Market & Economic Outlook 2024 – October Update: Gains Continue, What's Not to Like?

Major Equity Indices	Value (9/30/24)	3Q24 (6/30/24 - 9/30/24) Price Return	3Q24 Total Return*	2024 YTD (12/31/23 - 9/30/24) Price Return	2024 YTD Total Return*
NASDAQ Composite	18,189.17	2.6%	2.8%	21.2%	21.8%
S&P 500	5,762.48	5.5%	5.9%	20.8%	22.1%
Dow Jones Industrial Average	42,330.15	8.2%	8.7%	12.3%	13.9%
Russell 2000	2,229.97	8.9%	9.3%	10.0%	11.2%
MSCI EAFE (USD)	2,468.66	6.7%	7.3%	10.4%	13.5%
MSCI Emerging Markets (USD)	1,170.85	7.8%	8.9%	14.4%	17.2%
Bloomberg Commodity Index	100.34	-0.6%	0.7%	1.7%	5.9%
Barclays U.S. Aggregate Bond	94.04	4.5%	5.2%	2.6%	4.4%

Data Source: FactSet, as of 9/30/24; Further discussion of market indices can be found in the Appendix section; Price Returns refer to the change in prices from the beginning of the period to the end of the period; Total Returns include dividends paid.

Outlook Summary:

The third quarter of 2024 (3Q24) generated mostly positive returns for investors when equity values lifted and bond prices moved higher (a result of lower interest rates). The S&P 500 equity index, despite an -8.5% peak-to-trough decline over three weeks from 7/16/24 to 8/5/24, increased +5.9% (total return, with reinvested dividends) in 3Q24 and closed September at 5,762, a new all-time closing high. The index was positive in each of the three months of the quarter (and in 2024, in eight of the nine months through September), and last had a down quarter in 3Q23. For the 9-month year-to-date (YTD) period through September, the S&P 500 total return was +22.1%. U.S. equity markets largely outperformed our more cautious outlook, and 3Q24 gains reflected a rotation into more sectors and individual stocks, with changing leadership (a positive shift, in our view). This aligned with our advice to rebalance portfolios by trimming outsized positions and adding to below-target weights. Investors responded positively to solid U.S. economic data, upward-trending corporate earnings growth, and lower interest rate expectations backed by Federal Reserve Bank (Fed) policy. At the same time, we believe that significant positive news is priced into the S&P 500 index, which trades at an elevated valuation level (relative to historical averages). Investors may be underappreciating the potential for a slowing economy, earnings disappointments, election volatility, or escalating geopolitical conflicts. These emerging potential developments could limit equity market upside over the near-term, including an equity market pullback or correction. **We have modestly increased our S&P 500 fair value estimate to 5,250, within a trading range of 5,000 to 5,800, as we acknowledge resilient economic data that has exceeded expectations. As of 9/30/24, the S&P 500 traded nearly 10% above our fair value estimate and less than 1% below the upper end of our trading range.**

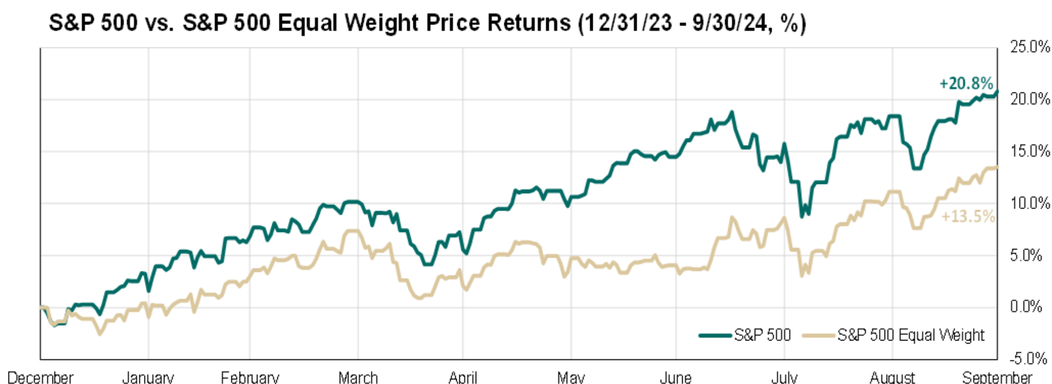
Despite emerging risks, recent economic data (including economic growth and jobs gains) suggests that a near-term recession is unlikely, minimizing the potential for economically driven earnings erosion. In our view, earnings growth is likely to remain positive, along with the economy. In the event that U.S. gross domestic product (GDP) slows from recent levels but remains positive (a "soft landing"), the equity market is likely to remain range-bound. In other words, in our view, the largest driver of a sustained equity market decline would be a recession and subsequent earnings decline and, at least for now, that condition does not appear to be building. With a range-bound market ahead, we update several market expectations below.

1. Our S&P 500 fair value estimate is 5,250, with a potential trading range of 5,000 to 5,800.
2. The third quarter rotation in sector leadership can continue.
3. Despite September strength, the labor market is slowing, creating consumer headwinds.
4. The Fed's plan to implement an orderly reduction in interest rate targets is not a certainty.
5. Near-term market risks include election volatility, geopolitics, and budget deficits.

