KEEPING OUR GLASS HALF-FULL

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PRIVATE WEALTH MANAGEMENT

Welcome to October! Each month, we aim to provide fresh insights into the financial markets and break down current headlines to help you cut through the noise and become a more informed investor. Your feedback and suggestions are always welcome, and if you know someone who might benefit from this piece, we encourage you to share it!

The first nine months of 2024 delivered the markets strongest start since 1997, with gains exceeding 20% through the end of September[1]. Given the widespread skepticism that marked the start of the year, few would have predicted such impressive growth. Adding to this momentum, the S&P 500 reached 43 new all-time highs throughout the year, a clear reflection of how bull markets work. Since 1950, we've witnessed over 1,250 record highs averaging about 16 a year[2] making them more common than most people think.

Although early August may feel like a distant memory, its important to remember that just 60 days ago, fear was the pervasive emotion. A modest 9% pullback lifted investor anxiety as measured by the VIX to levels seen only three other times since the 1980s[3]. Yet with the markets strong rebound and Septembers close on fresh highs, our discipline as investors was rewarded once again.

Despite last quarters market volatility, we see no reason to shift our positive outlook. From the beginning of the year, our view has never been predicated on the notion that the Federal Reserve would lower interest rates. As we noted here in January, our preference is to own stocks, not because the Federal Reserve may cut interest rates or because inflation appears to be heading lower, but because stocks remain in an uptrend and that is simply what you do. Of course the bull market in equities will end some day; we just don't believe that day is now.

Throughout the year many analysts have attempted to warn us that a recession is inevitable due to the ten consecutive interest rate hikes that recently brought rates to their highest level in 23 years[4]. We will admit, we've periodically had concerns as well. Historically, the Fed rarely lowers interest rates by 50 basis points unless there is some sort of crisis brewing, which made Septembers large cut a bit worrisome. However, we disagree with those who say the economy is on the brink of recession. Their argument largely relies on the five-month slowdown in job creation as evidence. Yes, job growth has generally decelerated, but theres a very big difference between an economy that is losing jobs and one thats still adding them, albeit at a slower pace.

To be sure, Birinyi Associates analyzed data going back to 1970 to see if theres any real tie-in between slowing jobs growth and recessions. Given the weight economists have been placing on this trend, one might expect a strong correlation. However, of the six instances where job creation slowed over a similar period, only once did a recession occur within two months. And on average, it took nearly four years for a recession to begin.

Beyond this, additional data trends further challenge the recession narrative. Real GDP growth came in at a robust +3.0% in the second quarter, and Q1 growth was revised higher. Real disposable personal income in Q2 was also revised upward from +1.0% to +2.4%. Corporate profit growth and pre-tax profit margins exceeded 13% a level reached only twice since 1950[5]. And although we warn our clients not to get too excited about singular data points, last weeks surprisingly strong employment report may be the biggest cold-water dump on the whole recession narrative and may beg the question of whether the economy is actually picking up steam. This is all something to watch.

But while the data itself doesn't support the idea of an imminent recession, theres an even stronger indicator working against it: the stock market. It has always been our belief that the best judge of the future course of the economy lies in stocks because historically, there has been no better indicator of the health of the economy than the markets themselves. And if the markets themselves aren't worried about an imminent recession, why should we be?

This isn't to say we anticipate a smooth ride ahead. As we mentioned last month, there are plenty of concerns that suggest keeping both hands on the wheel. The outcome of the upcoming election and rising geopolitical uncertainties are just two examples, and we all know how unexpected events can unnerve investors. But from our perspective, we believe the positives outweigh the negatives, and our glass remains half-full.

Onward.

[1]Factset Research [2]RBC Global Asset Managementn [3]FactSet Research [4]FactSet Research [5]Yardeni Research

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