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TRANSCRIPT: Q3 2024 Market Update

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Hi everybody, this is Steve Elwell, Level Financial Advisors Chief Investment Officer, and this is the third quarter 2024 market commentary. It was a fantastic quarter for the stock and bond markets with US Stock market up 6.23%. International stocks up 8.13% in emerging markets, up 8.24% global real estate being the leading asset class for the quarter up 16.04% for the three months from July, August and September. And correspondingly, the bond market also had a fantastic quarter with the US bond market up 5.2% and global bonds up 3.48. If you zoom out to a little bit of a longer timeframe the last 12 months, so September of 2023 through September, 2024 had been wonderful for stocks and bonds as the recovery continued following the downturn that happened in 2022. So after over those 12 months, you can see the different asset classes, but US stocks up 35% over 12 months and even bonds up 11.57% in the us really just a strong recovery.

It is funny, as we think about the last 12 months, it's been better than just what about anybody has felt like it has been. I am not hearing a lot of people ecstatic about the investment markets, but the reality is the last 12 months for the investment markets have been really, really good. Even the last 18 months, if you go back to the beginning of 2023, have been fantastic despite the debt ceiling debacle that happened in May of 2023. So the markets had another good quarter and the year has been very good for stocks and bonds. As we look at the economic growth, this chart from JP Morgan ultimately really shows that the US economy has continued to grow above expectations. I mean, third quarter of 2023 had over 4% growth, over 3% in the fourth quarter of 2023, a little bit of a slowdown in the first quarter of 2024 at 1.6% growth.

So still growth, but just a little slower. But then the second quarter of 2024 roared right back with 3%. And so year over year we've seen around 3% growth for a while now. And you can kind of tell from the chart line here that the US economy really has performed incredibly well despite interest rates being increased as much as they were by the Federal Reserve to help try and stomp out inflation. And in fact, as we turn our attention over to inflation, not only has the job market remained good, even though it's slowed down a little bit, job market's been good and inflation, as we can tell from the far right side of this chart, the headline inflation peaked at a little over 9% back in a little while back. But actually as the Federal Reserves started to raise interest rates dramatically once they determined that inflation was not temporary but actually sticking around, they became very aggressive, raised interest rates by a lot in a short period of time, which is where some of the investment pain came from 2022.

But boy did it work. I mean, there is no doubt that the Federal Reserve raising interest rates as quickly as they did. They may have been a little late, that's sort of subjective. But once they did raise interest rates dramatically, that stomped inflation right out. And in fact, where we fall now is inflation all the way down to 2.6% year over year. And actually that number is ultimately pretty much what the Social Security Administration is going to use for social security increases that will take place in January, 2025. They just recently announced that the cost of living increase will be 2.5%. So with inflation coming back down. Now, inflation is always a tricky thing. We all know economically we don't want deflation, we don't want prices going down. And that may sound counterintuitive, but the reason you don't want prices consistently going down is because consumers, once they pick up on that, will delay purchases because they think they can pay less for something a week or two or a month or two from now.

And if they think that's true and enough consumers do that, ultimately that would lead the economy into a recession because so many people would delay spending. So we know generally that deflation is not something economically that

we want to have happen, but low inflation, so low being a target of about 2% for the Federal Reserve, low inflation ultimately is sort of the best case scenario for the Federal Reserve. But many of us are still remembering the painful inflation that came from 20 21, 20 22, and then a little bit in 2023. And notably when we have a year like we did a couple of years ago where inflation touched 9%, that increase even if it sort of levels off and only slightly increases after that, we're still adjusting to that particular increase even though it's been almost two years since that's happened, we're adjusting to the feeling of that increase because prices still feel elevated.

So inflation is not only an economic issue, but also a psychological issue when it comes to how do we feel about it even as it starts to moderate. But the Federal Reserve being encouraged by those inflation numbers coming down and starting to moderate along with being encouraged by how the job market had been performing, but noting that the job market has been slowing down ultimately decided to pivot in September and start their first round of interest rate cuts. Now, the market had pretty much believed that the Federal Reserve was only going to cut rates by a quarter of a percent, which is their normal move. That's what investors would call one rate cut because normally they only move a quarter percent at a time. But in September, they actually surprised the investment markets by going big and cutting a half a percent all at once in the September meeting, and then noting that they projected that they would cut rates two more times, so a quarter percent later in the fall and another quarter percent in December and ending the year a half a percent lower than where they fell after they cut rates in September.

So a pretty aggressive game plan. And then went beyond that. They always sort of make their longer range projections, which are a little harder to accurately predict because there's going to be a lot of economic information that comes out between now and their Federal Reserve meetings in 2025. But they are actually projecting even after cutting rates a half a percent in September and two more times in 2024, projecting another four cuts in 2025. So start to finish, if you go the beginning of September to 2024, factor in what they already did, factor in what they expect to do over the next 15 months, then start to finish, that would be 2% interest rate cuts and rates effectively would go from 5.25% down to 3.25%. And that obviously will end up helping a lot of consumers in a lot of different ways. Credit card interest rates will come down because many of those are variable.