Data Source: FactSet as of 9/30/24. S&P 500 daily closing prices, 12/31/19 to 9/30/24

Third quarter review. 3Q24 was another strong quarter for equities, continuing the 2024 market rally. The S&P 500 3Q24 total return of +5.9% built on the prior quarter's (2Q24) +4.3% gain, while the technology- and growth-centric Nasdaq Composite index posted a lower 3Q24 total return of +2.8% compared to +8.5% in 2Q24. Lower Technology contributions reflected a changing narrative as market leadership rotated to sectors and indices that had underperformed in the first half of the year. U.S. equity index leadership in 3Q24 pivoted to the Russell 2000 (smaller companies) and Dow Jones Industrial Average (larger companies), posting a total return of +9.3% and +8.7%, respectively. In addition, while widely followed international equities trailed large-cap U.S. indices YTD, both the MSCI Emerging Markets Index (+7.8% in 3Q24) and MSCI EAFE Index (+7.7% in 3Q24), which focuses on developed foreign markets (mostly Europe) outperformed the S&P 500 in the quarter. At the same time equity prices were rising, U.S. interest rates declined during the quarter. The U.S. 10-year Treasury yield was 3.79% on 9/30/24, down from 4.37% to start the quarter on 6/30/24 (a decline of 58 basis points, or bp), and the U.S. 2-year Treasury yield dropped to 3.64% from 4.72% (down 108 bp). This appeared to predict a shift in Fed short-term interest rate policy, and indeed, on 9/18/24, the Fed lowered its overnight fed funds interest rate target for the first time in more than four years, taking the target range down 50 bp (-0.50%) to 4.75% to 5.25. The Fed also indicated that additional rate cuts in the months ahead were likely.

The Equal Weight S&P 500 (EW S&P) rallied in 3Q24, narrowing the gap of 2024 underperformance vs. the market capitalization-weighted S&P 500 index, however, the S&P 500 performance still led the EW S&P over the nine-month period ended 9/30/24. In 3Q24 (6/30/24 to 9/30/24), the EW S&P 500 increased +9.1% on a price basis (does not include dividends), exceeding the +5.5% price return for the S&P 500, representing the best relative performance for the EW S&P since 4Q22. While one quarter does not necessarily reverse the trend, it highlights the rotation discussed above. Including the 3Q24 gains, the EW S&P 500 still lagged YTD, gaining +13.5% through September, below the S&P 500's +20.8% increase. Through June 2024, a major concern for investors was equity market returns that were highly concentrated in a narrow group of large companies. This was mostly evident when looking at the ten largest companies by market value in the index, and in a smaller subset of seven dominant, technology-centric companies that became known as the "Magnificent 7." While narrow gains are not necessarily a predictor of market weakness ahead (favored investments can remain favored if those companies continue reporting strong results), we believe that sustained equity market gains are better supported when more companies and sectors participate in the rally. Broad participation took hold in 3Q24 as the "Magnificent 7" leadership gave way to other companies and sectors that lagged in the first half of the year. We view the EW S&P as a solid proxy representing the performance of the "average" large-company stock as it assigns an equal weighting to all 500+ S&P 500 constituents. Since the end of 2022 (nearly two years), the largest stocks have held a solid performance margin, but over the past 35 years, the EW S&P outperformed the S&P 500 on a compounded annual basis, +9.1% vs. +8.4%, respectively, not including dividends. In our view, the Equal Weight rotation within the S&P 500 is sustainable and investors should look to maintain broad diversification in portfolios.



Data Source: FactSet and closing index prices from 12/31/23 to 9/30/24. Price return excludes dividends. For a discussion of the calculation of the S&P 500 vs. the Equal Weight S&P 500, please see the disclosure page. Price return is the change in index level and does not include dividends.

S&P 500 vs. Equal Weight S&P 500 (Price Returns)

	3Q 2024 6/30/24 - 9/30/24	2024 9 Mos YTD 12/31/23 - 9/30/24	21 Months 12/31/22 - 9/30/24	35 Years (CAGR) 12/31/89 - 9/30/24
S&P 500	5.5%	20.8%	50.1%	8.4%
Equal Weight S&P 500	9.1%	13.5%	26.7%	9.1%
S&P 500 less EW S&P	-3.6%	7.3%	23.4%	-0.7%

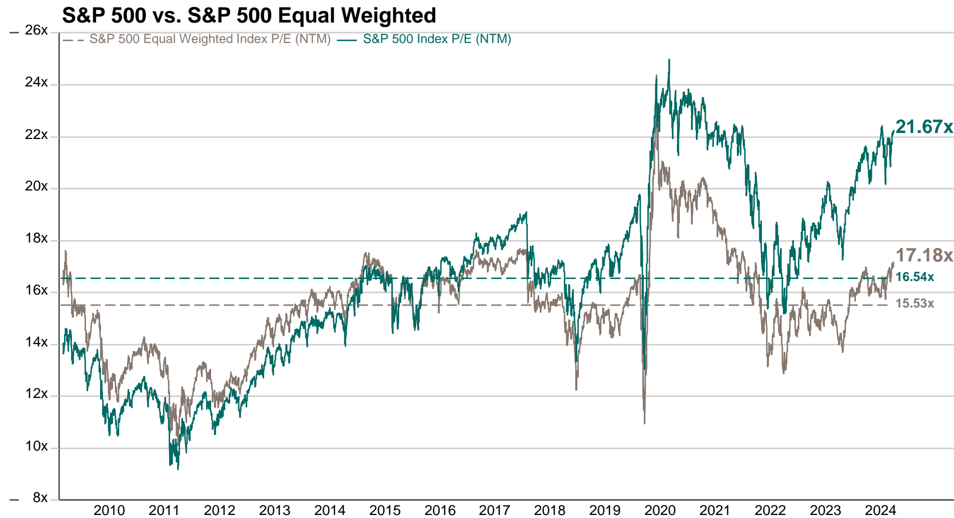
Data Source: FactSet and closing index prices from 12/31/89 to 9/30/24. Price return excludes dividends. For a discussion of the calculation of the S&P 500 vs. the Equal Weight S&P 500, please see the disclosure page. Price return is the change in index level and does not include dividends. CAGR is compounded annual growth rate, which computes the annual return with gains reinvested.

