

October 3, 2024

## Third Quarter Investment Commentary

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're 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. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—gained 6.16% in the year's third quarter, and stands at a 20.58% gain since January 1. The Russell 3000 index has gained 20.63% so far this year.

Looking at large cap stocks, the Wilshire U.S. 2500 Large Cap index was up 6.12% for the third quarter, with a 20.76% gain so far in 2024. The Russell 1000 large-cap index is up 21.18% so far this year, while the widely-quoted S&P 500 index of large company stocks gained 5.53% during the year's third quarter, and is now sitting on a 20.81% gain for the year so far.

Meanwhile, the Russell Midcap Index is up 14.63% in the first nine months of 2024.

As measured by the Russell 2000 Small-Cap Index, smaller companies posted a 11.17% gain in the year's first three quarters. The technology-heavy Nasdaq Composite Index has gained 21.80% so far this year.

Foreign markets are also experiencing above-average returns. The broad-based EAFE index of companies in developed foreign economies gained 6.65% in the third quarter, and is now up 10.40% for the year. Emerging market stocks of less developed countries, as represented by the EAFE EM index, gained 7.79% in dollar terms in the third quarter, and are up 22.89% so far this year.

Real estate securities recovered in the third quarter, with the Wilshire U.S. REIT index up 15.19% for the most recent three months, to push it into a 14.88% gain for the year so far. The S&P GSCI index, which measures commodities returns, lost 7.87% in the second quarter, but is only down 0.51% in 2024 so far. Gold prices are booming, up 13.67% for the quarter and 28.36% for the year, to a record \$2,686 an ounce

The S&P 500 utilities index, a broad measure of the performance of utility stocks, is posting a remarkable recovery, gaining 18.46% in the most recent quarter, now delivering 27.45% for the year.

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. 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 munis 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 aren't 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 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's a Presidential election going on in the U.S. The interesting thing about elections is that there's 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's hard to judge what kind of impact to expect.

It's helpful to remember that the markets have continued to rise through both parties temporarily occupying the White House and holding majorities in Congress. There's 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've experienced in the recent past. It's always helpful to have your seatbelt buckled.

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