ARGUS®

ARGUS ECONOMIC COMMENTARY

October 14, 2024

Solid Quarter Amid Signs of Slowing Activity

The stock market wrapped a strong third quarter in which the S&P 500 rose 5.9% (including dividends), but the focus now shifts. The 2024 presidential election is less than 30 days away. Neither the Trump-Biden debate nor the Harris-Trump debate had much of a lasting impact on the polls, most of which remain locked within a margin-of-error difference. The race will likely come down to a handful of in-play states. Depending on down-ticket Senate and House races, the winner may or may not have a mandate to enact his or her party's agenda.

The stock market is doing much better than it would normally do in a presidential election year. That is because the economy, corporate earnings, and even employment remain hale and hearty. The Fed has started cutting interest rates and is likely to cut again in November, December, or both. GDP at mid-year was running at 3.0%; September nonfarm payrolls surprised to the upside, and the third-quarter earnings season may deliver some of the strongest annual EPS growth in 10 quarters (assuming a "normal" 5%-7% upside surprise to consensus). All of that will take a back seat amid the intensifying atmosphere leading into election day.

Environment: Third-Quarter 2024

The U.S. stock market extended first-half 2024 momentum into the third quarter, as the widening in sector breadth continued and even accelerated. After advancing 10.6% on a total-return basis (with dividends) in 1Q24 and 4.1% in 2Q24, the S&P 500 delivered 5.9% total return in 3Q24. The stock market raced through the first quarter but struggled some in the second quarter, particularly in April. The third quarter was more akin to the second quarter than the first, with a mid-July to mid-August selloff and early-September weakness on fears the jobs economy was struggling.

Despite those stumbles, 3Q gains were measured across all three months, even though August and September historically are two of the worst market months. The S&P 500 posted gains of 1.1% in July, 2.3% in August, and 2.0% in September.

During 3Q24, the Federal Reserve's long-running battle with inflation was superseded by mounting worries about recession. The major event of the quarter was the Fed cutting interest rates by 50 basis points (bps) at the September FOMC meeting, for its first rate cut in over four years. In commentary following the September FOMC meeting, Fed Chair Powel noted that recent indicators suggest economic activity has "continued to expand at a solid pace." Inflation continues to make "progress" toward the committee's 2% target. The committee now judges that the risks to achieving its employment and inflation targets are "roughly in balance." Given these factors, the FOMC decided to lower the target range for the fed funds rate by half a percentage point, to 4.75%-5.0%.

The Fed's preferred inflation gauge, the core PCE price index, rose 0.1% in August and was up 2.7% year over year. The monthly increase was the lowest since early 2021. The core PCE data confirmed inflation inputs from August CPI reported earlier in September. On an annual basis, the August all-items CPI was up 2.5%, sharply down from 2.9% in July and 3.0% in June. Goods inflation has come off markedly, while inflation in services is still stubbornly high. The index for shelter rose 0.5% month over month in August and was the "main factor" in the increase in all-items CPI, according to the Bureau of Labor Statistics.

The Fed's rate cut and better inflation readings are allowing market rates of interest to move down, although we expect

(continued on next page)

rates to remain volatile. The 10-year Treasury yield was 3.75% as of the end of September; the cycle peak for the 10-year yield was the 4.9% level in October 2023. The two-year Treasury yield was 3.55% as of the end of September, down from the peak level of 5.2% as of October 2023. The yield curve is back to normally sloped for the first time in two and a half years. While we have likely seen the end to twos-10s inversion in this cycle, two- and 10-year yields could remain in proximity in the near term.

The jobs economy was mixed in the third quarter of 2024, with weak July and August readings followed by surprising strength in September. Nonfarm payrolls increased by 254,000 in September, well above the consensus call of 140,000. Given upward revisions in preceding months, the trailing three-month nonfarm payrolls average was 186,000, near the 12-month average of 203,000. The unemployment rate ticked down further to 4.1% in September from 4.2% in August 2024 and a multi-year high of 4.3% in July; unemployment was 3.8% a year earlier in August 2023.

