FINANCIAL ASSET MANAGEMENT CORP.

A Registered Investment Advisor

Investment Review & Outlook
2024 Third Quarter Investment Report

The rarest of economic events is the so-called “soft landing,” where a robust economy (and long-term bullish markets) gradually cools 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 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.

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.

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 curve. 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, with a smooth ride and 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 4.1% annual rate, compared with 2.5% inflation. That 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 could experience higher oil prices. The impact would be moderated in the U.S., which is currently energy-independent and actually exports fossil fuels, but global supply and demand have 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, particularly when they involve countries with nuclear capabilities.

And, of course, 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, both up and down, than we've experienced in the recent past. It's always helpful to have your seatbelt buckled.

As always, please reach out with any questions. If your circumstances have changed, please let us know, and we can schedule a meeting to discuss.

The FAM Team