



PACIFIC GLOBAL

Investment Update • October 2024

Enthusiasm for a soft economic landing and the prospect for Federal Reserve interest rate cuts led to investment gains across a broad spectrum of companies. The major indices, despite significant volatility, recorded gains in the run-up to, and following, the Fed's mid-September rate cut. Artificial intelligence (AI) stocks continued to add to their lofty results. And yet, overall optimism over the outset of the Fed's rate cut cycle prompted investors to look beyond technology names. The Dow Jones Industrial Average rose ten weeks in the quarter; the S&P 500® Index rose eight weeks to record multiple highs. For the quarter, the Russell 2000® Index added 8.90% to lead the other indices for the first time in eight quarters; the Dow Jones Industrial Average gained 8.21% while the S&P 500® Index added 5.53% and the Nasdaq added 2.57%.

Various economic reports confirmed the downward path of inflation. Year-over-year, the Consumer Price Index (CPI) dropped from 3.0% in June to 2.4% in September while the core CPI was unchanged at 3.3%. The Producer Price Index (PPI) fell year-over-year from 2.7% in June to 1.8% while the core PPI fell from 3.2% to 2.8%. Persistent concerns over high prices drove consumer sentiment to rise to a five-month high of 70.1 in September despite persistent concerns over high prices.

Federal Reserve Chair Powell, in late-August, announced "The time has come for policy to adjust." In acknowledging the significant decline in inflation and a cooling labor market, he added, "The direction of travel is clear." Even so, the decision to initiate rate cuts with an aggressive 50-basis point cut in September surprised many. Powell commented on a policy "recalibration" to maintain a strong labor market "in the context of moderate economic growth and inflation moving sustainably down to 2%."

The Fed's dual mandate of maintaining a strong labor market while fighting inflation focused attention on job creation. In the third quarter, the economy somewhat unexpectedly added 557,000 jobs, a 26% increase from the prior quarter's 442,000. The unemployment rate rose from 4.1% to 4.3% before retreating to 4.1% in September; hourly wages increased slightly from 3.8% in June to 4.0% in September.

Prices for West Texas Intermediate fell over 16% during the quarter to close at \$68.17 per barrel. Downward pressures included concerns about both supply, as OPEC+ countries increased output, and demand due to concerns about China's economic growth outlook. Oil imports into China fell 2.8% year-to-date through September.

The ISM Services Index, an economic barometer based on a monthly survey across 20 industries, recovered from a steep decline: following June's decline to 48.8, readings rose from 51.4 in July to 54.9 in September. The ISM Manufacturing Index, based on a survey of over 300 manufacturing firms, declined slightly with readings of 46.8 to 47.2 during the quarter; ISM readings below 50 indicate economic contraction. Consumer spending turned positive; retail

sales rebounded from a 0.3% decline in June with gains of 1.2%, 0.1% and 0.4% during the quarter. Also, durable goods orders surged 9.8% in July, the largest gain in four years.

Equity Investment Review

Each of the four major indices rose during the quarter: the **Russell 2000® Index** (8.90%) led for the first time in two years followed by the **Dow Jones Industrial Average** (8.21%), the **S&P 500® Index** (5.53%) and the technology-heavy **Nasdaq** (2.57%).

Market Review • September 30, 2024		
INDEX ¹	CLOSE	YTD PRICERETURN
Dow Jones Industrial Average	42,330.15	12.31%
S&P 500® Index	5,762.48	20.81%
Nasdaq	18,189.17	21.17%
Russell 2000® Index (small cap)	2,229.97	10.01%
	9/30/24	12/29/23
10-Year T-Note Yield	3.81%	3.88%

Data: Bloomberg; Federal Reserve.

All but one of the eleven market sectors in the S&P 500® Index rose during the quarter.

The bloom came off the **Magnificent Seven** rose; **only three were amongst the Index's best performers while the others were among the worst.** Taken together, the seven technology giants, which represent over 31% of the Index by market weight, contributed less than 10% of results.