Our S&P 500 fair value estimate is 5,250, and we see a potential 2024 range of 5,000 to 5,800. We recognize that the S&P 500, at 5,762 as of 9/30/24, was solidly above our estimate and nearly at the upper end of our comfortable range. Market sentiment is strong, and investors have reacted positively to better-than-expected data (no recession and easing inflation) despite elevated valuations. We base our fair value on the S&P 500 price level divided by estimated earnings for all companies in the index in future periods. This price-to-earnings (P/E) ratio is often imprecise as actual earnings, once reported, will deviate from estimates, and the P/E multiple investors are willing to pay is imprecise. But over time, the P/E ratio shows the trading ranges and average, giving an indication of when a market appears more or less expensive. Our view today is that valuations are elevated and that, at some point, we expect a reversion to the mean. However, we don't believe that investors

should exit U.S. equities. Earnings could grow faster than expected and the U.S. economy could surprise to the upside, especially as global central banks, in addition to the U.S., implement lower interest rate policies. We believe that investors should scale back return expectations for the S&P 500 and remain diversified across sectors in high-quality stocks. We see attractive relative value in the EW S&P vs. the S&P 500 as the EW S&P trades at a lower premium to its 15-year average (using P/E ratios).

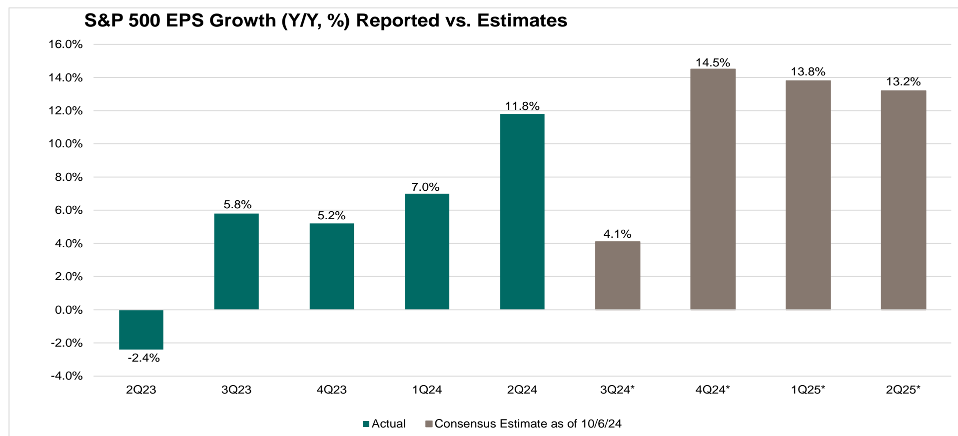
Our fair value estimate of 5,250 is 19.8x the next twelve months, or NTM (4Q24 to 3Q25), FactSet consensus earnings per share estimate (as of 9/30/24) of $265 and 19.1x the 2025 consensus estimate of $275. The S&P 500's 5,792 level at the close on 9/30/24 reflected a multiple of 21.7x the NTM estimate and 21.0x the 2025 estimate. The NTM ratio represented a 26% premium to the 15-year average of 16.5x. Over the past 10 years (2014-2024), a period of strong performance for higher-valued growth stocks, the S&P 500 average P/E was 18.3x, and the current valuation remains a 19% premium to that average. S&P 500 earnings growth has increased year-over-year (Y/Y) for four consecutive quarters, including +11.8% in 2Q24. While the growth rate is expected to slow to +4.1% for 3Q24 (those reports are underway), double-digit percentage growth is estimated to resume in the fourth quarter. While we view better-than-expected earnings results as a solid driver of continued equity market gains, we caution that we view quarterly earnings growth of +13% or higher as aggressive.

On 9/30/24, the EW S&P traded at a NTM P/E of 17.2x, an 11% premium to its 15.5x 15-year average, and a 5% premium to its 10-year average NTM P/E of 16.4x (the 15-year P/Es are shown on the chart below, the 10-year P/Es are not shown).



Data source: FactSet, using exchange data, as of 9/30/24. NTM P/E ratio is the price of the index divided by FactSet consensus estimated earnings for the next twelve months (4Q24 through 3Q25). Period coverage is 15 years, 9/30/09 to 9/30/24. The average over the period is the dotted line. Data source: FactSet; through 9/30/24.

S&P 500 Earnings Per Share Growth: Past 5 Quarters Reported, Next 4 Quarters' Estimates



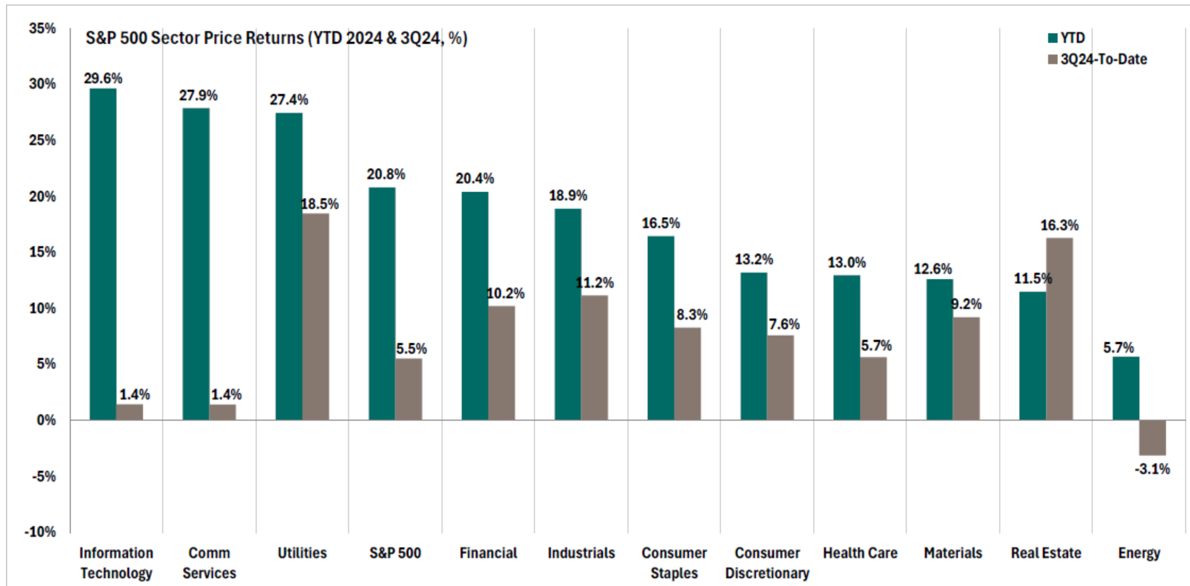
Data Source: FactSet, as of 10/6/24. Consensus S&P 500 EPS estimates (Wall Street analysts) as a percentage change from the same quarter in the prior year.

