THE CAPITAL MARKETS

New Covenant Trust Company

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MARKET UPDATE AT A GLANCE

The Dow Jones Industrial Average (DJIA) finished September at 42,330, up +1.85% for the month and +12.31% so far in 2024. The S&P 500 closed September at 5,762, up +2.02% for the month and up +20.81% year-to-date. The NASDAQ Composite gained +2.68% in September, up +21.17% for the year. Small-company stocks as measured by the Russell 2000 ended September up +0.56% for the month, up +10.01% so far for the year. Utilities (+18.65%) was the best-performing sector in the third quarter.

THIRD-QUARTER REVIEW: MARKETS KEEP MARCHING HIGHER, SOME WARY OF A ‘MELT-UP’

The S&P 500 notched another strong quarter in Q3, finishing September up over +20% so far for the year. The index has closed at a record high 47 times this year and is on track to make it the fifth year out of six with a +15% or more gain. While the S&P 500 finished 2018 at just over 2,500, many analysts now have a price target of 6,000 for the index by the end of 2024.

While these strong gains have benefited many, and are sure to be delighting most investors, we’re encouraging clients at this time to keep in mind one of the most reliable theories in markets — the concept of mean reversion.

Mean reversion essentially means that the longer and the more profoundly a market deviates from its long-term average, the higher the probability and the more severe the potential for a move in the opposite direction sometime in the future. This has been true when markets have muddled through prolonged periods of below-average returns and when markets surge through multi-year bull markets.

The long-term, 100-year average return of the U.S. stock market has been strikingly consistent at about +10% per year since 1926. In the five years ending September 30, 2024, the S&P 500 had an annualized return of +15.98% per year. In the last 10 years, the return is +13.38%, and in the last 15 years, it’s +14.15%.

With above-average returns in each of these periods, investors should be aware that the risk is elevated for a period of more muted returns in the future.

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> **“The bull run for stocks is in full swing, sending the Dow Jones Industrial Average and S&P 500 index to new highs. Analysts have been lately talking about ‘animal spirits,’ which often means that the market keeps rising and no one’s quite sure why.”**
>
> *(Barron’s, The Trader, Avi Salzman, Oct. 18, 2024)*

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Fortunately, navigating an environment such as this successfully is not much different than in other parts of a cycle. It's likely a good time to rebalance, and to replenish cash reserves for any needs in the next 12 to 18 months.

Allocations to stocks should be for long-term assets, those able to be invested for seven-plus years or longer. Investors with a healthy cash reserve — and who are exposed to equities only in long-term accounts — are positioned to weather any near-term weakness in markets and can keep an appropriate long-term perspective if and when an eventual downdraft hits.

We're also maintaining this advice as we come very near to Election Day. Empirically, the most reliable market response to U.S. elections has been a period of around 30 days before the election and 30 days after, where a statistically significant spike in market volatility is observed.

After that, markets often turn back to traditional drivers of returns such as GDP growth, consumer spending, and corporate earnings, and long-term returns have remained around the average across many different administrations. We would generally not advise abrupt changes to a long-term plan based on the outcome of elections.

ECONOMIC UPDATE

Both employment and inflation came in a little hotter than expected in September. A strong 254,000 jobs were added for the month, and the unemployment rate ticked down to 4.1%. Headline inflation came in at 2.4%, slightly higher than expected, but the lowest year over year reading since February of 2021.

With the Federal Reserve electing the more accommodative approach by cutting interest rates 0.50% in September rather than 0.25%, markets are walking a tightrope between cheering the more aggressive rate cuts, and remaining fearful of any signals that the economy may be running too hot, allowing an uptick in inflationary pressures to occur.

With the consensus on Wall Street being that the inflation fever has broken, there may be some downside risk to markets if that outlook is challenged by incoming data.

