ON THE MARGIN

11.11.2024 | **MONTHLY** MARKET UPDATE CBIZ.COM/ON-THE-MARGIN

October 2024 Recap

Joe Nitting, Director of Research, Retirement & Investment Solutions

PRELUDE

October is an exciting month for sports fans here in the U.S. Typically, it is one of only two months a year when fans may experience a sports equinox, a day featuring games from America's four main professional sports leagues (National Football League, National Basketball Association, Major League Baseball, and National Hockey League). October 28th, 2024 marked the 31st sports equinox in history, inherently generating a wide range of emotions across different fanbases. As a lifelong New York Yankees fan, I enjoyed watching the team's playoff success through the first three weeks of October. However, my excitement turned to frustration during the sports equinox and through final days of the month as the team struggled mightily in the World Series against the Los Angeles Dodgers. October took investors on a ride with similar highs and lows as positive results early in the month reversed by month end, with every major global asset class finishing negative territory.

GLOBAL EQUITY

October marked the second broadly negative month for U.S. equities in 2024, as most major U.S. equity market indexes fell between -0.3% and -1.4% cumulatively. Corporate earnings season was a primary focus for the asset class during October, contributing to U.S. equities' early-month gains and late-month losses. Third quarter earnings season started off strong following better-than-expected results from the banking industry, highlighted by JPMorgan and Wells Fargo. However, sentiment surrounding the season reversed late in the month after Meta and Microsoft, two of the five largest positions in the S&P 500, provided investors with weaker-than-expected forward guidance. Meta and Microsoft fell -4.1% and -6.1%, respectively, on the last day of October as concerns about increased spending to support AI-related initiatives pushed both stocks lower. The Healthcare sector also weighed on U.S. large cap equity returns as pharmaceutical giants Eli Lilly and Merck declined due to doubts about future sales growth for weight loss drugs and HPV vaccines. The Russell 2000 returned -1.4% during October amid renewed worries about the effect of rising interest rates and their potentially more negative impact on small cap companies.

TABLE 1: **Global Equity**	OCT	QTD	YTD	1 YR
Dow Jones Industrial Average	-1.26	-1.26	12.50	28.85
S&P 500 Index	-0.91	-0.91	20.97	38.02
Russell 2000	-1.44	-1.44	9.56	34.07
Russell 1000 Growth	-0.33	-0.33	24.14	43.77
Russell 1000 Value	-1.10	-1.10	15.40	30.98
MSCI ACWI USD	-2.24	-2.24	16.00	32.79
MSCI EAFE USD	-5.44	-5.44	6.85	22.97
MSCI EM USD	-4.45	-4.45	11.66	25.32
MSCI ACWI ex US USD	-4.91	-4.91	8.61	24.33

Source: Bloomberg, as of 10/31/2024. Past performance does not guarantee future returns.

International markets also generated negative returns in October as the U.S. Dollar strengthened significantly against other major currencies, heavily weighing on international equity returns for U.S.-based investors. Developed international markets, as represented by the MSCI EAFE Index, returned -5.4% for the month, their worst monthly return since September 2022. Japanese equities were among the leading detractors from performance as investors digested Shigeru Ishiba's election victory to become Japan's new prime minister. Ishiba's monetary policy views skew more hawkish than those of his predecessor, which concerned investors following his election win. Despite another interest rate cut from the European Central Bank during the month, European equities also moved lower as investors grew increasingly cautions about rising geopolitical conflict in the Middle East and its potentially negative impact on various European economies. Emerging markets outperformed their developed market counterparts in October but still fell as the MSCI EM Index returned -4.5%, partly due to Chinese equity market weakness. Investors' excitement around previously announced monetary and fiscal plans cooled during October, leading Chinese equities lower.

FIXED INCOME

The U.S. Treasury yield curve shifted upward during October for the first time since April 2024, weighing on fixed income returns as the Bloomberg U.S. Aggregate fell -2.5%. The rise in U.S. Treasuries was slightly more pronounced at the short end of the curve amid declining expectations for the magnitude of future interest rate cuts from the Federal Reserve. A surprisingly strong September jobs report drove such moderation as the U.S. economy added 254,000 jobs in September (vs. 150,000 expected) and the unemployment rate declined from 4.2% to 4.1%. The entire U.S. Treasury yield curve now sits above 4.1% and the market expects approximately two 0.25% rate cuts before year end (vs. three at the end of September).

A tangentially related fixed income question we have received regularly in the last month is "why have mortgage rates remained high when the Fed has started cutting rates?" A conventional 30-year fixed mortgage rate was still roughly 7.0% at the end of October! We believe there are several important points for homebuyers to remember here. First, while the Fed controls the Fed Funds Rate, it does not control or have meaningful influence over rates at the longer end of the curve. Investors drive such rates based on their expectations for future economic growth and inflation. For now, investors perceive slightly better long-term prospects for the U.S. economy, leading to higher long-term rates. Supply and demand dynamics also influence mortgage rates, as excess demand in recent years has further contributed to higher mortgage rates. While we cannot accurately predict where mortgage rates go from here, we can confidently say that Fed action should have little to do with them.

TABLE 2: **Fixed Income**	OCT	QTD	YTD	1 YR
Bloomberg US Aggregate	-2.48	-2.48	1.86	10.55
Bloomberg 1-3 Yr Gov/Credit	-0.57	-0.57	3.79	6.25
Bloomberg Treasury 5-7 Yr	-2.74	-2.74	1.62	8.26
Bloomberg Investment Grade Corp	-2.41	-2.41	2.69	13.07
Bloomberg High Yield Corp	-0.54	-0.54	7.42	16.47
JPMorgan EMBI Global Diversified	-1.72	-1.72	6.78	18.16

Source: Bloomberg, as of 10/31/2024. Past performance does not guarantee future returns.

POSTLUDE

November is finally here and many investors are turning their full attention to the U.S. presidential election on November 5th. Ahead of this momentous political event, we thought it would be helpful to share what we are watching for in the election results and what we are both doing and not doing within our discretionary client portfolios. First, items we are watching for include but are not limited to:

- The winner of the presidency (certainly), but also the composition of House and Senate, as the Legislative branch is responsible for creating laws.
- Potential near-term market volatility depending on the aggregate election result. We would expect comparatively more near-term volatility under a unified government rather than a divided one.

Within our discretionary client portfolios, we are:

- Maintaining our strategic asset allocations, as we believe they drive the greatest proportion of investor outcomes relative to their stated goals.
- Not making tactical trades around potential election outcomes, as we cannot reasonably predict such outcomes and the subsequent market reactions to them.
- Not expressing our own political opinions through our portfolio positioning. We will express such opinions at the voting booths.

We expect to have more election-related information for our readers shortly and look forward to sharing our perspectives with you in next month's edition of *On The Margin*.

Joe Nitting serves as the Director of Research for the Retirement & Investment Solutions practice of CBIZ, Inc. Joe leads the firm's research in both traditional and alternative asset classes, and he oversees the portfolio construction process for the firm's defined contribution, institutional advisory and wealth management businesses. Joe has a B.S. in Finance and Accounting from the University of Dayton. He began his career in investments at a boutique registered investment advisory firm in the greater Chicago area, focusing on traditional investments. He also served as an analyst for a registered investment advisory firm in the Cleveland area, where he specialized in alternative investments. Joe plays an important role in fostering a culture of collaboration and creativity within CBIZ while offering unique insights based on his experience across a wide spectrum of investment types.

CBIZ