The third quarter rotation in sector leadership can continue. Underlying the S&P 500's 3Q24 price return of +5.5% (not including dividends), ten of eleven sectors (as measured by MSCI's Global Industry Classification Standards, or GICS) were positive (only Energy was negative) and eight of the sectors exceeded the return of the index. This is a contrast to the YTD gains, where just three sectors exceeded the index (Technology, Communication Services, and Utilities), driving the bulk of the gains. Leading sectors in 3Q24 included Utilities, Real Estate, Industrials, and Financials. The YTD leaders, Technology and Communication Services, were positive in 3Q24, but the gain for each was a relatively modest +1.4%. We attribute the 3Q24 sector rotation to a few factors. U.S. economic data exceeded cautious expectations, providing an environment that supported broad earnings growth. In addition, a meaningful decline in U.S. interest rates across the Treasury yield curve helped equity market values as lower rates raise the present value of future cash flows and ease constraints on companies looking to raise capital. Each of the four leading sectors in the quarter are considered "interest rate-sensitive" as they generally pay higher dividend yields and

utilize debt markets to drive growth. U.S. Treasury yields, which are market-traded and change when bond investors buy and sell Treasury securities, began moving lower in early 2024 as investors believed that inflation data was improving and correctly anticipated that the Fed would begin to adjust the fed funds interest rate targets (which the Fed controls) lower. The economic impact of low interest rates can take time to filter through the economy, but investors often react positively because lower rates should ultimately stimulate economic activity. In our view, the drop in Treasury yields helped to reverse 1H24 market concentration and narrow gains, contributing to a broad equity rally in 3Q24.

We have questioned the ability of the S&P 500 index to move higher without leadership from the large-company, tech-centric growth stocks. Each of the Magnificent 7 stocks reside in one of three sectors (Technology, Communication Services, or Consumer Discretionary), which collectively comprised 53% of the total value of the S&P 500 at the end of June. While many other stocks reside in those sectors as well, underperformance of the largest-weighted sectors mathematically creates headwinds for overall index returns. While Consumer Discretionary (+7.8% in 3Q24) was one of the eight sectors to beat the index, Technology and Communication Services did not but still remained positive, allowing the overall S&P 500 to move higher. That created the opportunity for the EW S&P to outperform with other stocks leading the way. In our view, the sector rotation that flourished in 3Q24 can continue in the quarters ahead.

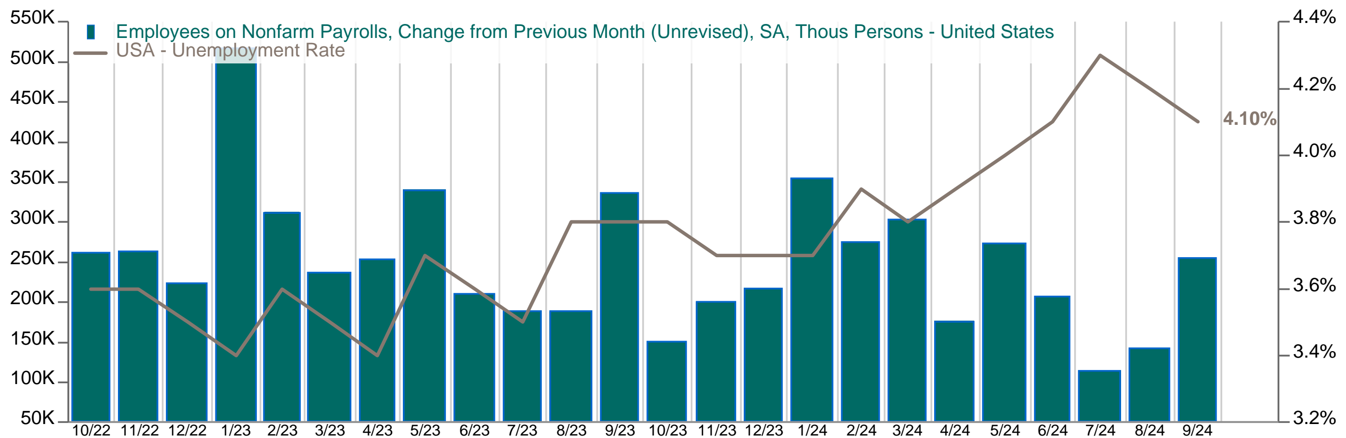
Price Performance of S&P 500 GICS Sectors, 2YTD (through September) and 3Q24



Data Source: FactSet and S&P Global, as of 9/30/24. Price return does not include dividends. See Other Disclosures on page 8 for a description of GICS sectors. Green bars show 9-months ended 9/30/24, gray shows 3Q24 (6/30/24-9/30/24).

