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Market Update: October 2024

Global stock markets saw declines of just over 2% in October, with domestic and foreign equities off by approximately 1% and 5%, respectively. Bond values also declined, as the yield on the benchmark 10-year U.S. Treasury note ended October at 4.282% … a sizable uptick from the 3.798% yield at the start of the month.

> **The prospect of a rising federal budget deficit is fueling a sharp climb in bond yields, with investors betting a challenging fiscal situation will only get worse after the election.**
>
> **Sam Goldfarb – WSJ 10/29/24**

It's well known that October has historically been the stock market's worst month. Considering the additional uncertainties surrounding the Presidential election, many investors were probably relieved to escape this past October with just a few bumps and bruises. While diversified portfolios were generally off by a little over 2% for the month, global equities are still sporting returns of 16% year-to-date.

> **Election-driven volatility has historically been short-lived – even if the results of the election were not immediately known, as in 2000.**
>
> **Saira Malik, Nuveen – WSJ 11/3/24**

New home sales were up 6% in September from a year earlier, while sales of existing homes this calendar year are expected to be at their lowest rate since 1995. The inventory of existing homes for sale remains below prepandemic levels, as owners with low mortgage rates continue to be discouraged from selling. It is estimated that about 60% of outstanding U.S. mortgage holders have a rate below four percent.

The big question is what is the magic mortgage rate that will unlock the supply of existing homes.

Carol Ryan – WSJ 10/30/24

The Commerce Department reported U.S. gross domestic product (GDP) increased at a 2.8% annual rate in the third quarter. While lower than the 3% rate during the second quarter, keep in mind that U.S. GDP increased at an average annual rate of 2.5% during the economic expansion that lasted from 2009-2019.

The International Monetary Fund (IMF) now expects U.S. GDP to expand by 2.5% in the fourth quarter, decidedly above the longer-run growth trend of 1.8% anticipated by Fed officials.

The U.S. economy is a remarkable growth machine.

The Editorial Board – WSJ 10/30/24

GDP for the 20-nation eurozone economy grew by 0.4% in the third quarter, somewhat higher than the 0.2% growth in the second quarter. On an annualized basis, the rate of growth came in at 1.5%, its strongest performance in two years … but still lagging well behind U.S. growth.

The U.S. is outrunning every other major developed economy, not to mention its own historical growth rate. Most leaders from around the world would trade their economies for the U.S. in a heartbeat.

Greg Ip – WSJ 10/31/24

China's economy expanded by 4.6% in the third quarter, but excitement over Beijing's stimulus efforts appears to be fading. For the past nine months, the economy has grown by 4.8% … below the country's stated goal of 5% economic growth. The IMF expects China's long-term growth rate to continue to decline. Like Japan's decline during the 1990s, China's double-digit growth rates of the past are fading in the direction of the low single-digits.

> **The People's Republic of China is caught in a trap of its own making. The success of China's one-child policy spawned a demographic crisis. The relentless focus on housing created the biggest real-estate bubble since the dawn of time – and locked local governments and hundreds of millions of ordinary Chinese into an unsustainable Ponzi Scheme.**
>
> **Walter Russell Mead – WSJ 10/14/24**

The Fed's preferred inflation measure, the personal-consumption expenditures price index, increase at an annualized rate of 1.5% in the third quarter. The core index, which excludes volatile food and energy prices, came in at 2.2% … down from 2.8% in the previous quarter. More importantly, inflation measures are at or around the Fed's 2% inflation target.

Consumer prices in the eurozone increased by 1.8% in September on an annual basis. That marked the first time since June 2021 that annual inflation was below the European Central Bank's 2% target. The more recent October reading actually settled in exactly at the ECB's 2% target.

> **September's figures suggest policymakers can begin to claim victory in their two-and-a half-year battle to tame sky-high inflation that spiked with Russia's full-scale invasion of Ukraine early in 2022.**
>
> **Joshua Kirby – WSJ 10/1/24**

The Labor Department reported the U.S. economy added just 12,000 jobs in October, well below September's gain of 223,000. October's results were hampered by hurricanes Helene and Milton, as well as the effects of workers sidelined by the Boeing strike. The unemployment rate held steady at 4.1%, and average hourly earnings were up 4% from a year earlier.

> **A sharply weaker jobs reading has thrown up some uncertainty about the direction of the U.S. economy. But the preponderance of evidence from official data, company earnings and even consumers point to a strong, if gradually slowing, economy.**
>
> **Aaron Back – WSJ 11/2/24**

Average wages from 2021 to 2023 did not keep up with inflation, but since mid-2023 wage increases have been outpacing inflation. Still, the cumulative effects of rising prices continue to weigh on consumers.

> **Life has been good if you own assets, but much less so if you rely on shrinking real wages to pay for groceries and gas.**
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> **The Editorial Board – WSJ 10/30/24**

With the price of an ounce of gold up over 30% year to date, the precious metal is having its best year since 1979. According to the World Gold Council, demand has been driven by investors as well as central banks. Often considered to be a safe-haven asset, gold's current popularity is attributed to geopolitical tensions, rising global debt levels, and election-related uncertainty.

> **Election jitters should fade … That said, geopolitical tensions and fiscal concerns likely aren't going away anytime soon. However, long-term investors should remember that there is more that glitters than just gold. By providing greater capital appreciation with less volatility, opportunities across stocks, bonds and other alternatives can help better support strategic investment goals.**
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> **J.P. Morgan Asset Management, Market Insights – 11/4/24**

I continue to be alarmed at the U.S. government's mounting debt burden. Consider the following observations from Sheila Bair, former Chair of the Federal Deposit Insurance Corporation (Barron's 10/30/24):

- I have seen more than my fair share of financial crises during my time in the U.S. government. The U.S. government resorted to deficit-financed spending and tax relief during these crises.
- Unfortunately, once the crises passed, we just kept spending as if nothing changed. Now, the resulting overhang of federal debt could itself be the cause of a future crisis.
- Both Republicans and Democrats have settled on deficits as the easiest way to pay for politically popular initiatives.
- Elected officials are wary of braving the political pain of deficit reduction.
- The dollar's privileged status as the world's reserve currency enables our fiscal indulgences.
- There are hints that our privileged status is already eroding. Foreign ownership of U.S. Treasuries has fallen from 34% in 2012 to 28% in 2024.
- Make no mistake, if we continue on this path, investors will eventually lose confidence in our debt.
- The time to act is now, when the economy is strong.

The former FDIC Chair concludes with this warning: "*In the past, deficits have provided the means to respond to crisis. In the future, they may well be the cause of it.*"

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