Nov. 22, 2024

Market Update: Everything in Moderation

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A Resilient Economy Spells 'Higher for Longer'

We have had an interesting couple weeks in the markets. First, the week of the election we had a strong market rally of close to 5% for the S&P 500 with what has been called the "Trump Trade". The following week, we had the "Trump Fade", as the market experienced about a 2% drop as investors digested potential government policy implications, new inflation data and interest rate expectations.

Despite the volatility, the market is still up close to 25% for the year (ending Nov. 15, 2024) as we enter the holiday season which tends to experience seasonal support of continued strength. Let's review some of the key factors impacting markets:

1. **Inflation Moderating**: The top news last week was consumer price inflation (CPI) for October from the U.S. Bureau of Labor Statistics. Overall CPI ticked up to 2.6%, in line with expectations, but higher than the previous month at 2.4%. We have come a long way from the 9% readings we were hitting in 2022, but this last leg of the marathon seems to be persistent as we try and reach the Federal Reserve's (Fed) target of 2%.
2. **Interest Rates Moderating**: After the inflation report, Fed Chair Jerome Powell indicated there is no hurry to cut interest rates as the economy appears to be resilient. He reinforced the labor market remains healthy with a 4.1% unemployment rate, and economic growth is one of the strongest in the world. Market expectations are now pointing to a total of just three more interest rate cuts over the next year.
3. **Stock Market Moderating**: While the stock market has continued to reach all-time highs this year, volatility has been rising. It may not be surprising to see some moderation over the next few months as investors patiently wait to get more clarity around fiscal policy and monetary policy factors driving returns.

That said, the holidays are around the corner…

The Santa Claus Rally

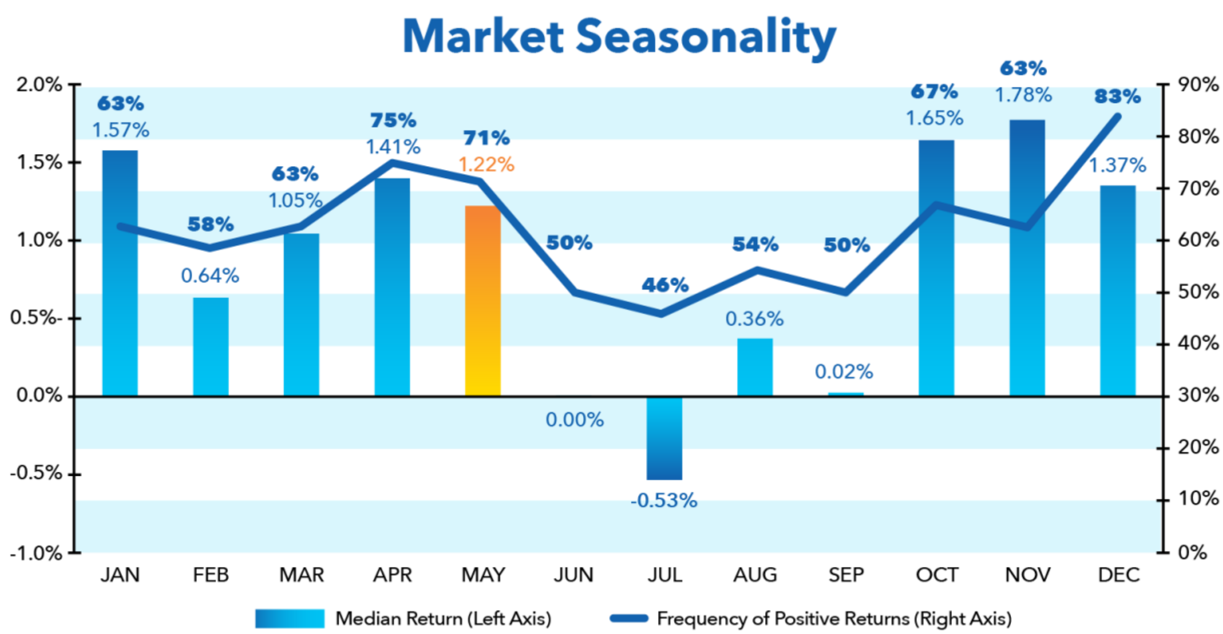
One of the key questions on investors' minds is, can the stock market continue growing at its current pace? One view is that the market may be overheated, and it may not hurt to let some steam out of the engine. Alternatively, we have had negative returns in three of the last four weeks, and perhaps there is more room to grow going into year end.

One factor supportive of continued strength nearing year end is seasonality. As previously discussed in June Market Update, "Are You Surprised by the Market?" there is an adage known as "Sell in May and go away" that suggests you come back just in time for the gifts the winter holidays have to offer.

Certainly, being away this summer would not have benefited investors, reinforcing the benefits of always being invested, but let's look at historic average monthly returns for the S&P 500 for hints of what we may be able to expect going forward:

1. **Higher Return Potential**: The median monthly returns tend to suggest the winter months, generally returning more than 1% per month, tend to be more attractive than the summer months. That said, except for July, all months generate a positive return on average.
2. **Higher Positive Potential**: The frequency of positive returns also tends to favor the winter months, particularly December with a whopping 83% positive return batting average. That said, all months are close to or more than the 50% mark.
3. **Staying Invested for the Long-Term**: While some months may be stronger than others, the general trend is that markets tend to be positive over the long-term, regardless of the month. Likewise, over long periods of time, the market is certainly better than a coin flip. The best path to success is to stay diversified, stay balanced and stay invested to achieve your long-term investment goals.

Stay diversified, my friends.



Source: Bloomberg. 1988-2011. https://www.warriortrading.com/what-is-stock-market-seasonality/

As always, Dynamic recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their goals.

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