Markets Remain Strong Heading Into the Election

The Paris 2024 Olympics, which took place this past quarter, logged a slew of records.

There were 125 Olympic records broken in 10 disciplines. A total of 32 world records were set in eight disciplines. And a number of attendance and viewing records were also documented.

The financial markets kept pace, in their own way, by setting records, as well.

Major equity indexes set new all-time highs. The Dow, S&P 500, and Nasdaq all hit record highs in Q3. The Dow passed 42,000. The S&P 500 exceeded 5,700. And the Nasdaq topped 18,000.

The Fed put an end to the longest pause after a rate-hiking cycle in its history and the tightest monetary policy since September 2007. It delivered the first rate cut since 2000, a jumbo-sized cut of 50 basis points. (Arguably, the beginning of the Fed's rate-cutting cycle had the biggest impact on a superb Q3 for stocks and bonds.)

ETFs had their best quarter ever, setting a record of $280 billion in inflows. More than 2,000 ETFs took in cash during the quarter. Plus, US ETFs reached a milestone of $10 trillion in assets, fittingly on the last day of September. (ETFs also on pace to break $1 trillion in yearly inflows, which would set the all-time, annual high.)

It was a record-setting quarter, in Olympic-style fashion, across the markets.

Q3 Performance Review

All major US equity indexes were up, ranging from 2.8% to 9.3%. In a long-awaited rotation, past laggards played catch up in terms of market cap, style, and sector.

Smaller-cap stocks outperformed large-cap stocks. Value beat growth. Cyclicals squeaked by defensives. Ten of the S&P 500's 11 sectors produced positive returns. Utilities (19.4%) and real estate (17%) were the top performers by a large margin, thanks to their sensitivity to changes in interest rates. Energy (-2.3%) was the lone sector in the red, as oil prices fell 18.7%. Technology, in a reversal of fortunes, was the second worst performer. Some of the giant tech stocks – and "Magnificent Seven" members – even lost ground, like Microsoft (-3.6%), Nvidia (-1.7%), and Alphabet (-8.8%).

US Equity Indexes	Q3 Return	YTD Return
S&P 500	5.89%	22.08%
DJ Industrial Average	8.72%	13.93%
NASDAQ Composite	2.76%	21.84%
S&P MidCap 400	6.94%	13.54%
Russell 2000	9.27%	11.17%

Source: Morningstar, as of 9/30/24

Internationally, emerging markets (8.9%) outran developed markets (7.3%). The MSCI ACWI ex USA Index, which covers 22 foreign developed countries and 24 emerging market countries, returned a sizable 8.2% (outperforming domestic equities).

Specifically, China (23.6%) was a top three performer. Its central bank fired a stimulus bazooka, including various rate cuts, capital injections, and financial support for stock purchases. In sequence, Chinese stocks notched their best week (15.7%) in 17 years.

International Equity Indexes	Q3 Return	YTD Return
MSCI EAFE GR USD (Foreign Developed)	7.33%	13.50%
MSCI EM GR USD (Emerging Markets)	8.88%	17.24%
MSCI ACWI ex USA GR USD (Foreign Dev & EM)	8.17%	14.70%

Source: Morningstar, as of 9/30/24

Key US bond indexes were solidly in the green, all positive in the range of 1.4% to 5.8%. The "Agg" booked a 5.2% gain. Impressively, five of the seven benchmarks landed returns of more than 5%. (That's an incredible quarter for bonds!)

The lead up to the start of a rate-cutting cycle, the actual first cut, and the future expectation of more rate cuts… all played a key role in the bond rally. As bond yields declined, the yield curve steepened and un-inverted in key spots. For instance, the difference between the 10-year yield minus the 2-year yield went positive (3.81% vs. 3.66%, respectively, at quarter-end).

US Bond Indexes	Q3 Return	YTD Return
Bloomberg US Agg Bond	5.20%	4.45%
Bloomberg US T-Bill 1-3 Mo	1.36%	4.08%
ICE US T-Bond 7-10 Year	5.74%	4.26%
Bloomberg US MBS (Mortgage-backed)	5.53%	4.50%
Bloomberg Municipal	2.71%	2.30%
Bloomberg US Corporate Bond	5.84%	5.32%
Bloomberg US Corporate High Yield	5.28%	8.00%

Source: Morningstar, as of 9/30/24

Q4 Market Outlook

Markets, once again, seem to be in a period of calmness. But that can quickly change with bouts of volatility.

Worries include a softening labor market, possible economic slowdown, elevated valuations, US election uncertainty, other geopolitical tensions, and even natural disasters.

On the positive side, confidence comes from positive momentum, a broadening of market leadership, cooling inflation, the onset of a Fed easing cycle, strong corporate earnings, a resilient consumer, and $6.3 trillion sitting in money markets funds as potential fuel.

From a seasonality standpoint, even though October is notorious for being a volatile month, Q4 tends to be the market's strongest quarter of the year.

The setup to finish the year looks good from a historical perspective.

- Since 1950, Q4 has averaged a 4.3% return, which is more than twice the average return of any other quarter. It has also been positive 80% of the time over that period (83% of the time during election years).
- When the S&P 500 is higher in eight of the first nine months of the year (like in 2024), Q4 does even better. In the eight times this scenario has occurred since 1950, Q4 was positive 100% of the time – with an average return of 6.6%.
- Over the last 80 years, from the election through year-end, the stock market was positive during that period in all but three years – or 96% of the time. (Interestingly, in the 10 years with the largest gains, there were five Republican wins and five Democrat wins.)

Of course, past performance is not indicative of future results. And predicting the market's movements in the short term is a near impossible task.

That's why at Singer Wealth Advisors, we've learned to expect – and prepare for – the unexpected.

It's one of the reasons we keep more tools in our toolbox than the typical wealth manager.

We use "alternative" assets and strategies in our model portfolios. Things like annuities, modified endowment contracts, structured notes, buffered ETFs, private equity, private credit, private real estate, etc. These alternatives offer advantages compared to plain vanilla investing approaches. For example, this added diversification has helped to reduce portfolio volatility and increase overall returns, historically.

On top of that, we customize financial plans to meet each client's objectives, risk tolerance, and time horizon. (We always keep an eye out for tactical opportunities, too.)

Ultimately, our preferred mix of asset allocation, proper diversification, and tailored financial planning, alongside the essential ingredients of patience and discipline, have proved to be a successful recipe for investing.

We're mindful that your life consists of variables outside the ebbs and flows of your portfolio value. If you have other financial concerns, family changes, or any potential life-changing events to tell us about, please let us know.

As always, feel free to contact us with any questions or comments. We're happy to schedule a call or virtual meet at your request.

Sincerely,
Keith Singer

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