Despite September strength, the labor market is slowing, creating consumer headwinds. As the third quarter progressed (July and August), the monthly increase in nonfarm payrolls (jobs) as reported by the Bureau of Labor Statistics, or BLS, was lower than expected and the unemployment rate moved as high as 4.3% in July (the higest level in nearly three years), compared to 3.7% as recently as January. While unemployment around 4.0% is low by historical standards, an increase of +0.6% over a few months is concerning. But the U.S. economy created more jobs than expected in September, easing the emerging fear of a near-term labor slowdown. September nonfarm payrolls (jobs) increased by +254 thousand (K), significantly above the +140K FactSet consensus estimate. The report reflected the highest monthly jobs increase in six months (since +310K in March 2024) and included upward revisions to the previous two months (July and August) totaling +72K. In addition, the September unemployment rate dipped back to 4.1%, the second month with a modestly lower percentage since the July peak. Compared to the start of 2024, average monthly jobs gains have slowed, averaging +149K monthly from April through August, down from +267K monthly in 1Q24. The slowdown, in our view, contributed to the Federal Reserve Bank's (Fed) decision to reduce its overnight bank lending fed funds interest rate target by -0.50% in September. In recent months, the Fed has shifted its policy emphasis away from inflation (due to monthly Y/Y inflation data easing lower) and toward supporting employment by making interest rate policy less economically restrictive (a goal of lower rates). Following the September jobs report, which included the prior months' positive revisions, it appears that the labor market has firmed for now. The fed funds futures market has priced in additional interest rate cuts of -0.25% at each of the next two Fed meetings (November and December), and the potential for another -0.50% cut in a single meeting has diminished, in our view. However, it should be noted that the six-month jobs gain trend was lower in September than earlier in the year, and one month of strong jobs growth does not necessarily prove that the labor market is accelerating. We still see potential headwinds to consumer spending ahead, primarily due to the higher unemployment rate and expectations that the surge in September jobs is not likely to be repeated. However, with pockets of strong data within a slowing trend, a more severe consumer retrenchment is not evident in late 2024 and does not suggest a recession over the near-term. Solid economic growth fueled by strong consumer data is a positive surprise of 2024.

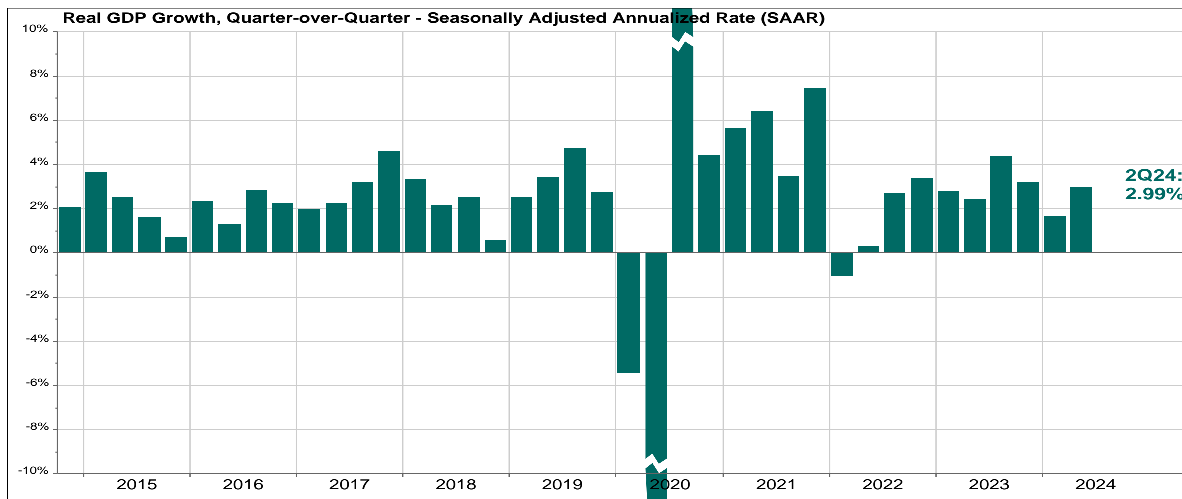
U.S. Net Nonfarm Payrolls by Month & U.S. Unemployment Rate (Past 24 Months)



Data Source: FactSet and the U.S. Bureau of Labor Statistics (BLS), as of 9/30/24. Shows the change in nonfarm payrolls on a month-to-month basis, and the unemployment rate. Nonfarm payrolls are from the BLS' Establishment survey and the unemployment rate is from the BLS' Household survey. Oct '22-Sep '24.

Consumer spending strength contributed to better-than-expected U.S. economic growth as measured by inflation-adjusted gross domestic product (real GDP), which is reported on a sequential quarter annualized. U.S. GDP grew at +3.0% in 2Q24, up from +1.6% in 1Q24 and after 2023 ended with +3.2% growth in the fourth quarter. Following weak GDP trends in the first half of 2022, the U.S. economy has mostly grown above +2.0% for the past eight quarters. While many economists feared the onset of a recession (negative GDP growth) this year, the U.S. economy has exceeded expectations, and for the most part has sustained quarterly growth above levels produced from 2014 to 2019, the five years prior to the COVID-19 pandemic. The FactSet consensus GDP estimate for full-year 2024 was +2.5%, as of 9/30/24, and was revised sharply higher this year as the 2024 consensus GDP estimate in January 2024 was +1.2%. 3Q24 GDP growth is scheduled for release in late October, and data that has been reported throughout the quarter suggests that 3Q24 GDP growth could approach, or exceed, +3.0%. We believe that sustained GDP growth above +2.0% will be a challenge (as we look into 2025) in the quarters ahead, but if above-trend growth continues, it can contribute to strong earnings growth.

