November 1, 2024

October Market Recap

Better than expected economic data drove interest rates higher, changing the market narrative and contributing to an equity market pullback early in the month. This unraveled expectations of further rate cuts by the Federal Reserve (Fed) and resulted in real rates moving higher. The 10-year Treasury has moved up 48 basis points, ending the month at 4.27%.

It appeared as though the equity indexes were bound to overcome that early pullback, but an end-of-month slide proved to be enough to push the S&P 500 (-0.6%), Dow Jones (-1%) and Nasdaq (-0.1%) into slightly negative territory for the month. The broadening trend we saw last quarter appears to have ended with the slightly higher rates and election uncertainty creeping into the market. Communications services and financials were the best-performing sectors.

The S&P 500 is on track to deliver its second consecutive year of 20+% returns – a milestone it has not achieved since 1998 when the U.S. economy simultaneously experienced a soft landing and a tech revolution. The S&P 500 is also on pace to deliver its strongest performance leading into an election year since 1932.

“After five consecutive positive months, October missed being the sixth by just a few hours when it gave back gains due to tech losses on the 31st,” says Raymond James Chief Investment Officer Larry Adam. “Overly optimistic sentiment and potential volatility surrounding the election leads us to be cautious in the near term.”

We’ll get into more detail shortly, but first, a look at the numbers year-to-date:

	12/29/23 Close	10/31/24 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	37,689.54	41,763.46	+4,073.92	+10.81%
NASDAQ	15,011.35	18,095.15	+3,083.80	+20.54%
S&P 500	4,769.83	5,705.45	+935.62	+19.62%
MSCI EAFE	2,241.21	2,353.78	+112.57	+5.02%
Russell 2000	2,027.07	2,196.65	+169.58	+8.37%
Bloomberg Aggregate Bond	2,162.21	2,203.34	+41.13	+1.90%

*Performance reflects index values as of market close on Oct. 31, 2024. Bloomberg Aggregate Bond and MSCI EAFE reflect Oct. 30, 2024, closing values.

Key indices point to growth

The ISM Manufacturing Index revealed contraction in industrial production, which could lead to less upward pressure on the price of inputs, something that is consistent with disinflationary predictions. The ISM Services Index, however, showed considerable growth, laying to rest any fears surrounding an economic slowdown. Strong employment growth, which pushed the unemployment rate back to 4.1%, reinforced our belief that the US will achieve the Fed's soft landing target amid rate cuts.

Overall housing starts were weak in September largely because of multifamily units, but single-family units were strong in key regions like the Northeast. A significant risk of lowering interest rates is for home prices to increase further, as lower borrowing costs attract more buyers, and contribute further to the affordability crisis.

A close presidential race brings uncertainty

With the 2024 U.S. presidential race just days away, polls are still showing a dead heat between the candidates. The race remains too close to predict, and the outcome will likely come down to votes in a handful of swing states given the electoral college's winner-take-all system. With each of the two main candidates favoring radically different policy, the outcome could have a lasting impact on economic factors worldwide.

In other news, the Department of Justice's antitrust case against Google is unlikely to result in a breakup, and nuclear energy has risen to the forefront of the conversation surrounding the colossal energy needs of artificial intelligence as it scales up in the coming years.

S&P 500 continues to break records

October brought about new all-time highs for the S&P 500, which closed at 5,864.67 on October 18. So far, Fed activities have contributed their expected boost to economic growth, with the possibility of inflation sneaking back in as a result of cutting interest rates still on the table, combined with potential tariffs to reenforce the push and pull dynamic of economic outcomes. Outlook on equities remains positive over the next year, but uncertainty and volatility on key macroeconomic drivers could create headwinds.

Yields go up across the board

Treasury yields took a sharp upward turn over the course of the past month, up 40 to 65 basis points from 2 years out to 30 years. The market is anticipating another 25 basis point cut from the Fed during its upcoming November meeting. Corporate and municipal bond yields have increased alongside those from the Treasury, with the most attractive part of the curve in the municipal space in longer maturities. Muni-Treasury ratios remain mostly unchanged since last month.

Oil market grows numb to Middle East geopolitics

Following the threat of all-out war between Israel and Iran, both sides eventually deescalated, cooling off oil prices that had briefly spiked. More than a year after Israel's war with Hamas began, the oil market seems to have desensitized to conflicts in the region. Day-to-day volatility has refocused back to classic supply-and-demand factors. Mixed messages from OPEC+ suggest the group's long period of production discipline may be coming to an end, with Saudi Arabia refocusing on market share rather than propping up oil prices. That and China's quick adoption of EVs could lead to a less than bullish sentiment surrounding oil.

Global macros impact financial markets

October has taught us not to discount worldwide economic trends when it comes to individual financial markets, with three major developments having had widespread influence. First, the Bank of China has foreshadowed a loosening of monetary policy in an effort to meet the growing demands for their slowing economy. However, concerns that it may not be enough for the long term have been raised. Historically, China's substantial economic growth has been attributed mainly to investment and export activity, and although short-term solutions have worked in the past, their pace may not be sustainable unless a major policy shift is implemented.

Second, the ongoing conflicts in the Middle East remain a source of uncertainty for commodities and equities alike. The worst-case scenario of all-out war between Israel and Iran has been averted for the time being, though the risk of escalation remains elevated as Israel continues its military action in Gaza and Lebanon.

Finally, incoming economic data has led to policy response from central banks. In Canada, interest rate cuts are expected as inflation targets are reached throughout the coming months. European data shows the Consumer Price Index dropped to just 1.7% growth year-over-year in September, and with business stagnation a pressing issue, rate cuts are likely in that arena as well. In Japan, political issues have weakened the Yen, but seemingly helped the country's highly volatile stock market. The Bank of Japan is favoring steady monetary conditions until the political backdrop becomes clearer.

The bottom line

With all eyes on the upcoming U.S. presidential election as well as uncertainty stemming from conflicts in the Middle East, the broader economic landscape could shift in the coming months. But certain trends remain steady, and markets are continuing to react positively to rate cuts and favorable inflation numbers.

I remain committed to the pursuit of your financial goals and thank you for your continued trust in my guidance. If you have any questions about this report, or need help with anything at all, please don't hesitate to reach out. Looking forward to speaking soon!

Jeff