the Legacy Group

MML Investors Services

A review of Q3 2024

Quarterly Economic Update

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U.S Markets

Stocks posted solid gains in the third quarter as investors welcomed the Fed's decision regarding short-term interest rates.

The Dow Jones Industrial Average, which dipped in Q2, picked up 8.21 percent for the three months. The Standard & Poor's 500 Index rose 5.53 percent while the tech-heavy Nasdaq Composite gained 2.57 percent as investors rotated away from technology names in favor of other groups (See Sector Scorecard).[1]

"Every strike brings me closer to the next home run."

Babe Ruth, 7x World Series champion who is widely considered the greatest baseball player of all time

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Small Caps Shine in July

Stocks were mixed in July despite economic data that seemed to mark a during point in the Fed's view on interest rates. Investors eventually became more confident that inflation was slowing as anticipation built around a potential rate adjustment.[2]

The improving inflation outlook sparked a rally in the Russell 2000, which gained more than 10 percent in July. Investors anticipated small caps might benefit if the Fed adjusted rates.[3,4]

Twin Inflation Reports in August

August began with a disappointing employment report that showed July job growth slowed more than expected and unemployment moved to 4.3 percent—the highest rate since October 2021. On the same day, Japan's Nikkei dropped on concerns about a trading strategy called a "carry trade," which briefly pressured global financial markets.[5,6]

But stocks rebounded mid-month as fresh economic data also bolstered confidence. The Producer Price Index and the Consumer Price Index rose less than expected in July, reinforcing the "cooling inflation" narrative. The July retail sales report was stronger than expected, which

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also helped boost sentiment.[7]

Later in the month, Fed Chair Jerome Powell, in his Jackson Hole symposium speech, indicated the time had come to adjust monetary policy, which was considered welcomed news by investors.[8]

The Fed's Bold Move in September

In September, markets were volatile as investors waited for an update on interest rates following the Fed's two-day meeting. Early in the month, weak manufacturing data and mixed jobs data reawakened recessionary fears, which put pressure on stocks and led to the S&P 500 posting its worst week since March 2023.[9,10,11]

Stocks initially fell when the Fed announced it was cutting interest rates by a 0.5 percent–the first reduction in four years–but then rallied. The Dow topped 42,000 for the first time, while the S&P crossed the 5,700 mark.The 0.5 percent cut surprised some, who anticipated the Fed would be more cautious in an election year.[12,13]

Sector Scorecard

All but two sectors of the S&P 500 were positive for the quarter, reflecting broad market strength.

Utilities (+18.55 percent) and Real Estate (+16.30 percent) led, with Industrials (+11.13 percent), Financials (+10.24 percent) and Materials (+9.14 percent) in the next tranche down. Consumer Discretionary (+9.85 percent) and Consumer Staples (+8.38 percent) also delivered solid gains, while Communications Services (+5.53 percent) and Health Care (+5.67 percent) kept pace with the S&P 500. Energy (-3.69 percent) and Technology (-0.21 percent) were the only sectors that declined over the quarter.[14]

U.S. Market Recap

	September 2024 (%)	Q3 2024	YTD (%)
S&P 500	2.02	5.53	20.81
Nasdaq	2.68	2.57	21.17
Russell 2000	0.56	8.90	10.01
10-Year Treasury Notes	3.80	-0.541	-0.06

Yahoo Finance, June 30, 2024. The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

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What Investors May Be Talking About in October

In the month ahead, expect some attention to start to shift to the housing market now that Fed Chair Powell has confirmed that, "the time has come for (monetary) policy to adjust."

Mortgage rates have been trending lower since hitting a peak in October 2023. Loan rates may continue to move lower since Powell said that "the direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks."[15]

There is a group of existing homeowners who may have delayed mortgage decisions in recent years because they don't want to leave a low interest rate home loan. If mortgage rates trend lower, some homeowners may reach a higher level of comfort making a move.

World Markets

The MSCI EAFE Index rose 6.65 percent during the Q3, benefiting from easing monetary policy in many central banks.[16]

European stocks rallied in Q3 with Spain (+8.53 percent) and Germany (+5.97 percent) notching solid gains. France, the UK and Italy rose but the gains were more modest.[17]

Among emerging markets, Egypt rose 14.77 percent and Brazil picked up 6.38 percent. On the Pacific Rim, China's Hang Seng index rose 19.27 percent, which led the group. Other markets were mixed, with Australia picking up 6.47 percent while Japan's Nikkei slipped 2.35 percent.[18,19]

World Market Recap

Index	September 2024 (%)	Q3 2024 (%)	Year-to-Date (%)
Emerging			
Hang Seng (China)	17.48	19.27	23.97
KOSPI (Korea)	-3.03	-7.31	-2.34
Nikkei (Japan)	0.01	-2.35	15.50
Sensex (India)	2.35	6.65	16.69
EGX 30 (Egypt)	3.12	14.77	28.01
Bovespa (Brazil)	-3.08	6.38	-1.77
IPC All-Share (Mexico)	-0.82	0.07	-8.55
ASX 200 (Australia)	2.20	6.47	8.95

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Europe			
DAX (Germany)	2.21	5.97	15.36
CAC 40 (France)	0.06	1.85	1.23
IBEX 35 (Spain)	4.17	8.53	17.57
FTSE 100 (United Kingdom)	-1.67	0.85	6.51
IT40 (Italy)	-1.75	0.16	11.26

