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WEALTH MANAGEMENT

The Weekly Market Update – 11/11/24: The Fed Sticks To The Plan

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,995.54	4.66%	4.04%	25.70%	42.96%	5,995.54	0.0%
Dow Jones Industrial Average	43,988.99	4.61%	3.92%	16.71%	33.09%	43,988.99	0.0%
NASDAQ Composite	19,286.78	5.74%	6.03%	28.48%	50.08%	19,286.78	0.0%
Russell 2000	2,399.64	8.57%	7.61%	18.38%	44.36%	2,442.74	1.8%
MSCI EAFE (USD)	2,336.75	0.02%	-5.34%	4.50%	19.96%	2,506.69	7.3%
MSCI Emerging Markets (USD)	1,135.65	1.19%	-3.01%	10.93%	24.09%	1,444.93	27.2%
Bloomberg Commodity Index	98.13	0.07%	-2.20%	-0.52%	-6.20%	237.95	142.5%
Barclays U.S. Aggregate Bond	91.64	0.72%	-2.55%	-0.07%	8.10%	112.07	22.3%

Source: FactSet

The Federal Reserve Bank (Fed) remains on a path to lower its overnight interest rate target, but market-traded interest rates have moved higher. The Fed's Open Market Committee (FOMC) met last week, concluding its 7th of 8 scheduled 2024 monetary policy meetings. As expected, the Fed reduced its overnight bank lending fed funds interest rate target by -0.25% to a new range of 4.50% to 4.75%. At his post-meeting press conference, Fed Chair Jerome Powell repeated recent comments that Fed policy reflects a "recalibration" of its stance. Essentially, this means that the Fed is on a path to lowering interest rates to a more 'neutral' position. Theoretically, the neutral rate is at a level that is neither restrictive nor stimulative to the U.S. economy. The precise level of what constitutes neutral is unknown, and likely changes over time due to macroeconomic factors. However, we agree with the Fed that when the lower limit of the target range was 5.25%, the rate was significantly above neutral (restrictive), and remains restrictive here at 4.50%. While the Fed has reduced the fed funds target by a total of -0.75% since 9/18/24, the U.S. 2-year Treasury yield has increased to 4.25% (11/8/24) from 3.63%, and the 10-year Treasury yield has moved to 4.30% from 3.71%. We attribute the increase in Treasury yields to bond investors reacting to better-than-expected economic data, the U.S. economy growing +2.8% annualized in the third quarter, and an emerging view that those solid trends are likely to continue into 2025. The economic outlook also improved with pre-election polls and election results that favored Donald Trump. The Fed's congressional mandate is to use monetary policy to promote maximum employment (jobs) and stable prices (inflation). If the economy and employment market remain resilient, the Fed is less likely to rapidly decrease rate targets from current levels because lower rates could be stimulative, creating more growth and the return of inflation. For now, investors appear more enthusiastic about U.S. economic growth and less fearful of inflation, but we believe that the path to lower interest rates in 2024 and 2025 might not be as linear as previously believed.

3Q24 earnings growth is in-line with estimates as equities move higher. Through 11/8/24, about 91% of S&P 500 constituents had reported financial results for the 3Q24 equivalent quarter. Year-over-year (Y/Y) earnings growth was reported at +4.1%, roughly in-line with the estimate on 9/30/24. If this holds, it would be the lowest quarterly Y/Y earnings growth in the past five quarters. While earnings growth is positive, a stronger earnings environment often includes actual results that exceed estimates, leading to higher revisions for future quarters. This has not been the case, at least recently, as the earnings estimate for 4Q24 has moved -2.4% lower since 9/30/24 and the 2025 full-year estimate has declined a modest -1%. Meanwhile, the S&P 500 index increased +4.1% since the end of September. Most of that increase came last week as equity markets cheered the Trump victory and perceived pro-growth policies. Perhaps it is too soon to see post-election earnings estimates move higher, but we argue that is needed for sustained equity gains.

Financial markets continue to interpret election results, we await October inflation data, and the U.S. bond market is closed Monday to observe Veterans Day. U.S. equity markets opened Monday with solid gains but had given much back by mid-day. We expect some volatility ahead as many indices sit at record highs, and we suggest rebalancing portfolios as needed to maintain desired diversification. October inflation data (consumer price index, CPI) is due this week with the Y/Y figure expected to rise to +2.6% from +2.4% in September. For all veterans out there – thank you for your service.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The minutes from the most recent FOMC meeting is here. The Federal Reserve Act mandates that the Federal Reserve conduct monetary policy "so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates." Even though the act lists three distinct goals of monetary policy, the Fed's mandate for monetary policy is commonly known as the dual mandate. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. As of 11/8/24, the fed funds target range was 4.50% to 4.75%.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.