Home equity line of credit rates will come down because many of those are variable car interest rates will come down, mortgage interest rates will come down, personal loan interest rates will come down. Ultimately, as interest rates come down, things become cheaper for people to buy. And when things become cheaper to buy, people tend to buy more of them. So a little bit of soft economic support here from the Federal Reserve as they, and I'm not sure if they even really view it that way. I think the way they view it is that current interest rates are what they have called restrictive, which just means it's sort of holding the economy back. And they were doing that on purpose to try and bring inflation down, which it looks like they have succeeded. So now I think their viewpoint is if we cut rates from let's say 5.25 to 3.25 by the end of 2025, that they're not being necessarily supportive of the economy, they're just being neutral.

So not restrictive, not supportive. If they wanted to be supportive, I mean they could cut rates as far as 0% like they did multiple times over the last 15 years. So ultimately it looks like interest rates will continue to come down here after the big cut in September, and that should be welcome news for consumers as they go to buy things. But generally speaking, interest rates going down is good news for bond holders and tends to be good news for stocks as well. Stocks generally appreciate lower interest rates. So I guess we'll all find out here, but so far it's been pretty good news as the Federal Reserve has made those changes. So with that, I want to turn our attention over to what will likely be the hottest topic of the fourth quarter, which of course is the election. This is a Presidential election year.

So those are always a little more, there's a little more news and media coverage than what the midterms tend to get. And obviously every election matters for so many different reasons. And it's true that whoever wins, whether it's the White House or the control of the Senate or the House, whoever wins obviously does have an impact on a lot of different things as well. But when we think about elections and we think about the investment markets, we're going to

show a couple of charts here real quick. One of which we included in the quarterly letter with your reports that we just sent out in the beginning of October that shows how the stock market has performed under every president throughout history. And if you sort of zoom out and take the chart as a whole, you become aware of a very simple trend. The stock market tends to move upward and trends upward over the long-term, no matter who's in charge.

And don't get me wrong, I mean obviously the president is one of many variables that affects the stock market, but ultimately the reality, the biggest reality is the profitability of the companies that you're invested in, which make up the stock market. And do those companies grow their profits? Do they grow their profit margins? Do they grow their sales? Do they control or reduce their costs? Do they innovate and create amazing new products that result in growth? Do they buy back some of their own stock, which could be an effective use of their cash to help raise the stock price because of course there'd be less shares available. And obviously the CEOs and employees of all publicly traded companies every day should be going to work to try and improve all of those metrics. All of those things increase sales, lower costs, gain efficiencies, and ultimately try to become more profitable.

And they do that no matter who won. And so I think that's important to point out because a lot of times at this time of the year for a presidential election will get questions, should I invest differently? Should I change my strategy? Should I become more aggressive, less aggressive? Should I change the asset classes that I invest in? And ultimately, our advice has always been the same, but trying to mix politics and predictions about politics with your investment strategy is not one that tends to help any investors. It's not a recommended strategy. There's no reliable pattern or outcome or consensus about what will happen in the investment markets or different sectors or different asset classes if one party wins versus the other. And that doesn't just hold for presidents, but that also holds for Congress, the Senate and the House. And ultimately, no one can reliably predict not only what the result of the election will be, but how the investment markets will respond to that.

But the good news is that the evidence kind of tells us that we don't have to do that. We don't have to predict what's going to happen. We don't have to make any predictions at all. In fact, all we need to do is stick with the strategy that we've already implemented. And I realize that can be hard to do, especially in a politically charged environment, that sometimes people have very strong feelings one way or another, which there's nothing wrong with that. But from an investment standpoint, we shouldn't be making changes in the portfolio based on that. And then another question that sometimes we get that's really not so much about who wins, whether it's the right or the left, but more just about the volatility that comes around an election. And while it is true that it tends to become a little bumpier before the election, for the most part, once the election happens, the range of returns, whether negative or positive, tend to fall in a fairly typical way compared to months when there's not an election.

So this chart from DFA shows the monthly returns when there's an election, depending on whether it was an election month that the Republicans won or an election month that the Democrats won or a non-election month. Obviously there's a lot of months that are non-election months, but as you look at the dispersion of returns, it's not really that different than non-election months, both up and down and the measure and magnitude of how big much up down have that particular month traded. And this is really kind of goes back to one of the core tenets of investing is that you really need to keep your eyes on the long-term. And one month is not a long-term period by any measure. And so when you're thinking about, oh, things might be a little bumpy, the evidence doesn't wildly support that. And essentially if you can hold on for longer than a month, that your expectation is that this shouldn't really be any different than any other year or any other period. And so from an investing standpoint, we don't need to sit here and say, oh, geez, we should exit the markets for a month and wait and see how the election turns out. There's just no evidence to support that, that's going to benefit us in any way. So with that, this has been the third quarter, 2024 market commentary. As always, if you have questions or you want to talk to your advisor about your own situation, feel free to reach out to us at 7 1 6 6 3 4 6 1 1 3, and we'll talk to you next quarter.