FSA INSIGHTS

STAYING INVESTED

As we conclude the third quarter of the year, we are pleased to report that markets delivered positive returns across the board. The U.S. stock market saw solid gains of 5.9% [1], driven by continued economic strength, while bond markets were up 5.2% [2] in light of interest rates declining. International equities also performed well, up 8.1% [3] buoyed by optimism from global economic stimulus, particularly in regions like China. Overall, it was a positive quarter for diversified portfolios, providing investors with healthy returns as we head into the final months of the year.

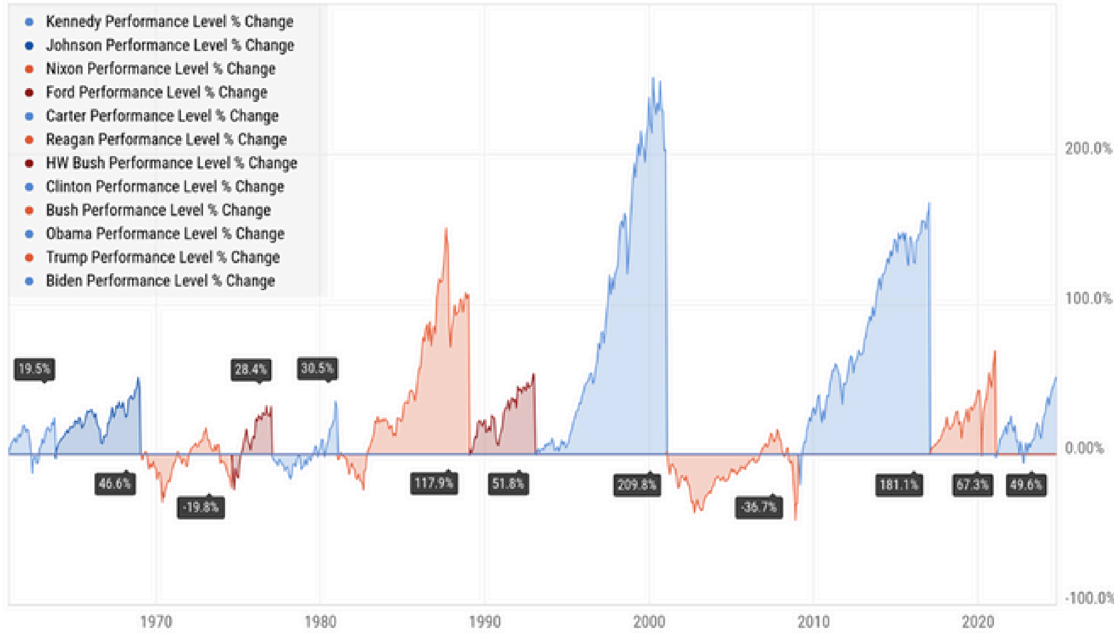
The U.S. economy continues to exhibit resilience, as evidenced by multiple data points that suggest we may be on the path to a "soft landing." GDP growth remains resilient at 3%, signaling robust economic activity, and traditional recession indicators show that the economy is not in contraction. Wage growth has stabilized above pre-pandemic levels, boosting consumer purchasing power, while jobless claims remain low, pointing to a stable labor market. Consumer health appears durable, and the recent decline in interest rates has sparked a rise in mortgage applications for refinancing, reflecting improved household financial conditions. Additionally, corporate profits remain near record highs as a share of GDP, and credit markets show no significant signs of distress.

Meanwhile, the Federal Reserve has begun its rate-cutting cycle with a 50-basis point reduction in September and another 150 basis points suggested by its summary of economic projections in the next 15 months. Some areas of the market are projecting additional cuts beyond that, but we believe that the market may have overestimated how quickly and how far rates will be reduced. With no obvious signs of an impending recession, aggressive rate cuts may be premature. We are closely monitoring U.S. Treasury yields, particularly the 10-year yield; anything above 4.5% could prompt us to take a more defensive stance.

Internationally, China's recent stimulus measures have the potential to reignite growth, reminiscent of the 2008-2009 post-crisis recovery. At the same time, geopolitical concerns in the Middle East are driving up oil and commodity prices, which could have implications for consumer spending if higher gas prices persist.

Overall, we remain optimistic about the current market environment for well-diversified portfolios. Above trend GDP growth, declining inflation, and healthy labor markets make a recession seem unlikely. While Wall Street is projecting a 14% increase in S&P 500 earnings next year, such an elevated stance relative to history begs the question of why the Fed would need to cut interest rates 6-8 more times as implied by futures pricing. With that being said, we believe that Fed cutting rates due to normalizing interest rate policy and not driven by recession should support risk assets, such as U.S. stocks.

As we embark on the end of the Presidential race, we believe it is important to note that history shows that the S&P 500 has consistently grown over the long term, regardless of which party controls the White House (See Chart Below). As always, staying invested remains the most prudent strategy for long-term success.



Respectfully,

Andy Webb
Chief Investment Officer

Brett Akers
Director of Investments

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Source: 1-3 YCharts: 1: S&P 500 Index Total Return; 2: Bloomberg US Aggregate Bond Index Total Return; 3: MSCI ACWI Ex- US Index Total Return

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