U.S. GDP Growth Annualized Growth by Quarter, 2014-2024

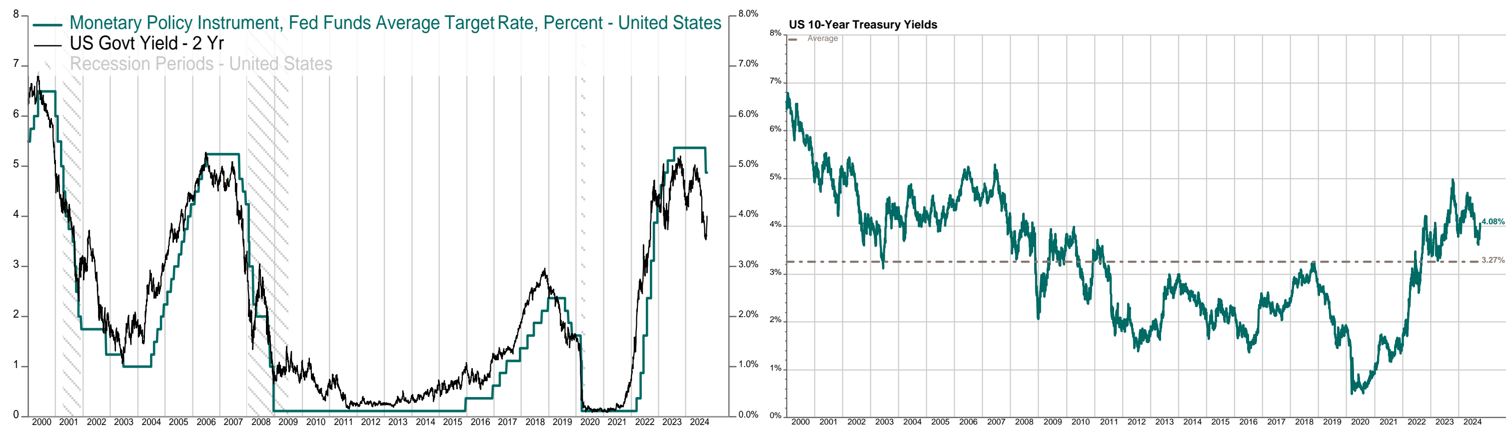


Data Source: FactSet and the U.S. Bureau of Economic Analysis (BEA). Shows the sequential growth annualization of inflation-adjusted gross domestic product, or real GDP, as of 9/30/24.

The Fed's plan to implement an orderly reduction in interest rate targets is not a certainty. When the Fed reduced its overnight fed funds target range to 4.75% to 5.00% on 9/18/24, it also updated its Summary of Economic Projections (SEP) which shows individual estimates of economic growth, interest rates, employment, and inflation from Fed board members and bank presidents. The median estimate of the year-end fed funds rate reflected in the SEP was 4.40% (2024) and 3.40% (2025). If the Fed follows this projection, we can expect an additional -0.5% of rate cuts this year (perhaps -0.25% at each of the two remaining Fed meetings) and -1.00% in 2025 (four -0.25% cuts). Prior to the September fed funds rate reduction, the Fed had held the target range at an elevated level of 5.25% to 5.50% for 14 months (since July 2023). But given steady trends of lower inflation, along with market-traded U.S. Treasury yields (2-year and 10-year Treasurys) already trading substantially lower, it was likely that a fed funds target above 5.25% was at a level that could restrict U.S. economic growth. While we had not ruled out a -0.50% rate cut at the September meeting, we expected the Fed to start with a more modest quarter-point reduction because rate cuts larger than -0.25% are often associated with a much weaker economy and growing recession fears. Fed Chair Jerome Powell, at the post-meeting press conference, outlined the Fed's decision to "recalibrate" interest rate policy due to improved 2024 inflation trends, allowing the Fed to shift its policy focus to the labor market.

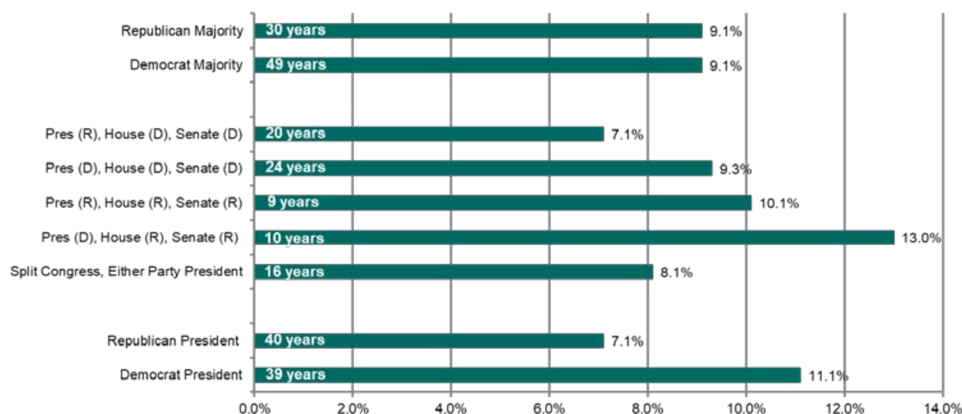
In the run-up to the September Fed meeting, the yields on both the 10-year and 2-year Treasury securities moved substantially lower. On 9/16/24, the U.S. 10-year Treasury yield (which we view as a good proxy for long-term interest rates) was 3.62%, down from 4.70% just three months earlier on 4/25/24. Generally, long-term interest rates will fall if bond investors fear a weakening economy, causing a need for lower rates. Shorter-term yields were falling as well, with the U.S. 2-year Treasury yield at 3.56% on 9/16/24, down from 5.03% on 4/30/24. Over the past several years, the 2-year Treasury yield has fairly accurately predicted future fed funds rate policy, and throughout 3Q24, in our view, began pricing in a series of fed funds reductions from the Fed. As the yield moved closer to 3.50%, the bond market appeared relatively in-line with the Fed's median SEP 2025 fed funds estimate of 3.4%. However, perhaps unexpectedly, Treasury yields have spiked higher since the Fed announcement. As of 10/11/24, the 2-year Treasury yield was back to 3.95% and the 10-year yield was at 4.09%. We attribute the recent interest rate volatility (and move higher) to recent economic data that has exceeded expectations, providing support for a view that the Fed would consider slowing the pace of interest rate cuts if the economy sustains growth near +3.0%. If the Fed lowers rate targets in an accelerating economy, this could lead to renewed inflation fears. With the 2-year Treasury yield now approaching 4.0%, the bond market may be looking for about -100 basis points of additional fed funds cuts, compared to the -150 basis points reflected in the SEP. We attribute the move higher in the 10-year yield to bond investors becoming less concerned about a recession in the quarters ahead. If interest rates continue trending higher, investors must navigate what that means for equities. If the economic growth is solid, however, that can be positive for earnings. We are less optimistic than that and still look for slowing jobs gains and some pressure on consumer spending.

