

A View From the Bevy – 3Q24

Market Review

The third quarter saw the continuation of the global rally in stocks and played out almost as expected – almost – with low volume and a few scary days in August, and a rough start to September, typically the worst month of the year for stocks. However, the markets quickly and somewhat unexpectedly rallied after a tough first week of September, buoyed by speculation of an expected cut in short term interest rates by the U.S. Federal Reserve (Fed) mid-month.

And this optimism was rewarded with a better-than-expected 0.50% interest rate cut and an optimistic statement by Fed Chairman Powell: “With an appropriate dialing back of policy restraint, there is good reason to think that the economy will get back to 2 percent inflation while maintaining a strong labor market.” It seems that the Fed has been able to engineer a soft landing for the economy and avoid a recession at least for now.

Stock Market Indices	3 rd Quarter 2024	Year-to-Date
S&P 500	5.89%	22.08%
S&P 500 (Equal-Weight)	9.60%	15.16%
Dow Jones Industrial Average (DJIA)	8.72%	13.93%
NASDAQ Composite	2.57%	21.17%
Russell 2000	9.27%	11.17%
MSCI World	6.36%	18.86%
MSCI World ex U.S.	7.76%	13.10%
MSCI Emerging Markets	8.72%	16.86%

Source: AJO. Data supplied by FactSet Research Systems.

The DJIA outperformed during the quarter thanks to 3M, which rose by about 33%, and IBM, which had its best quarterly gain since 2002. Both the DJIA and S&P 500 ended the quarter at record levels. PayPal and Tesla led the Nasdaq higher although technology overall underperformed somewhat. Small-cap stocks also outperformed during the quarter and should receive a continued boost from lower interest rates.

High yield bonds also performed well, delivering a total return of more than 5% for the quarter, with excitement over lower yields overshadowing concerns over economic growth. Gold also rose more than 6%, having its best quarter in more than eight years. Utilities were the best performing stock sector, up almost 10%, as investors had renewed interest in defensive sectors amid some lingering economic uncertainty even in the face of declining interest rates.

Market Outlook

Stocks enter the fourth quarter with momentum, as major indices turned in positive performance in each of the last three weeks of September. The markets have survived the year's historically weakest quarter, earnings remain strong, interest rates are moving lower, and consumers are still spending. However, it is important to remember that the first half of October is often bad for stocks, with high levels of volatility, and some of the largest losing days in market history.

Early October aside, let's look at the positives underlying a continued market rally first. The Fed is projected to reduce short term interest rates two more times this year – after the election - as well as three times in 2025. Specifically, the Fed's updated "dot plot" shows a total of 1.0% in rate cuts in 2024 (so two more 0.25% rate cuts) and rate cuts totaling 0.75% in 2025.

These lower interest rates should help sustain economic growth and push fears of a recession further away. Recent Gross Domestic Product (GDP) numbers were revised higher and weekly jobless claims have been falling, both positive signs for the economy. As long as inflation stays low, the Fed will have the "green light" to keep cutting rates and keep supporting the U.S. economy.

Let's turn to what could go wrong. Well, we have already had a hint, as the first day of October brought the long-expected dockworkers strike on the East Coast, the first strike by the group in more than 50 years. There is a chance that President Biden steps in and orders the parties to mediation, but the strike could have an impact on the economy and in turn the election, as it is estimated that the strike will cost the U.S. economy about \$4 billion a day, and any prolonged strike could cause shortages, price hikes and perhaps re-ignite inflation.

Fighting also intensified in the Middle East as October began, with confirmed direct missile attacks on Israel by Iran. The situation in the Middle East has been deteriorating for weeks and shows no signs of improvement. Any further direct confrontation between Iran and Israel will just make the situation worse. Oil prices have already spiked despite recent price wars which had put downward pressure on oil prices (as Saudia Arabia stopped trying to unilaterally increase prices).