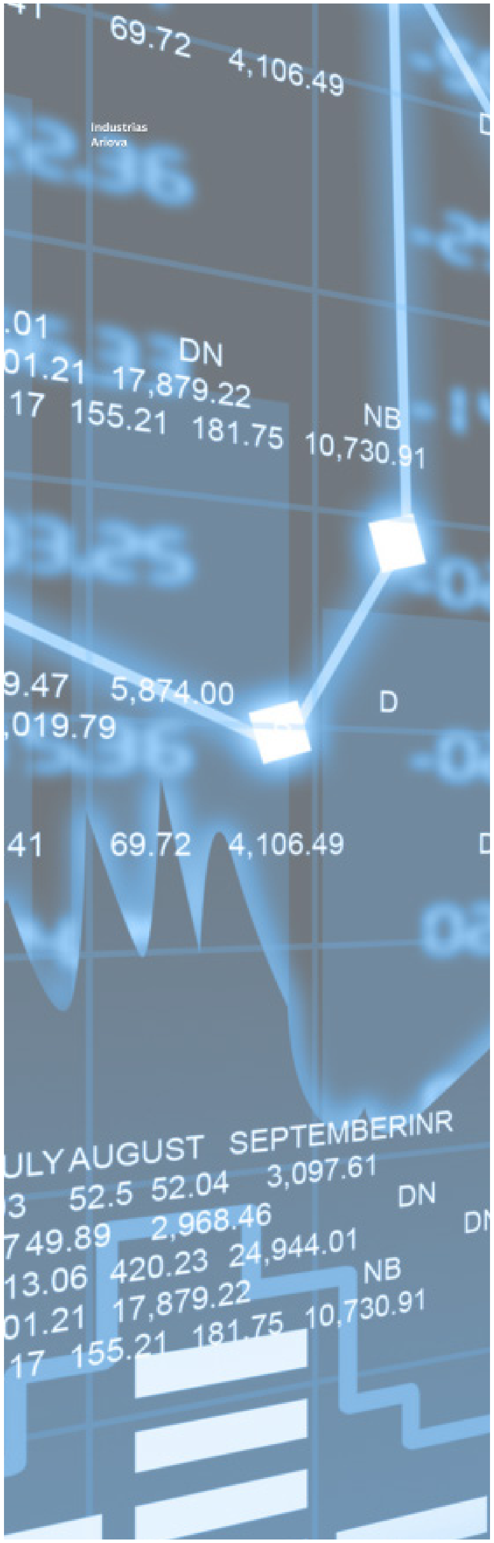
With election-related implications to things like trade policy and tariffs, and with conflict increasing in the Middle East potentially affecting the supply of oil, gasoline and other commodities, investors should not be surprised if some volatility picks up in the near term. Inflation is likely to continue to be the most closely watched economic reading each month by markets.

"Five-year inflation swaps, a type of derivative contract, saw their biggest increase since March 2023, according to a note this past week from Jim Reid, global head of macro research at Deutsche Bank. 'This is not to say inflation is out of control, but the narrative of a strong economy, a relatively aggressive easing cycle, and perfectly behaved inflation sounds more like a Christmas wish list than the most likely outcome,' he observed."

(Barron's, Up and Down Wall Street, Randall Forsyth, Oct. 18, 2024)

Market Metrics

Index or Metric	Close as of 8/31/2024	Close as of 9/30/2024	Change Previous Month End	2024 YTD % Change
Dow Jones Industrial Average	41,563.08	42,330.15	+767.07	12.31%
S&P 500	5,648.40	5,762.48	+114.08	20.81%
NASDAQ Composite	17,713.62	18,189.17	+475.55	21.17%
RUSSELL 2000	2,217.63	2,229.97	+12.34	10.01%
Fed Funds Rate	5.25% - 5.50%	4.75% - 5.00%	-0.50%	
2-Year Treasury	3.91%	3.66%	-0.25%	
10-Year Treasury	3.91%	3.81%	-0.10%	
Crude Oil $ per Barrel	$73.55	$68.17	-$5.38	-4.86%
Gold $ per Troy oz.	$2,527.60	$2,659.40	+$131.80	28.36%
UK Point in U.S. $	$1.3143US=1£	$1.3414US=1£	$ WEAKER	5.22%
Euro in U.S. $	$1.1069US=1	$1.1161US=1	$ WEAKER	01.03%
Canada $ per U.S. $	$1.34775C=$1.00US	$1.35095C=$1.00US	$ STRONGER	2.45%
Japan Yen per U.S. $	145.605¥=$1.00US	143.04¥=$1.00US	$ WEAKER	1.46%



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