U.S. 2-Year Treasury Yield, Federal Reserve Fed Funds Target Rate, U.S. 10-Year Treasury Yield



Data Source: FactSet and U.S. Treasury market data, Federal Reserve Bank (2000-2024). Represents market-traded, short-term U.S. interest rates.

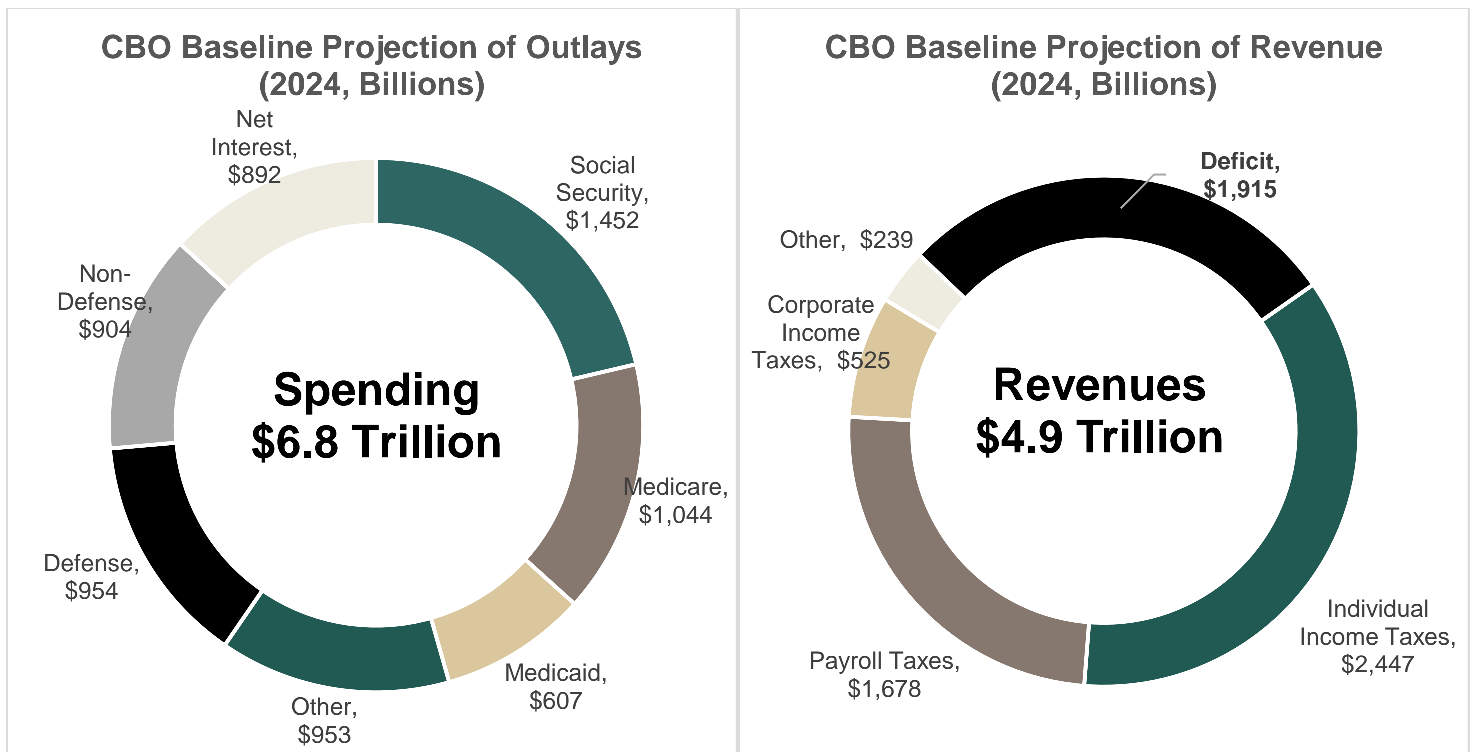
Near-term market risks include election volatility, geopolitics, and budget deficits. With the S&P 500 posting a +22.1% total return through the first three quarters of 2024, and the largest intra-year peak-to-trough drawdown (through 9/30/24) being a below-average -8.5%, it appears to us that election angst has not weighed on investment returns. In addition, with the outcome remaining highly uncertain, we don't believe election optimism has been a driver of equity market gains either. On a primary level, this makes sense to us. Long-term data (80 years from 1945) mostly confirms our view that investors should resist making broad portfolio changes based on expected or actual election outcomes. While the S&P 500 has had better average annual returns under Democratic presidents (half the time in the past 80 years) versus Republican presidents, when adding control of Congress (comparing party control of the President, the House of Representatives, and the Senate), the S&P 500 has produced the same +9.1% average annual return when the Democrats have control (2 of the 3, or all) and when Republicans have control. Many investors fear either a "blue sweep" or "red sweep" where one party controls all three of the offices, as that increases the chances of major legislative changes and creates more uncertainty. However, the data does not support that fear either. The S&P 500 has returned +9.3% annually during blue sweeps (total Democrat control) and +10.1% annually under red sweeps (total Republican control).



Data Sources: FactSet, www.house.gov, www.senate.gov, DA Davidson (12/31/1944 to 12/31/2023). Price Return does not include dividends. Returns are the average for any one year, returns are not compounded.