October 1st also brought a terrible manufacturing report, as the Institute of Supply Management's (ISM) manufacturing index registered below 50 for the 23rd straight month, igniting fears that the economy may not be as strong as hoped.

And let's not forget that we are just over a month away from the crucial Presidential election. There are many positive signs, but as always, a lot of domestic and geo-political uncertainty. We will keep our eyes on all these developments, make portfolio adjustments as warranted and of course communicate any changes with clients. Have a great fourth quarter and holiday season.

Of Interest: What Matters to Younger Investors?

Older and younger investors are likely to have different preferences in music, movies, and fashion, among other things. But how about investments? The answer is yes. And this matters because aging client bases pose a challenge to the financial advisory industry, as advisors aim to grow and retain the business of their valued clients as estates are bequeathed to the younger generation.

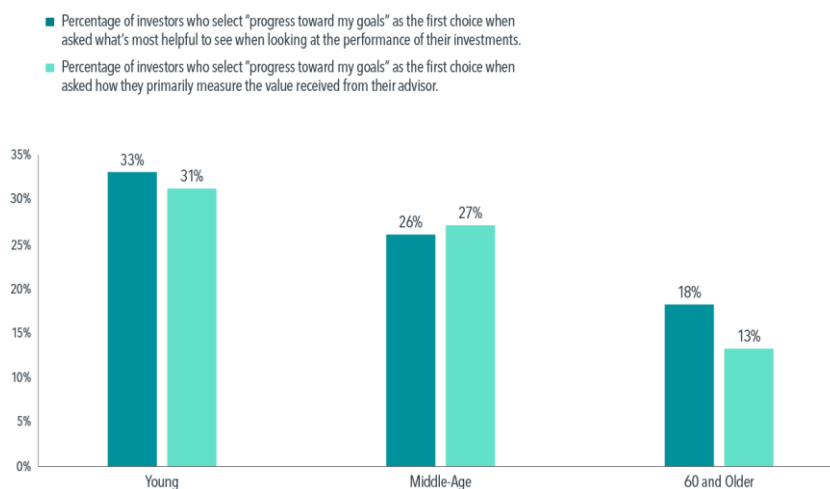
But what differentiates younger clients from older ones? One source of information is Dimensional Fund Advisors (“Dimensional”), which regularly collects survey data from advisors and advisors’ clients (the “investors”) to better understand the industry at large.

A recent examination of results from Dimensional’s Global Investor Study (GIS) reveals that younger investors tend to care most about seeing progress toward their goals, whereas older investors are more interested in absolute return. Dimensional classifies “younger investors” as those younger than 40 and older investors as those older than 60.

From 2017 to 2019 and from 2021 to 2023, the GIS collected 38,976 responses to the question “When I look at the performance of my investments, what is it most helpful to see?” Exhibit 1 shows the percentage of each age group that selected “progress toward my goals” as the first choice. 33% of young selected “progress toward my goals,” compared just 18% of older investors.

Exhibit 1

Preferences by Age Cohort



Source: Dimensional Fund Advisors (“Dimensional”)

The most frequently selected first choice by older investors was “percentage return over a given period.” The results are consistent when respondents were asked how they primarily measure the value that they have received from their advisor. 31% of young investors selected “progress toward my goals,” whereas just 13% of older investors selected that response.

In this case, young investors are more than twice as likely to measure the value of the advice that they are receiving based on progress toward their goals. For older investors, the first-choice measure of the value of advice is sense of security/peace of mind.

Data from Dimensional also reveals that younger investors tend to have a high tolerance for market declines. Responses indicate that if the market drops by up to 15% or even 30%, only 14% of young investors will call their advisor, while 21% of older investors will.

Emphasis on goals-based investing and a willingness to accept market declines means that younger clientele might be better served by a holistic approach to wealth management, including maintaining a broadly diversified portfolio. Goals-based models are another tool available to help investors build solutions focused on goals rather than just short-term investment returns.

Recognizing and adjusting to younger investors’ focus on progress toward goals may make it easier for the financial industry to win over the next generation of clients.

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