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MARKET
UPDATE
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The opinions expressed in this article are Mr. Hanson's own and do not necessarily reflect the position of all advisors at Ankerstar Wealth.

4Q 2024 Market (and Real Estate) Update:

Year to date, the economy remains healthy (but it is showing signs of weakening). Equities and fixed income have performed well this year, exceeding my expectations. The key question … will this outperformance continue? I am optimistic that that we will continue to see future gains in both equities and fixed income in the next 6 months, however, expect muted returns and high volatility, especially leading up to the election on November 5th.

Let's discuss the reasons behind these forecasts. First, let me discuss the election. Politics aside, how will the election affect the markets? No one really knows; however, many have an opinion which can lead to greater volatility in both the stock and bond markets in the days leading up to the election. We know the polls show a tight race and we know the markets despise uncertainty. October is historically the most volatile month for the stock market, even without an election on the horizon. But once we have a winner, which candidate will be better for the markets? As I discussed in my last newsletter, the US debt continues to climb and shows no sign of slowing down. If it continues to rise at its current rate, I see a US fiscal crisis in 15-20 years. My concern with both presidential candidates is that neither of their policy agendas seem to want to tackle the fiscal deficits we run year over year and both agendas will continue to run high deficits as projected by many independent budget agencies. So, in my opinion, the market's most preferred outcome is a divided government where one party controls the Senate and the other party controls the House of Representatives, irrespective of who wins the Presidency (or the party controlling Congress is opposite of the party winning the Presidency). This scenario logically puts checks and balances to implementation of the President's agenda and thus limits unconstrained spending … something the markets historically like!

Notwithstanding the election, the economy continues to show strength. Most economists have concluded the US will not see a recession (a so called "hard landing") in the near future and I agree. Recessions are defined by two quarters of negative GDP growth. 2024 GDP is expected to grow at 2.6% and 2025 growth is forecasted to slow but still remain close to 2%. Inflation continues to come down with estimates at 3.2% by the end of 2024 and 2% by the end of 2025 (2% is the Federal Reserve's goal). The labor market continues to weaken with unemployment forecasted to be 4.3% by the end of 2024 and holding steady for 2025 but this unemployment rate is not concerning. The Federal Reserve's aggressive actions to raise interest rates in order to combat high inflation seems to have pulled off the soft or no landing scenario.

And now with inflation tamed and a weakening labor market, the Federal Reserve has begun an interest rate cut cycle, leading off with a half point cut in September. The markets cheered this action with solid gains. The expectation is for the Fed to continue to cut rates by another 1.5% by the end of 2025. This makes all credit less expensive (e.g., mortgage rates, credit card debt, and business loans) which in turn pumps more money into the economy, thus keeping it growing. I project fixed income (bonds) total-return prospects will improve as the Fed cuts rates (the prices of bonds move inversely to the direction of interest rates, so lower interest rates increase the value of bonds). But take note that the era of earning 5+% on short term CDs and Treasury bills has come to an end. As these instruments mature in the near future, look for your capital to be redeployed in longer maturity bonds to capture the aforementioned rate cut environment.

Bottom line: expect short term stock market volatility but positive gains in the next 6 months, especially as uncertainty is reduced after the election. Unless a negative catalyst develops (such as the labor market deteriorating at a faster pace), the economy and in turn corporate earnings will continue to grow at a pace to support current market valuations. I do expect market breadth to expand with small cap stocks leading the way in this interest cutting environment (smaller companies tend to benefit the most from interest rate cuts). The year-to-date performance of the S&P 500 is 21% (a great year by any measure and the year is not over). We may see a pullback going into the election but due to the strong economy, I believe there is room to go higher from its current level in the next 6 months.

Real Estate: there are signs the housing market is retightening after a few months of increasing inventory. Lower mortgage rates are triggering a rebound in home sales. 30-year fixed rate mortgages are now in the 6% range after rising above 7% for much of 2023 and 2024. When mortgage rates spiked quickly, those homeowners with sub 4% loans were loath to give up those rates and chose to sit tight, contributing to the tight inventory and large home price increases the past few years. While the good news for home buyers is that lower mortgage rates will make homes more affordable, the bad news for home buyers is that demand is still outpacing supply which will continue to cause home prices to appreciate in the next year. I expect home price appreciation of 2-4% nationally in the next 12 months as inventory remains tight.

Please reach out to me anytime at joel@ankerstarwealth.com if you have any questions on this commentary or any other question. The Ankerstar Wealth team remains committed to helping you “Maximize Life by Maximizing Wealth”!