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ARGUS ECONOMIC COMMENTARY

October 28, 2024

Sector Breadth a Positive Heading into Year-End

The S&P 500 closed on October 18, logging its sixth consecutive winning week. During that mid-October week, the three major averages – the S&P 500, the Dow Jones Industrial Average, and the Nasdaq Composite – all set new all-time highs. That's a rare example of the blue-chip index, the broad market, and growth stocks all moving in concert.

One reason the major indices are moving broadly in lockstep follows from analysis of S&P sector performance. The growth leadership that characterized most of 2023 and the 2024 first half gave way to non-traditional leaders in 3Q24; these included rate-sensitive, cyclical, and defensive sectors. All but one sector was positive in 3Q24, but the various sectors had highly varied performances.

The tag-team approach to sector leadership across the nine months has contributed to well-balanced year-to-date performance. All sectors are positive for 2024, and all but one sector was up in double-digit percentages for the year to date as of 9/30/24.

Sector Performance for 1H24

In the first quarter of 2024, investors saw signs that leadership in the market might be shifting. During the quarter, the S&P 500 delivered capital appreciation of 10.2%. Five sectors either outperformed the broad market or finished within a percentage point of the S&P 500. Two were the traditional growth leaders: Communication Services finished up 11.9%, and the Information Technology sector appreciated 10.0%.

The best two sectors, however, were not the traditional leaders. Energy and Financial both finished on March 31 with 12.0% gains. Another sector, Industrial, was a tick behind Financial, with a 9.9% gain. Healthcare and Materials both had solid third quarters, with gains of about 8% and 7%, respectively.

In a sign of things to come, Utilities – out of favor particularly during the Fed's rate-hiking campaign of 2022-2023 – logged a roughly 6% first-quarter gain. Stock sectors with above-market income tend to outperform the broad market in periods of declining interest rates. Although the Fed stood pat during 1Q24, the market was already buzzing about the potential for rate cuts later in the year. The only negative sector in the quarter was Real Estate, down 3%. While Utility stocks tend to move in lockstep, Real Estate equities in different niches are subject to different cyclical and secular forces, such as the pandemic-driven collapse in commercial office occupancy.

In the second quarter of 2024, the broad market advance was much more subdued, with the S&P 500 rising less than 4% after its 10%-plus surge in 1Q24. Growth leadership reasserted itself in the second quarter. With buzzwords like "Mag 7" and "Gen AI" resonating in the background, Information Technology led the market with an 11.4% gain. Communication Services also topped the broad market with a 4.9% gain.

While growth was back, the shift toward beneficiaries of declining interest rates further accelerated as the likelihood of the first Fed rate cut drew nearer. The Utility sector appreciated 4% in 2024. Possibly because of those secular factors cited above, Real Estate continued to struggle and declined about 2% in the quarter. Multiple other sectors were negative in 2Q24, including Industrial and Materials (both down about 5%), Energy (down 3%), and Financial and Healthcare (both down about 1%).

For the full first half of 2024, growth sectors won; but participation widened across the broad market, and only one sector (Real Estate) was down. In the first half of 2024, the S&P 500 appreciated 14.5%. Just two sectors did better than

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the market in the first half: Information Technology, up 22.6%; and Communication Services, up 17.4%.

The two other double-digit winners in the first half were Financial, up 11%; and Utilities, up about 10%. The paired leadership of the third- and fourth-place sectors may seem counter-intuitive. If rates are about to come down, wouldn't that hurt net interest margins at banks? While that is true, banks have many other fee-based businesses, including investment banking, capital markets financing, and consumer loans, that benefit in a declining rate environment.

Besides the negative showing from Real Estate, five other sectors posted single-digit gains in 1H24: Energy (up 9%), Healthcare (up 7%), Consumer Staples (up 6%), Industrials (up 4%), and Materials (up 1%). Those latter two sectors are at least partly sensitive to demand from China, which as of mid-year remained mired in its slump.

Sector Performance for 3Q24

Investors at mid-year 2024, assessing the clear growth leadership at the sector level, may have thought that 2024 would shape up as a replay of 2023: a narrowly led market defined by AI fever. Instead, non-traditional sectors grabbed the leadership reins in 3Q24.

Why did the market pivot away from growth and toward defensive, rate-sensitive, and cyclical in 3Q24? Seasoned investors always want to take money off the table before some kind of sentiment shift turns paper profits into a whisp of smoke. That explains the rotation away from growth. As for the rotation toward other sectors, signs that China was becoming serious about stimulating its economy stirred interest in the commodities complex, as did the worsening situation in the Middle East. And midway through September, the Federal Reserve cut interest rates for the first time in over four years.

In the third quarter of 2024, the broad market advanced 7.4%, splitting the difference between first- and second-quarter gains. With the first Fed rate cuts no longer imminent but now a reality, momentum shifted clearly to income sectors. Real Estate made up for its late start and led the S&P 500 in 3Q24 with a 17.2% gain. Just behind was Utilities with a 16.1% gain.

