



ARGUS ECONOMIC COMMENTARY

October 21, 2024

Stock Market Making New Highs as Election Nears

After a rocky start to October, the stock market is again posting new all-time highs. As of the 10/11/24 close, the S&P 500 was up 21.9% for 2024. Capital appreciation for the Nasdaq was 22.2%, meaning the growth index was back on top after lagging the blue-chip index for most of 2024. On a total-return basis (with reinvested dividends), the S&P 500 was up 23.2% versus a 22.9% gain for the Nasdaq.

The presidential election appears to be a dead heat, based on polls from across the political spectrum. Wall Street likes gridlock in Washington, but the market will not be happy if a race that is too close to call in October is also undecided after election night. As well, the Fed may be readying a rate cut just after voting finishes.

Market Outlook for 2024

In 2023, the stock market broke out of its 2022 funk on the perception that inflation was in retreat, the Fed would complete its rate-hiking campaign, and the supply chain would get back to its own “new normal.” All of those things happened more or less, and the market rallied as anticipated.

The outlook for 2024 was less clear, with inflation and high interest rates causing uncertainty about GDP growth, the jobs economy, corporate earnings, and the timing of any Fed pivot to a new rate-cutting cycle. Inflation concerns were preeminent for the stock market in 2023, but have faded as 2024 has progressed.

The new concern is that jobs growth could weaken further (or even turn negative), pushing the economy into a slow- or no-growth phase. Nine months into the year, the stock market had again reached all-time highs, with GDP and corporate earnings accelerating, the jobs economy cooling but still solid, and (perhaps most important) the Fed clearly shifting to accommodative monetary policy.

Corporate earnings in 2024 have rebounded from 2023, which was a year of negative EPS comparisons. While equity valuations appear attractive, stocks will seem pricey if earnings fail to grow as anticipated.

The major geopolitical event of 2023 -- the war between Israel and Hamas -- has continued into 2024 and is dangerously broadening into Lebanon and Iran. Economic activity in China, the world's second-largest economy, has been tepid. The government in September 2024 launched an ambitious fiscal stimulus program to spur economic recovery. Notwithstanding these and other challenges, the global macro-environment appears moderately positive for U.S. stocks.

Measures of the commercial and industrial economy (including PMIs, durable goods orders, industrial production, and small-business confidence) have moderated from high readings in the pandemic-recovery phase, while remaining at levels consistent with low-level growth. The outlook for the consumer economy is mixed. Rising wages and full unemployment are not sufficient to fully offset still-high prices and still-high interest rates. Weariness with inflation and high financing rates continue to weigh on consumer confidence, which recently hit a three-year low. The consumer outlook should begin to brighten as inflation slows and lower rates spur home and vehicle purchases.

We expect the U.S. economy to continue expanding in 2024, remaining on a narrow growth path in line with subdued population growth and higher productivity. Following (revised) 2.9% GDP growth in 2023, Argus is modeling 2.1% GDP growth for 2024. Our forecast for 2025 is also in the 2.0% range.

The Fed is now ahead of the inflation curve, in our view. The federal funds rate was 4.75%-5.0% as of September 30,

(continued on next page)

ECONOMIC & MARKET COMMENTARY (CONT.)

2024, while the core PCE Inflation Index was up 2.7% on an annual basis. With the FF/PCE gap now around the target range of 250 basis points, the Fed may feel increasing confidence in its ability to continue reducing rates.

We look for the dollar to continue to ease in 2024 from the cycle-high levels set in 2022, particularly now that interest rates have started to come down. The greenback increased 2% in 2023, yet remains below the 2002 cycle high and generally has been trending lower since October 2023.

Energy prices have been volatile: rising in fall 2023, declining in winter 2024, rising again in spring 2024 before falling in 3Q24 and again recently.

The yield curve, which was inverted from March 2022 through mid-September 2024, is now normally sloped. Argus expects short-term yields to move lower from current levels; long yields may not move higher, but they are expected to widen their relative premium to short yields.

Following as-expected 2Q24 earnings, we maintained our 2024 estimate of S&P 500 continuing operations earnings at \$247. Our estimate implies 9% growth from 2023, when S&P 500 earnings grew just 2%. Our EPS forecast for 2025 is for continuing-operations EPS in the mid-\$260s, also implying high-single-digit growth. We expect U.S. stocks to continue outperforming global stocks, based on risk profiles and growth potential.

In terms of market segments, we look for healthy sector diversification to remain in place into year-end 2024 as rate-cut optimism lifts the broad market. Even with solid gain in stocks over the past year and a half, our stock valuation model remains favorable as earnings growth accelerates and as inflation and interest rates continue to come down.

