MARKET OVERVIEW

3rd Quarter 2024

Central Bank Wealth Management Group

Market Review

- Domestic equities were mixed during the second quarter of 2024 leaving the S&P 500, S&P 400 and Russell 2000 indices with returns of 4.28% -3.45%, and -3.28% respectively. International developed and emerging equities had divergent returns of -.42% % and 5.00%. With the S&P 500 rallying 15.29% year-to-date and 24.54% in the last 12 months, we expect the market to remain positive, yet volatile, going into the end of the year.
- We remain confident that the U.S. economy will continue to grow and that inflation will continue to subside. The recovery seems oddly fragile in that investors are counting on future Fed Fund rate cuts to sustain strength. As resilient as the current economy may seem, it's important to be prepared for all possibilities including the election cycle creating volatility. Overweighting equities in anticipation of a Fed rate cut is no better than hoarding cash in the face of volatility. Fed Fund cuts are sometimes made after an economy actually falters. Sticking to your target allocations regardless of current events is often the more prudent way to go.

Economy

- The May CPI number was unchanged on a month to month basis from April, tracking at a 3.3% annual rate. On June 12, the FOMC committee voted to hold the Fed Fund rate steady at 5.25-5.50% as it has done since July of 2023. We expect the Federal Reserve to cut the Fed Funds rate one time in 2024. The Fed is trying to balance the positive effects of restrictive policy on reducing overall inflation with the negative potential effects on growth.
- Even if two rate cuts are packed into this year, they are expected to proceed cautiously next year applying only 2 more rate cuts, bringing the Fed Funds rate down to 4.25-4.5% at the end of 2025.

Equities

- The stock market does seem to favor rate cuts, with the S&P500 Index gaining an average of 13.4% in the year following a series of cuts. In fact, of the 14 rate-cut cycles since 1928, only 2 saw negative returns one year later.
- The market is showing better breath than 2023, but growth sectors are pulling away from the broad market. We would like to see better sector breath across the remainder of the trading year, but companies in non-growth sectors need to show stronger earnings trends. The 10 largest stocks now account for 37% of the S&P500, and this current market concentration makes it hard to beat the market when the largest stocks are outperforming.
- AI driven equities have been subject to buying frenzy recently, and we have participated by owning the largest players in the movement (eg. Apple, Nvidia, Microsoft…) individually or in mutual funds.

Fixed Income

- The Bloomberg US Aggregate Bond index has declined 17% since August of 2020, but the outlook for bond is brightening with the potential of Fed rate cuts. The yield curve is still inverted with 10 years treasury yielding 4.25% while 3 month T-Bills are yielding 5.23%. We recommend fixed income investments in US Governments, municipal, corporate, high yield debt and emerging market debt with an intermediate duration range.

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