The growth leaders of 2023 participated in the 3Q advance, but Information Technology was at the back of the pack. The sector advanced less than 1% in 3Q24. Communication Services rose a rounded 6%, which was close to mid-pack. The other growth sector from 2023, Consumer Discretionary, surged 10% in 3Q24 after being up just 2% at mid-year. Plainly, sentiment toward the sector has improved on the belief that lower rates will help sales of homes and vehicles going forward. Financial was next in line, rallying 9% on hopes for continued progress in fee-based revenues.

Two traditional defensive sectors, Consumer Staples and Healthcare, logged 3Q gains of 8% and 6%, respectively. Materials rose 7%, with much of the gain back-weighted to September following news of China's stimulus plan. The lone negative sector in 3Q24 was Energy, which dropped 4%. Energy stocks rallied in the first half partly on expectations that the worsening situation in the Middle East, along with hurricanes in the Gulf of Mexico, would push up oil prices. But benchmark NYMEX crude finished 3Q24 at $67 per barrel, down from $81 at mid-year.

Sector Performance for 2024 Year to Date

As of 9/30/24, the S&P 500 was up 20.8% on a capital-appreciation basis and up 22.1% on a total-return basis (assuming reinvestment of dividends). All but two sectors were up in double-digit percentages; the single-digit sectors, Energy and Materials, have been impacted by China and the other geo-political factors cited above. Energy was up 5.0% for the year as of the end of 3Q24, while Materials was up 8.7%.

Three sectors were ahead of the market at the three-quarters mark: Utilities, up 27.6%; Communication Services, up 23.9%; and Information Technology, up 23.5%. The Financial sector, up 20.7% at the nine-month mark, was within a whisker of the S&P 500 advance.

The remaining five sectors, in descending order of performance, were: Industrials, up 16.9% for the first nine months of 2024; Consumer Staples, up 15.2%; Healthcare, up 13.5%; Consumer Discretionary, up 12.1%; and Real Estate, up 11.4%.

Conclusion

Since 1980, capital appreciation on the S&P 500 has been about 10%. A key takeaway from his exercise is that as of 9/30/24, the ninth-best sector in the S&P 500, Real Estate, already has outperformed the full-year average gain for the S&P 500.

When we look back at recent winning years for the S&P 500, this degree of breadth is uncommon. In 2023, for example, the three growth sectors (Information Technology, Communication Services, and Consumer Discretionary) far outpaced the market; and the average annual gain for the remaining eight sectors was 3.4%. The winning year of 2021 showed better balance, with all but one sector up in double-digits. Still, only three sectors bested the 26.9% advance for the S&P 500 in 2021. And in 2020, only two sectors did better than the S&P 500's 16.3% gain.

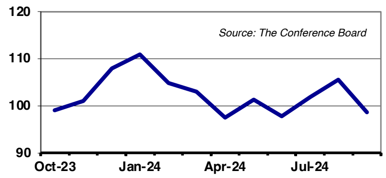
October 2024 has so far continued the positive trend in stocks. We have noted that stock markets that are strongly ahead at the nine-month mark tend to pad their gains in the final three months, this as bears capitulate and wealth managers window-dress their portfolios with the year's best stocks.

This market, in our view, has more than breadth and momentum on its side. While the election looms large in the final weeks before voting day, the key long-term factor for the market remains the Fed's just-begun rate-cutting cycle. Based on the Fed's own indications along with market expectations, the central bank will be cutting rates for the next two years. That has the potential to be a market tailwind not just into year-end 2024 but potentially well into 2025.

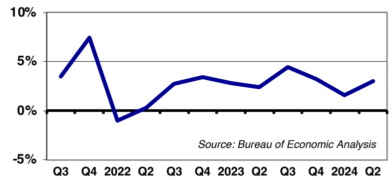
Jim Kelleher, CFA,
Director of Research

ECONOMIC TRADING CALENDAR

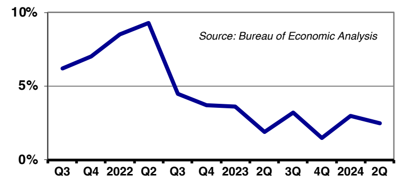
Release: **Consumer Confidence**
Date: 10/29/2024
Month: October
Previous Report: 98.7
Argus Estimate: 98.5
Street Estimate: 98.5



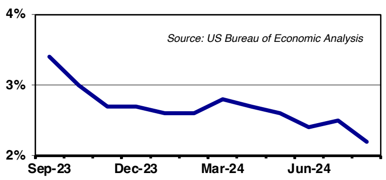
Release: **GDP Annualized QoQ**
Date: 10/30/2024
Month: 3Q
Previous Report: 3.0%
Argus Estimate: 3.0%
Street Estimate: 3.0%



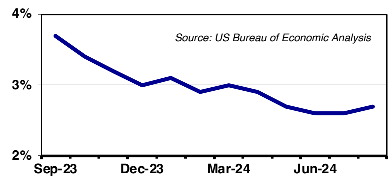
Release: **GDP Price Index**
Date: 10/30/2024
Month: 3Q
Previous Report: 2.5%
Argus Estimate: 2.3%
Street Estimate: NA



