the serious investor

FALL 2024

THE SERIOUS INVESTOR: FALL 2024

Welcome to the fall edition of LVW's *The Serious Investor*.

Market dynamics shifted notably in the third quarter of 2024, as expectations for interest rates changed and central banks became more accommodative.

The Federal Reserve cut its target benchmark rate by 50 basis points in September, a larger reduction than many observers expected. This move, along with indications of further easing, spurred a broad rally across global equity markets and weakened the U.S. dollar. Developed-economy currencies rallied by an average of 5.5% against the dollar during the third quarter.[1]

This environment particularly favored non-U.S. stocks, with the MSCI All-Country World ex-U.S. Index rising 7.7% in Q3, surpassing the S&P 500's 5.5% gain. European equities performed well in dollar terms due to currency appreciation, while emerging markets received a late boost from China's announcement of aggressive fiscal and monetary stimulus. Rising stock prices and tight credit spreads suggest markets think imminent recession is unlikely.

Global equities posted solid gains for the nine months through September, despite initial concerns about stubborn inflation and high interest rates. The MSCI All-Country World Index rose 17.5%, with the S&P 500 advancing 20.8% and the tech-heavy Nasdaq Composite gaining 21.2%. In the U.S., growth stocks generally outperformed value stocks, with the "Magnificent Seven" tech giants continuing to lead the market. Non-U.S. stocks gained 12.1% in dollar terms,[2] trailing major U.S. indices but generating strong growth nonetheless. Chinese equities stood out among major markets, rebounding from a weak 2023 to post a 25.5% gain for the first three quarters of the year, with most gains occurring in the third quarter.

Several major central banks, including the U.S. Fed, the European Central Bank and the Bank of England, adopted less-restrictive monetary stances.[3] That shift has been a key driver of market performance in 2024, supporting both equities and bonds while exerting pressure on the U.S. dollar. In the bond market, the yield on the 10-year U.S. Treasury declined 13 basis points, reaching 3.75% by the end of September. The Bloomberg Global Treasury Index for 7-to-10-year maturities returned 2.7% year to date.

Commodities experienced mixed performance. Brent crude oil prices declined 11% in September to around $72 per barrel. Gold prices reached a historic high of $2,661 per ounce following the Fed's rate cut in September.

Our portfolio positioning is guided by our disciplined investment process. Evaluating market conditions through the lenses of valuation, growth and liquidity leads us to the following perspective:

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Valuation: Between average and expensive

The S&P 500's valuation is above historical averages, reaching levels comparable to the dot-com era and post-COVID period.[4] Elevated benchmark valuations are largely due to the influence of the Magnificent Seven stocks—Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Nvidia and Tesla—which reported significant earnings growth in the second quarter and are projected to have continued this trend in the third quarter.[5] U.S. small-cap stocks and international equities appear more reasonably priced relative to history.

Growth: A slowing expansion

Year-over-year earnings growth for the S&P 500 is projected to slow to 4.2% for the third quarter but remains on track for five consecutive quarters of growth.[6] Consumer spending increased slightly less than expected in August but remained solid overall.[7] U.S. GDP continues to exceed historical trends.[8] Globally, several major central banks have begun lowering rates while world GDP growth expectations hold steady at approximately 2.7%.[9]

Liquidity: Interest rates remain elevated but are expected to decrease further

The Fed's September rate reduction was one of the most anticipated in history, and numerous global central banks cut rates simultaneously. Large deficit spending continues to provide fiscal stimulus.

Positioning: Cautiously optimistic

The U.S. equity market broadened during the third quarter as the equal-weighted S&P 500 outperformed its capitalization-weighted counterpart—a positive sign given recent market concentration among a few companies. We exit the third quarter with strong year-to-date performance across most financial assets. The fourth quarter is often the strongest quarter for U.S. stocks, but investors should be prepared for potential volatility due to geopolitical tensions and upcoming elections.

Despite elevated valuations and slowing growth in U.S. stocks, central bank rate cuts and strong corporate earnings lead us to maintain our optimistic outlook. Historically, markets tend to rise during the 12 months after an initial Federal Reserve rate cut.[10]

We appreciate your continued trust and confidence in LVW Advisors.

Sources

1 Bloomberg, September 30, 2024.
2 Bloomberg, September 30, 2024.
3 New York Times, September 18, 2024.
4 J.P. Morgan Asset Management, Guide to the Markets, September 30, 2024.
5 J.P. Morgan Asset Management, Guide to the Markets, September 30, 2024.
6 FactSet, October 4, 2024.
7 Reuters, September 7, 2024.
8 J.P. Morgan Asset Management, Guide to the Markets, September 30, 2024.
9 Goldman Sachs, Economic Forecasts Overview, October 6, 2024.
10 Bloomberg, September 30, 2024.

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