Average hourly earnings increased 13 cents month to month for August and were 4.0% higher year over year. Annual wage growth continues to run above inflation, but the premium has narrowed.

Industrial production in August rose 0.8%, rebounding from a 0.9% decline in July. Capacity utilization grew to 78.0% from 77.4% for July, but remains two percentage points below the long-run average. Purchasing managers across the industrial economy remains cautious. ISM's manufacturing PMI came in at 47.2% for August 2024, up from 46.8% for July 2024 though still in contraction territory (below 50) for the twenty-first time in the past 22 months. ISM's services PMI was at 51.5% in August, up slightly from 51.4% in July. Services PMI slipped into contraction territory in June but has since rebounded; this series has been in positive territory in seven of the eight months reported for 2024 to date.

Signals from the consumer economy also remain mixed. Retail sales for August edged higher 0.1% month over month, after a 1.1% surge in July. August retail sales were up 2.1% year over year, down from mid-single-digit annual growth across 2023.

Straddling the commercial and consumer economies is housing. Both existing home sales and new home sales as of fall 2024 were running at less than two-thirds of peak pandemic-infused levels from 2020-22.

S&P 500 earnings for 2Q24 rose in low-double-digit percentages year over year, marking a fourth consecutive quarter of annual EPS growth. Around 80% of companies exceeded consensus expectations for 2Q24 EPS versus 70%-75% on average. The magnitude of the beat was at the high end of the 5%-8% historical range.

Second-quarter 2024 GDP grew 3.0%, nearly double the 1.6% growth rate (revised higher from 1.4%) reported for 1Q24. Personal consumption expenditures for 2Q24 increased 3.0%, while non-residential fixed investment rose 3.9%. Together, these two components make up over 80% of GDP.

At the nine-month 2024 mark, the S&P 500 had delivered total return (with dividend) of 22.1%. The Nasdaq was close behind, up 21.8%. The similarity in S&P 500 and Nasdaq performance in 2024 to date reflects heavy investor concentration in the so-called Magnificent 7 stocks, which lead both indices.

During the third quarter, the two best-performing sectors were Utilities and Real Estate. For 3Q24, the iShares Real Estate ETF (IYR) rose just under 17%; and iShares Dow Jones U.S. Utility ETF (IDU) advanced just under 16%. Only three sectors were ahead of the S&P 500 at the end of 3Q23. Market breadth is much improved in 2024 to date, with up to eight sectors either beating, tracking, or with a few percentage points of the S&P 500's performance to date. After a worrisome level of AI-driven sector concentration in 2023, investors began to rotate away from growth and toward other parts of the market early in 2024. At the nine-month mark in 2024, healthy sector rotation has intensified, resulting in much-improved breadth.

Conclusion

In the years since 1980 in which the S&P 500 was positive at the end of September, the S&P 500 has risen just 5.4%. By contrast, the average nine-month gain is 11.9% this year. For all years since 1980, the average fourth-quarter gain is 4.6%; and the average full-year gain on the S&P 500 is 10.0%. For years in which the market is up at the nine-month mark, the average fourth-quarter gain is 5.4%; and the average full-year gain on the S&P 500 is 17.0%.

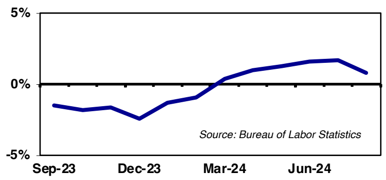
In years in which the S&P 500 is up at least 15% at the nine-month mark, however, Octobers can be challenging. In fact, for the 12 years since 1980 in which the S&P 500 has been up at least 15% year-to-date as of the end of September, October has averaged a 2% decline; for all years since 1980, the S&P 500 rises an average 1.3% gain in October.

This is a presidential election year, and for the 12 presidential election years since 1980, October has averaged a 1% decline. Amid the uncertainty heading into the election, we will continue to focus on the solid fundamentals in the economy and in corporate earnings.