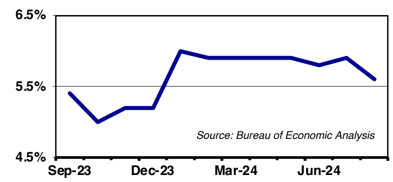
Release: **PCE Deflator**
Date: 10/31/2024
Month: September
Previous Report: 2.2%
Argus Estimate: 2.1%
Street Estimate: 2.1%



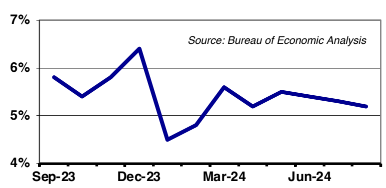
Release: **PCE Core Deflator**
Date: 10/31/2024
Month: September
Previous Report: 2.7%
Argus Estimate: 2.6%
Street Estimate: 2.6%



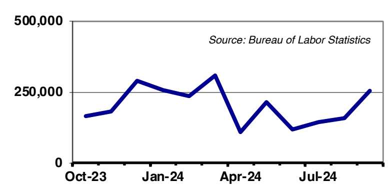
Release: **Personal Income**
Date: 10/31/2024
Month: September
Previous Report: 5.6%
Argus Estimate: 5.6%
Street Estimate: NA



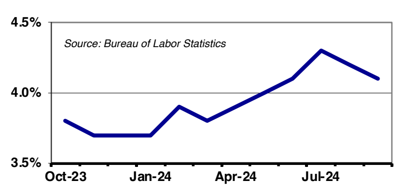
Release: **Personal Spending**
Date: 10/31/2024
Month: September
Previous Report: 5.2%
Argus Estimate: 5.1%
Street Estimate: NA



Release: **Nonfarm Payrolls**
Date: 11/1/2024
Month: October
Previous Report: 254000
Argus Estimate: 60000
Street Estimate: 135000



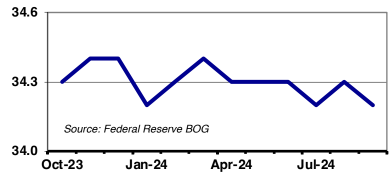
Release: **Unemployment Rate**
Date: 11/1/2024
Month: October
Previous Report: 4.1%
Argus Estimate: 4.1%
Street Estimate: 4.1%



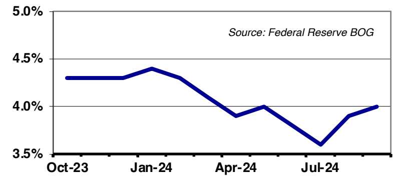
Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CALENDAR (CONT.)

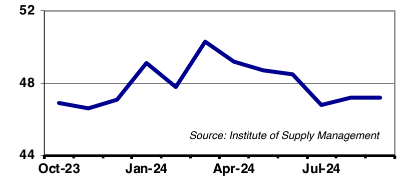
Release: **Average Weekly Hours**
Date: 11/1/2024
Month: October
Previous Report: 34.2
Argus Estimate: 34.1
Street Estimate: 34.2



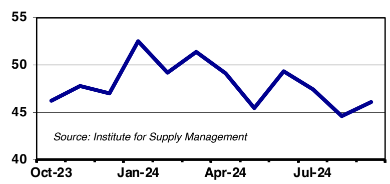
Release: **Average Hourly Earnings**
Date: 11/1/2024
Month: October
Previous Report: 4.0%
Argus Estimate: 4.0%
Street Estimate: NA



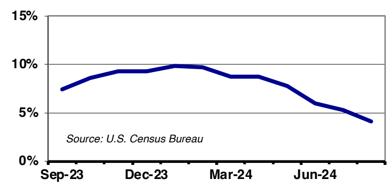
Release: **ISM Manufacturing**
Date: 11/1/2024
Month: October
Previous Report: 47.2
Argus Estimate: 48.0
Street Estimate: 48.0



Release: **ISM New Orders**
Date: 11/1/2024
Month: October
Previous Report: 46.1
Argus Estimate: 46.2
Street Estimate: NA



Release: **Construction Spending**
Date: 11/1/2024
Month: September
Previous Report: 4.1%
Argus Estimate: 4.0%
Street Estimate: NA



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
21-Oct	Leading Index	September	**-0.3%**	-0.1%	-0.3%	**-0.5%**
23-Oct	Existing Home Sales	September	3.86 Mln.	3.92 Mln.	3.85 Mln.	NA
24-Oct	New Home Sales	September	716 K	720 K	716 K	NA
25-Oct	Durable Goods Orders	September	-0.5%	-4.5%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
4-Nov	Factory Orders	September	0.9%	NA	NA	NA
5-Nov	ISM Services Index	October	54.9	NA	NA	NA
	Trade Balance	September	-$70.4 Bil.	NA	NA	NA
7-Nov	Nonfarm Productivith	3Q	2.5%	NA	NA	NA
	Unit Labor Costs	3Q	0.4%	NA	NA	NA
	Wholesale Inventories	September	0.6%	NA	NA	NA
	Total Vehicle Sales	October	15.8 mln.	NA	NA	NA
8-Nov	U. of Michigan Sentiment	October	68.9	NA	NA	NA

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