Based on total return, *Utilities* (19.37%), *Industrials* (11.53%), *Financials* (10.65%), *Consumer Staples* (8.96%), *Consumer Discretionary* (7.80%) and *Health Care* (6.08%) outperformed the Index while *Communication Services* (1.68%) and *Information Technology* (1.61%) also advanced. *Energy* (-2.32%) declined for the second consecutive quarter.

Fixed Income Investment Review

Treasury yields fell across all maturities. The yield on the 3-month U.S. Treasury Bill fell 75 basis points (bps) to 4.73%. More significantly, the yield on the 2-year U.S. Treasury Note, which is most sensitive to market forces, fell 105 bps to 3.66%; the yield on the 10-year U.S. Treasury Note, which ranged between 4.36% and 3.63% during the quarter, fell 55 bps to close at 3.81%. The yield on the 30-year Bond fell 37 bps to 4.14%.

Fixed income purchases during the quarter favored bonds issued by high-quality companies situated to perform well as the economic growth slows.

Looking Ahead

The markets entered the fourth quarter buoyed by optimism for a soft economic landing even as the Fed refocused attention on a cooling labor market. In a late September speech, Fed Chair Powell observed that current economic conditions “set the table” for lower inflation. He reiterated that the September recalibration reflected the Fed’s assessment that “we see the risks of achieving our employment and inflation goals as roughly in balance.” The September update to the Fed’s Summary of Economic Projections (SEP) anticipates a year-end fed funds rate at 4.4% which calls for two additional 25 basis point rate cuts in November and December; the SEP projects additional cuts totaling 100 basis points in 2025. For investors and analysts, the pace of future rate cuts is the focus of much speculation.

The third quarter GDP forecast of 3.0% would repeat the results for the second quarter. The Fed’s SEP forecast, though, anticipates a slowing to an annual GDP growth rate of 2.0% for 2024

through 2027. This moderate growth rate anticipates inflation falling to 2.1% next year while unemployment rises to 4.4%, a number economists consider low by historical standards. The year-to-date monthly average of 200,111 new jobs, while below the averages in recent years (251,000 in 2023 and 357,000 in 2022), is nevertheless impressive.

The average earnings growth for S&P 500® companies, which declined from an 11.3% annual rate in the second quarter to 4.3% in the third quarter, provides a cautionary message. Consumer spending, which represents 70% of U.S. GDP, remains the growth engine of the domestic economy; household consumption rates around the world are far lower. Notably, in China, domestic consumption as a percentage of GDP is only 38%. The export-driven economy currently represents 18% of global GDP; the country's recent policy initiatives, which seek to transition to a consumer-driven economy, will have enormous consequences for the global outlook.

The recent University of Michigan consumer sentiment surveys continue to note concerns about economic uncertainties. Significant risks, including the divergent views of Republican and Democratic voters; the continuing war in Ukraine; and the Middle East conflict, cloud the outlook. Consequently, the likelihood for volatility in both equities and bonds yields remains high as investors assess incoming economic data, political headlines and global events. And yet, the expectation of lower interest rates may encourage spending for large ticket items deferred due to high interest rates. For example, auto dealers report pent up demand for new and used cars to replace older vehicles. Also, many homeowners may address deferred renovation projects. The emerging phase of declining interest rates and lower inflation may fuel both individual and corporate spending.

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¹The Dow Jones Industrial Average is an unmanaged, price weighted measure of 30 US stocks selected by the Averages Committee to represent the performance of all US stocks outside the Transportation and Utilities sectors. The S&P 500® Index, an unmanaged, market-weighted index, measures the large cap segment of the US equities market. The Index covers approximately 75% of the US equities market and includes 500 leading companies in leading industries of the US economy. The Nasdaq Composite is an unmanaged, market-weighted measure of all domestic and international common stocks listed on The Nasdaq Stock Market. The Russell 2000® Index is an unmanaged, market-weighted measure of the stocks of the 2,000 smallest publicly traded companies of the Russell 3000® Index.