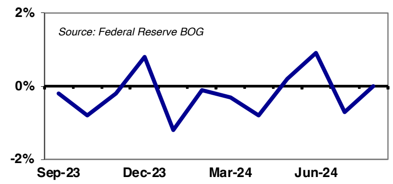
Jim Kelleher, CFA,
Director of Research

ECONOMIC TRADING CALENDAR

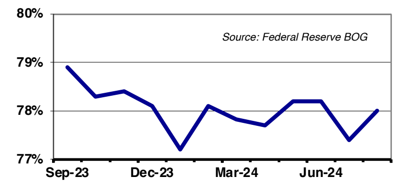
Release:	**Import Price Index**
Date:	10/16/2024
Month:	September
Previous Report:	0.8%
Argus Estimate:	0.7%
Street Estimate:	NA



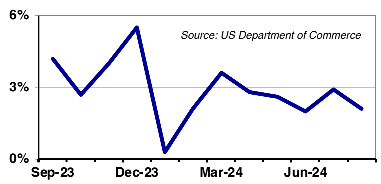
Release:	**Industrial Production**
Date:	10/17/2024
Month:	September
Previous Report:	0.0%
Argus Estimate:	0.1%
Street Estimate:	NA



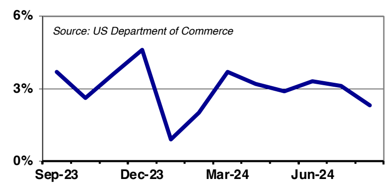
Release:	**Capacity Utilization**
Date:	10/17/2024
Month:	September
Previous Report:	78.0%
Argus Estimate:	78.2%
Street Estimate:	77.8%



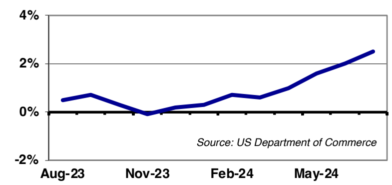
Release:	**Retail Sales**
Date:	10/17/2024
Month:	September
Previous Report:	2.1%
Argus Estimate:	2.2%
Street Estimate:	NA



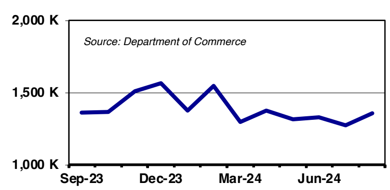
Release:	**Retail Sales ex-autos**
Date:	10/17/2024
Month:	September
Previous Report:	2.3%
Argus Estimate:	2.0%
Street Estimate:	NA



Release:	**Business Inventories**
Date:	10/17/2024
Month:	August
Previous Report:	2.5%
Argus Estimate:	2.6%
Street Estimate:	NA



Release:	**Housing Starts**
Date:	10/18/2024
Month:	September
Previous Report:	1,356 K
Argus Estimate:	1,310 K
Street Estimate:	1,350 K



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

ECONOMIC TRADING CALENDAR (CONT.)

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
8-Oct	Trade Balance	August	**-$78.9 Bil.**	-$80.0 Bil.	-$73.3.0 Bil.	**-$70.4 Bil.**
9-Oct	Wholesale Inventories	August	0.4%	0.7%	NA	NA
10-Oct	Consumer Price Index	September	2.5%	2.3%	2.3%	NA
	CPI ex-Food & Energy	September	3.2%	3.1%	3.2%	NA
11-Oct	PPI Final Demand	September	1.7%	1.5%	1.6%	NA
	PPI ex-Food & Energy	September	2.4%	2.2%	2.7%	NA
	U. of Michigan Sentiment	October	70.1	69.0	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
21-Oct	Leading Index	September	-0.2%	NA	NA	NA
23-Oct	Existing Home Sales	September	3.86 Mln.	NA	NA	NA
24-Oct	New Home Sales	September	716 K	NA	NA	NA
25-Oct	Durable Goods Orders	August	September	-0.5%	NA	NA

Disclaimer

Investors