Cetera® Investment Management

Fourth Quarter 2024

Quarterly Outlook

At-A-Glance

The Fed cut interest rates by 0.5% in September, front-loading its interest rate cuts for this year as they attempt to balance risks in the labor market with inflation seemingly under control.

The Fed's recent economic projections for year-end 2024 show real GDP growth at 2%, the unemployment rate at 4.4%, PCE inflation at 2.1% and the Fed funds rate at 4.4%.

Stocks have had a good year with large cap indexes up nearly 20% as of this writing. Large-cap stocks have outperformed small caps.

Bonds have been doing well, with the aggregate bond market up around 5.25% year-to-date, but more impressively, up nearly 15% since the 10-year Treasury Yield hit 4.99% in October 2023.

Election returns: Going back to 1948, in the 60 days before an election, the S&P 500 averaged -0.6%. From election day to inauguration day, the S&P 500 averaged 1.5%. Both were skewed heavily by the 2008 financial crisis, reminding us that there are larger economic forces at play than the presidential election.

With economic growth and the labor market slowing, there are risks in the markets. If companies miss earnings growth projections, stock prices will likely fall. However, the downside may be limited due to cash on the sidelines and Fed rate cuts acting as a stimulus for the economy.

Can Rate Cuts Stem the Labor Markets' Slowdown?

The third quarter officially marked the beginning of a new Federal Reserve (Fed) interest rate cycle. The Fed began raising rates in March 2022 to combat rising inflation. After pausing the rate hikes for more than a year, the Fed finally cut rates, signaling the start of a new cycle. This is important for a couple reasons.

First, investors no longer fear the Fed raising rates but can rely on the Fed to cut rates if economic data comes in weaker than expected. Lower rates act as a catalyst for the economy, because they make borrowing costs cheaper, so consumers and corporations can finance spending at a more affordable rate. For instance, if you're in the market for a car, auto loans will become more affordable. Mortgage rates will also decline, though not to the same extent, as they are more closely tied to longer-term rates.

Second, the Fed is signaling they are more concerned about the labor market than inflation. We will be monitoring the labor market very closely in the fourth quarter. This is important because America is a consumer-driven economy, and consumers don't spend as much money if they fear losing their job or they have lost their job. The labor market is indeed weakening, and rate cuts may be too late to stop the damage. This is a potential risk to markets.

Additionally, with the election in early November, there could be added volatility, which is already at a heightened risk due to high equity valuations. If corporate earnings growth misses their high expectations due to a softening economy, we would expect a market pullback. However, a pullback may be limited because there are a lot of investors in cash and money market accounts which will soon see their interest rates drop. As a result, they may look to enter the bond market or even the stock market if valuations become more attractive.

The bond market continues to offer decent yields. If bond prices fall, the yield could offset some of this price loss. Moreover, a weaker economy may support bond prices as investors turn to bonds when facing economic uncertainty.

It's possible the Fed could engineer a soft landing and avoid a recession by lowering rates. We will be following market risks closely in the fourth quarter. Though election year distractions may arise, staying focused on your own financial goals will help remove emotion from investing. Your Cetera financial professional can help keep you focused on your personal goals and objectives.

For a more detailed look into what we are thinking and what is happening in the economy and markets, check out our 2024 Fourth Quarter Outlook.

About Cetera® Investment Management

Cetera Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group®. Cetera Investment Management provides market perspectives, portfolio guidance, model management, and other investment advice to its affiliated broker-dealers, dually registered broker-dealers and registered investment advisers.

About Cetera Financial Group

"Cetera Financial Group" refers to the network of independent retail firms encompassing, among others, Cetera Advisors LLC, Cetera Advisor Networks LLC, Cetera Investment Services LLC (marketed as Cetera Financial Institutions or Cetera Investors), and Cetera Financial Specialists LLC. All firms are members FINRA / SIPC. Located at 655 W. Broadway, 11th Floor, San Diego, CA 92101.

About Avantax

Avantax, Inc. (Avantax) is a wholly owned subsidiary of Aretec Group, Inc. (dba Cetera Holdings). Avantax is a unique community within Cetera Holdings. Avantax Investment Services, Inc., a subsidiary of Avantax, Member FINRA / SIPC. Located at 3200 Olympus Blvd, Suite 100, Dallas, TX, 75019. Avantax and Cetera Financial Group are under common ownership.

Disclosures

Individuals affiliated with Cetera firms are either Registered Representatives who offer only brokerage services and receive transaction-based compensation (commissions), Investment Adviser Representatives who offer only investment advisory services and receive fees based on assets, or both Registered Representatives and Investment Adviser Representatives, who can offer both types of services.

The material contained in this document was authored by and is the property of Cetera Investment Management LLC. Cetera Investment Management provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative or investment adviser representative is not registered with Cetera Investment Management and did not take part in the creation of this material. He or she may not be able to offer Cetera Investment Management portfolio management services.

Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative authorized to offer Cetera Investment Management services. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.

For more information about Cetera Investment Management, please reference the Cetera Investment Management LLC Form ADV disclosure brochure and the disclosure brochure for the registered investment adviser your adviser is registered with. Please consult with your adviser for his or her specific firm registrations and programs available.

No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.
A diversified portfolio does not assure a profit or protect against loss in a declining market.

The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Bloomberg US Aggregate Bond Index is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. Eligible bonds must have at least one year until final maturity, but the index holdings have a fluctuating average life or around 8.25 years. This total return index is unhedged and rebalances monthly.

The ICE BofA US High Yield Index tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the U.S. domestic market. Securities must have a below investment grade rating (average of Moody's, S&P, and Fitch) and an investment grade rated country of risk (average of Moody's, S&P, and Fitch foreign currency long term sovereign debt ratings). Each security must have greater than 1 year of remaining maturity, a fixed coupon schedule, and a minimum amount outstanding of $100 million.