

Market Commentary

The third quarter of 2024 saw positive returns from both stocks (S&P 500 up 5.6%) and bonds (Bloomberg U.S. Agg Bond Index up 5.8%), albeit not without volatility.

The economic and market backdrop heading into the second half of 2024 looked strong but with reasons to be cautious as we started the third quarter. Economists and the Fed were divided on the state of the economy as inflation, while down significantly from the highs of just a few quarters prior, remained stubbornly above the Fed's target. At the same time, unemployment, while still at historically low levels, showed early signs of weakening. Despite the mixed economic narrative developing, the S&P 500 made new all-time highs on the back of optimism surrounding AI and companies directly supporting or supported by this new technological evolution. The AI momentum carried forward for about two weeks until a surprise inflation report showed more significant progress towards the Fed's target. This prompted more calls for a rate cut in September and potentially multiple rate cuts before the end of the year. The market responded by reversing leadership with small caps and cyclicals, which tend to be more sensitive to interest rate changes, posting a huge rally while the mega cap tech stocks that had been dominating began to falter as investors took profits and grew concerned with valuations of this corner of the market.

Equity markets took another turn lower when a confluence of events occurred that drove more uncertainty and fears. The Bank of Japan unexpectedly announced an interest rate hike, which caused a major sell off in Japan and a ripple effect across global markets. Concurrently, the U.S. posted a weaker-than-expected jobs report in August, leading many to say the Fed waited too long to cut interest rates and a recession is imminent. If that wasn't enough, many big tech companies underdelivered on earnings and outlooks. While those headlines were alarming, our view was the market sell-off was based more on technical factors than outright economic weakness and would stabilize. The market continued to be choppy as more focus moved towards the September Fed meeting and the question became not if they would cut rates, but by how much. The Fed delivered a half percentage point rate cut and paved the path for further rate cuts for the remainder of the year. The market broadly rallied in the latter half of September and finished the quarter once again making new all-time highs.

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