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Indicators

Gross Domestic Product (GDP): The third estimate of GDP showed the U.S. economy grew 3.0 percent on an annualized basis in the Q2, unchanged from the second estimate and higher than the initial 2.8 percent estimate. The final estimate was slightly higher than economists' expectations of 2.9 percent growth, and more than double the first quarter's 1.4 percent annualized pace.[20]

Employment: Job growth rebounded in August. The 142,000 jobs added by employers last month was weaker than the 161,000 economists expected, but higher than the downwardly revised job gains of 89,000 in July and 118,000 in June. Unemployment slid to 4.2 percent in August. Wage growth increased by 0.4 percent month-over-month and rose 3.8 percent over the prior 12 months.[21]

Retail Sales: Consumer spending inched up 0.1 percent in August over the prior month, above economists' expectations. Retail sales increased 2.1 percent year over year.[22]

Industrial Production: Industrial output rose 0.8 percent in August—the largest increase since May—driven by a recovery in motor vehicles and parts. The increase topped economist expectations.[23]

Housing: Housing starts rose 9.6 percent in August–the highest level since January 2007. The increase was driven by new single family home construction and falling mortgage rates.[24]

Sales of existing homes fell 2.5 percent in August as prospective homebuyers appeared to be taking a wait-and-see attitude despite lower mortgage rates and higher inventory. Sales dropped

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4.2 percent from a year earlier. The median existing home sales price was $416,700, up 3.1 percent from a year prior.[25]

New home sales fell 4.7 percent in August, which was a turnabound from July's 10.6 percent month-over-month gain. The median new home sales price was $420,600, down 4.6 percent from a year prior.[26]

Consumer Price Index (CPI): Consumer prices rose 0.2 percent in August and 2.5 percent from a year earlier, slightly milder than economists expected and cooler than July's 2.9 percent annualized pace. It was the CPI's lowest level in more than three months and marked the fifth straight month of cooling inflation. Core CPI, which excludes food and energy, grew at 3.2 percent on an annualized basis—in line with expectations.[27]

Durable Goods Orders: Orders of manufactured goods designed to last three years or longer were unchanged in August, besting expectations for a 2.6 percent decline. The largest drag on orders was civilian aircraft, which pulled down the whole transportation sector by 0.8 percent. Excluding civilian aircraft, durable goods orders rose 0.5 percent in August.[28]

The Fed

The Federal Reserve cut interest rates by a half percentage point at its September 17-18 Federal Open Market Committee (FOMC) meeting, bringing the Fed Funds target range to 4.75 percent to 5.0 percent. It was the first change in the Fed Funds in 14 months and the first cut in short-term rates in 4½ years.

A majority of FOMC voting members also indicated that rates may adjust at the two remaining Committee meetings in 2024, but Fed Chair Powell following the meeting told the National Association for Business Economics that "we are not on any preset course."[29]

The Fed's September decision reflected "greater confidence that inflation is moving sustainably toward 2 percent" and that the "risks to achieving its employment and inflation goals are roughly in balance."[30]

By the Numbers: Pumpkins

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1.6 billion lbs[31]

The total weight of pumpkin grown in the U.S. last year

2,749 lbs[32]

The size of the largest pumpkin produced

90%[34]

The portion of pumpkin made up of water

3,699 lbs[33]

The size of the largest pumpkin pie ever produced

80%[34]

The portion of pumpkin crop available in October

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154 million[35]

The number of people who carved a pumpkin last year

30 calories[36]

The amount of calories in a cup of pumpkin

150+[37]

The number of varieties of pumpkin in the world

6 lbs[38]

The amount of pumpkin produced per person every year

2 minutes 0.3 seconds[34]

The world record for the fastest 100 meters paddled in a pumpkin

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The forecasts or forward-looking statements are based on assumptions, subject to revision without notice, and may not materialize.

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The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. The S&P 500 Composite Index is an unmanaged group of securities considered to be representative of the stock market in general. The Nasdaq Composite is an index of the common stocks and similar securities listed on the Nasdaq stock market and considered a broad indicator of the performance of stocks of technology and growth companies. The Russell 1000 Index is an index that measures the performance of the highest-ranking 1,000 stocks in the Russell 3000 Index, which is comprised of 3,000 of the largest U.S. stocks. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark for the performance in major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index. The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

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The Hang Seng Index is a benchmark index for the blue-chip stocks traded on the Hong Kong Stock Exchange. The KOSPI is an index of all stocks traded on the Korean Stock Exchange. The Nikkei 225 is a stock market index for the Tokyo Stock Exchange. The SENSEX is a stock market index of 30 companies listed on the Bombay Stock Exchange. The Jakarta Composite Index is an index of all stocks that are traded on the Indonesia Stock Exchange. The Bovespa Index tracks 50 stocks traded on the Sao Paulo Stock, Mercantile, & Futures Exchange. The IPC Index measures the companies listed on the Mexican Stock Exchange. The MERVAL tracks the performance of large companies based in Argentina. The ASX 200 Index is an index of stocks listed on the Australian Securities Exchange. The DAX is a market index consisting of the 30 German companies trading on the Frankfurt Stock Exchange. The CAC 40 is a benchmark for the 40 most significant companies on the French Stock Market Exchange. The Dow Jones Russia Index measures the performance of leading Russian Global Depositary Receipts (GDRs) that trade on the London Stock Exchange. The FTSE 100 Index is an index of the 100 companies with the highest market capitalization listed on the London Stock Exchange.

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