliated with an unprecedented missile barrage on Israel. Israeli Prime Minister Netanyahu has vowed a significant response. The potential for a large-scale conflict in the Middle East remains elevated. Our hedge to this escalated conflict is to be overweight oil as it will continue to move higher as this escalates.

US politics remain polarizing. The election is just a month away and there is plenty of uncertainty surrounding the effects, based on which party wins. Different industries may benefit based on who takes office and we want to take advantage of that. A lot can change in 30 days, and we will be watching the odds markets closely as November 5th approaches.

**Strategy:**

With increasing volatility, the importance of sticking to our discipline has never been more important. We overweighted sectors that have performed well historically during economic slowdowns. Our approach consists of firms with a market dominant position, healthy balance sheet, and pricing power.

There has been quite a move in interest rates over the past few months as the market began to price in Fed rate cuts. During that time, we extended duration to lock in higher yields, as well as gains in bond price appreciation. While the fixed income landscape is changing, we still empathize the middle of the curve and higher quality credits.

As we navigate this challenging environment, we appreciate the opportunity to collaborate with you in achieving your financial goals.

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