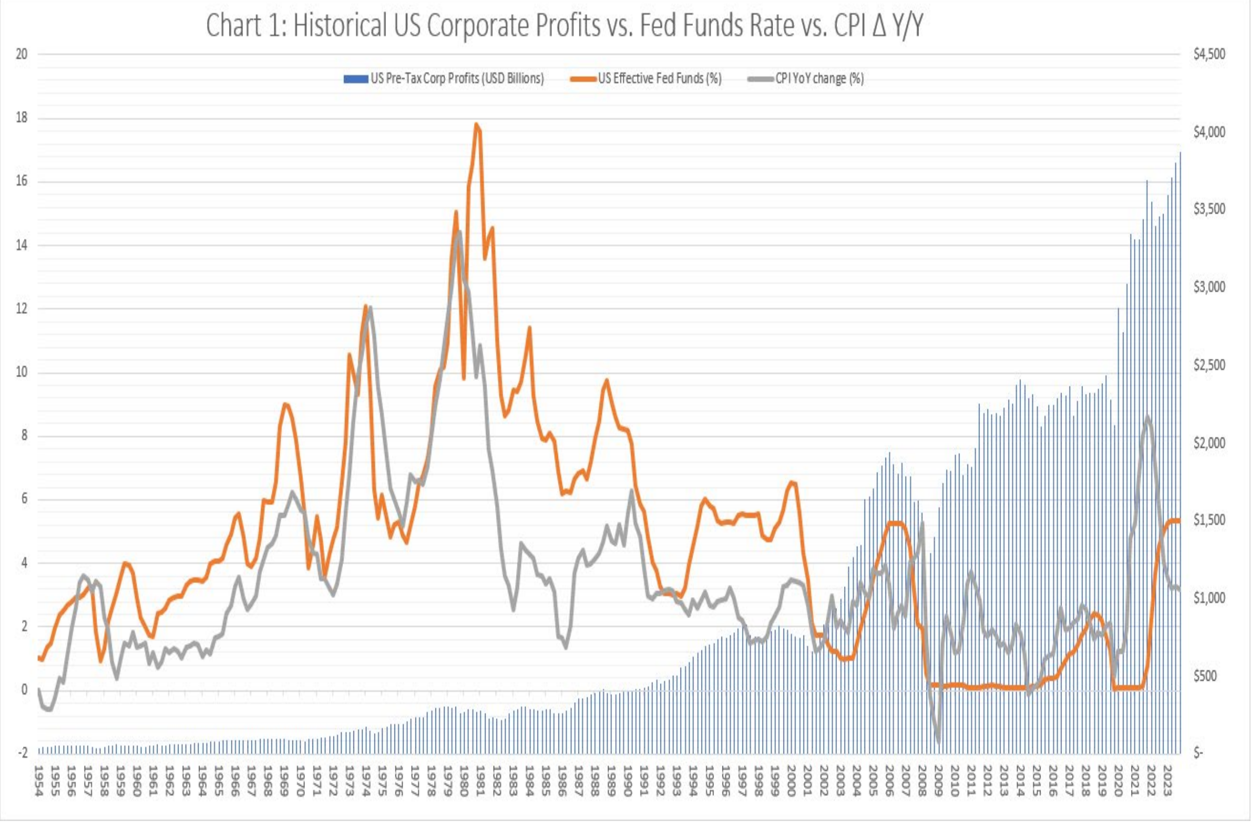
Market Update

OCTOBER 2024

Mission Accomplished?

Index	Sept. 2024*	YTD 2024*
S&P 500	2.1%	22.1%
Russell 2000	0.7%	11.2%
Bloomberg AGG Bond	1.3%	4.8%
MSCI World, Ex-US	0.0%	13.0%

Since passage of the 1977 Federal Reserve Reform Act, the U.S. Federal Reserve (FOMC) has conducted monetary policy according to the so-called "dual mandate" of promoting maximum employment and stable prices. With the September 18th announcement of a 50-basis point reduction in the Fed Funds rate, Chairman Powell clearly signaled the FOMC's view that taming inflation was largely finished and the pivot to promoting full employment was now in place. To put the magnitude of this decision in context, the previous 50 basis point cut came in September of 2008 just after Lehman Brothers filed for bankruptcy. The market's reaction to this rate cut was muted with stocks up less than 2% and longer-term bond prices down. We are reminded of the old market saying, "buy the rumor, sell the news."



SOURCE: St. Louis Federal Reserve

As the chart above illustrates, the US Federal Reserve's interest rate policy tracks closely with CPI inflation, at times leading and lagging the trend. It's certainly debatable whether the FOMC of the Fed is any good at forecasting inflation. While, in the very short term, markets have reacted positively to this aggressive rate cut, caution of resurgent inflation 6-12 months from now is also warranted.

As the blue bars in the chart below illustrate, a focus on corporate profits provides a smoother ride for the long-term oriented investor. As such, we eschew any attempts at forecasting Fed rate cuts, inflationary trends, and most other macroeconomic indicators. Rather our focus remains on corporate profits trends and the multiples at which markets price them. Since 1954 US corporate profits have grown at a 6-7% compound annual rate, with only four periods of significant decline.

Current 2025 earnings estimates for the S&P 500 assume 15% growth over 2024, a number almost 2x the historical long-term average, and wholly dependent on continuation of the AI-related technology boom and a soft-landing/no-landing macro-economic backdrop. Moreover, the current market multiple of nearly 21x these estimates is more than one standard deviation above the average over the last 30 years. In the short term, caution is warranted, although as John Maynard Keynes is rumored to have said, "…markets can remain irrational longer than investors can remain solvent."

At Seacoast Wealth Management, equity positioning reflects caution. Portfolio companies trade at more than a 10% valuation discount to the S&P 500, weightings in the highest multiple information technology sector are well below the market, and estimated earnings growth rates are more reasonable versus longer term history.
As always, we appreciate the opportunity to work with you, and if you have any questions, please do not hesitate to reach out to your Seacoast Wealth Management Associate.