



THE FINAL STRETCH

The third quarter of 2024 may well be remembered for the dramatic shift in Federal Reserve policy. With a fifty basis-point interest rate cut, Chairman Powell made it quite clear that rising unemployment was more worrisome than inflation, which was gradually falling towards the Federal Reserve's 2% goal. In addition, most market observers now believe that there will be two more policy cuts this year and several more in 2025. After an initial hesitation, the markets have responded positively to this change, in spite of significant risks such as the escalating war in the Middle East, a structurally imbalanced Chinese economy, and uncertainty around the U.S. presidential and congressional elections. We attribute this apparent contradiction to the wave of liquidity from elevated fiscal stimulus measures and central bank easing both here and abroad.

To say market forecasts have been subject to change is an understatement. Since the Fed's policy change, past economic data has been revised to show significantly more robust growth than previously estimated, and the latest jobs numbers blew past economists' projections. Rather than falling, the September numbers showed that non-farm payroll increased by 254,000—more than 100,000 above the consensus among economists—and the prior two months tally was increased by 72,000. As such, the unemployment rate, which was expected to rise, fell to 4.1% in September from the prior month's 4.2%. These types of numbers make one want to question the perceived scenario of steadily falling interest rates through 2024 and 2025.

Despite evidence that low-wage earners in the U.S. are having a difficult time, overall consumer spending and confidence have held up remarkably well. In addition, the world economy may be getting a welcome shot in the arm from a just-announced massive stimulus program in China. While few details have been announced, it would appear to target not only China's faltering housing market but also consumers themselves.

With the popular equity indexes recently hitting record highs, earnings and earnings guidance become more important. Consensus numbers are for the S&P 500 earnings to rise 8% this year and 14% in 2025. While we believe a "soft landing" is possible this year, we also think 2025 earnings estimates are quite aggressive, and may leave the markets subject to a pullback early next year.

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