Our stock/bond barometer is signaling that stocks are trading at a slight discount to the historical mean reading

and offer the most value of the two asset classes. Our base case outlook for U.S. markets calls for the S&P 500 to appreciate an additional 2%-5% across the fourth quarter of 2024. The year-end outlook remains uncertain in a presidential election year (typically the weakest of the four-year cycle). We anticipate that an expanding economy, growing earnings, and declining inflation and interest rates can offset the political uncertainty from the presidential election, resulting in the S&P 500 trading at or near all-time highs at or near year-end 2024. Our year-end 2024 target for the S&P 500 is 5,800, and our trading range is 5,100-6,000.

Conclusion

We have noted that stock markets that are strongly ahead at the nine-month mark tend to be much better than average for the full year. We note that October can be a volatile market month, with presidential election years presenting a particular challenge.

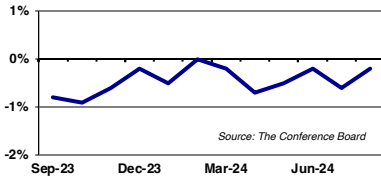
A significant near-term factor could be the third-quarter earnings season, which will distract investors up to and beyond Election Day. The consensus of analysts is looking for mid-single-digit EPS growth on an annual basis, which would be better than mid-single-digit to low-single-digit growth expectations entering the first- and second-quarter earnings seasons. Assuming a typical 4%-7% beat against expectations, third-quarter earnings could rise in high-single-digit to low-double-digit percentages compared with 3Q23.

The bigger long-term factor for the market, in our view, is the Fed's just-begun rate-cutting cycle. The Fed is rarely "one and done" or "two and through." Based on the Fed's own indications along with market expectations, the Fed will be cutting rates for the next two years. That has the potential to be a market tailwind into 2025.

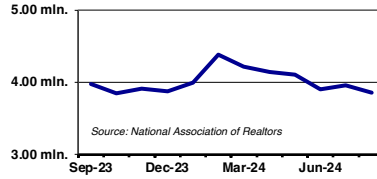
Jim Kelleher, CFA,
Director of Research

ECONOMIC TRADING CALENDAR

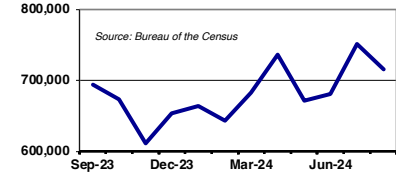
Release: **Leading Index**
 Date: 10/21/2024
 Month: September
 Previous Report: -0.2%
 Argus Estimate: -0.1%
 Street Estimate: -0.3%



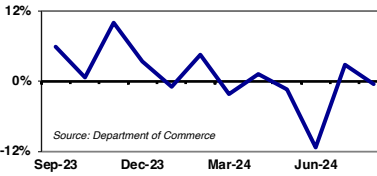
Release: **Existing Home Sales**
 Date: 10/23/2024
 Month: September
 Previous Report: 3.86 mln.
 Argus Estimate: 3.92 mln.
 Street Estimate: 3.85 mln.



Release: **New Home Sales**
 Date: 10/24/2024
 Month: September
 Previous Report: 716000
 Argus Estimate: 720000
 Street Estimate: 716000



Release: **Durable Goods Orders**
 Date: 10/25/2024
 Month: September
 Previous Report: -0.5%
 Argus Estimate: -4.5%
 Street Estimate: NA



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
16-Oct	Import Price Index	September	0.8%	0.7%	NA	NA
17-Oct	Industrial Production	September	0.0%	0.1%	NA	NA
	Capacity Utilization	September	78.0%	78.2%	77.8%	NA
	Retail Sales	September	2.1%	2.2%	NA	NA
	Retail Sales ex-autos	September	2.3%	2.0%	NA	NA
	Business Inventories	August	2.5%	2.6%	NA	NA
18-Oct	Housing Starts	September	1,356K	1,310K	1,350K	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
29-Oct	Consumer Confidence	October	98.7	NA	NA	NA
30-Oct	GDP Annualized QoQ	3Q "1st est."	3.0%	NA	NA	NA
	GDP Price Index	3Q "1st est."	2.5%	NA	NA	NA
31-Oct	PCE Deflator	September	2.2%	NA	NA	NA
	PCE Core Deflator	September	2.7%	NA	NA	NA
	Personal Income	September	5.6%	NA	NA	NA
	Personal Spending	September	5.2%	NA	NA	NA
1-Nov	Nonfarm Payrolls	October	254 K	NA	NA	NA
	Unemployment Rate	October	4.1%	NA	NA	NA
	Average Weekly Hours	October	34.2	NA	NA	NA
	Average Hourly Earnings	October	4.0%	NA	NA	NA
	ISM Manufacturing	October	47.2	NA	NA	NA
	ISM New Orders	October	46.1	NA	NA	NA
	Construction Spending	September	4.1%	NA	NA	NA

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