We believe that markets look beyond politics to assess success as the best-run companies, true leaders with great management and competitive advantages, can optimize results across business environments and political shifts. However, with the 11/5/24 U.S. election less than one month away, in our view, the outcome remains too close to call. In fact, we believe that the outcomes for President, the House, and the Senate are all up for grabs as the existing Congressional majorities (Republicans control the House, and Democrats control the Senate) are extremely slim, creating potential for a party flip. This could lead to increased volatility as we approach Election Day and could also extend to the post-election period as votes are tabulated and results are confirmed. Additionally, investors have not been overly concerned with escalating geopolitical events, especially the Israel/Hamas & Iran war, and Russia's invasion of Ukraine. While the U.S. is deeply involved in both regions, direct military troops have not been committed and the U.S. economy has hardly been impacted. Tensions appear to have escalated in 3Q24 and remain high in October, reducing the outlook for near-term peace talks. In our view, this remains an additional source of investor worry and market volatility, but without erosion in the U.S. economic outlook, a geopolitically driven equity market pullback would likely be temporary.

A longer-term risk, in our view, are ongoing U.S. budget deficits. The U.S. 2024 fiscal year ended on 9/30/24. Preliminary data from the Congressional Budget Office (CBO) estimates that the 2024 federal deficit exceeded $1.8 trillion (T), about 6% of U.S. nominal GDP (the size of the U.S. economy) of $29.0T, as of 6/30/24. The expanding deficit is not a revenue problem as FY24 revenues (mostly individual taxes, corporate income taxes, and payroll taxes) are estimated to increase +10% to $4.9T (from $4.4T in FY23). Government outlays (spending) are the problem and expected to increase +11% to $6.8T. Adding to the spending increase is surging net interest expense as both total debt outstanding and borrowing rates are higher. Over the first eleven months of FY24 (through August), the U.S. net interest expense was $869B, a year-over-year (Y/Y) increase of +35% ($643B through August of 2023). This was greater than FY24 defense spending, which totaled $754B through August. The CBO estimates that federal revenue as a percentage of GDP was 17% in FY24, basically in-line with the 17% average over the past 50 years (1974 to 2023). But federal spending is estimated at 23% of GDP, well-above the 21% 50-year average. The CBO projects ongoing annual deficits of $1.9T or higher through 2034. In our view, this creates challenges for sustained U.S. economic growth and imposes headwinds on investors as we look ahead. We expect large deficits during periods with a weak economy, especially recessions, but when the economy is growing above-trend and near full-employment, the deficit should fall. The FY24 deficit was larger than -$1.7T in FY23, despite GDP growth near +3%. Prior to the pandemic, 2015 through 2019 (5 years), the annual deficit averaged 3% of GDP, but at 6% in both FY23 and FY24, has doubled as a percentage of GDP. For now, investors have appeared only mildly worried about deficit spending as it supports GDP growth and corporate earnings have rebounded nicely. If bond market concerns rise then it could lead to higher interest rates, but in 2024, interest rates have moved lower. Over time, we expect deficit concerns to weigh on the growth outlook and support our view to scale back equity market return expectations. No matter who wins this next election, the President and Congress must begin to address this issue.



Data Source: FactSet and Congressional Budget Office, as of June 2024. CBO economists make current and long-term projections for the U.S. budget assessing revenue and spending expectations. The most recent full projection was June 2024, although actual revenue and spending data for fiscal 2024 has been released through August 2024.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The Russell 1000® Growth Index is a market cap weighted index that measures the performance of the large-cap growth segment of the U.S. equity market. It includes those Russell 1000 companies with relatively higher price-to-book ratios and higher expected earnings growth rates. The Russell 1000® Value Index includes those Russell 1000 companies with relatively lower price-to-book ratios and lower expected earnings growth rates. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

Other Disclosures: The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analyst estimates from firms that submit estimates to FactSet for a given financial metric.

The annual price returns of the S&P 500 index are calculated using index closing value on 12/31 of one year to 12/31 of the next year. 2024 returns are calculated as of 9/30/2024. Intra-year, peak-to-trough percentage declines are calculated using the index closing prices from an intra-year high date to a subsequent low date. Closing prices are provided by S&P Global through FactSet. Averages across years are calculated using the arithmetic mean.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The Federal Reserve Summary of Economic Projections (SEP) is sourced from federalreserve.gov, as of 9/30/24. Year-over-year projections of changes in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the first quarter of the previous year to the first quarter of the year indicated. Projections for the unemployment rate are for the average civilian unemployment rate in the first quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The Summary of Economic Projections is compiled from Federal Reserve Board members and Federal Reserve Bank presidents.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE).

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle, and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months" and also looks at the depth, diffusion, and duration of the downturn.

We define an economic "soft-landing" that continues to grow, but at a rate that is below long-term averages. In the current environment a soft landing would be GDP growth that continues at annual inflation-adjusted growth rate below 2.0%.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

The BLS also publishes the Job Openings and Labor Turnover Survey (JOLTS) which measures job openings, hires, and separations from a monthly survey of U.S. business establishments.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE).

Volatility looks at to what degree and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices, is often a sign of rising uncertainty.

The U.S. Census reports annualized monthly data on housing starts, permits, and completions. It is a widely followed measure to track construction activity in the residential housing market. New home sales measures sales of new single-family homes and is a measure of the demand for housing. Home price data is monitored by the S&P CoreLogic Case-Shiller Home Price Index.

We track a measure of wages, average hourly earnings of all private employees, which is calculated and reported on a monthly basis by the U.S. Bureau of Labor Statistics. The data measures average hourly earnings of all private employees on a "gross" basis (includes overtime and late shift work, but excludes benefits).

U.S. monthly receipts, outlays, deficit, or surplus are reported by the U.S. Treasury at fiscal.treasury.gov. Supporting data is also available from the Congressional Budget Office (CBO).

The Federal Reserve Bank of Atlanta publishes a current quarter U.S. economic growth, to track real (inflation adjusted) gross domestic product, or GDP. GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow – the estimate is based solely on the mathematical results of the model. The most recent GDPNow update for 3Q24 GDP reflected growth tracking at 3.2% (as of 10/9/24) and is one source of our commentary about recent U.S. economic data exceeding expectations.