Cetera® Investment Management

Third Quarter 2024

Mid-Year Outlook

At-A-Glance

Economic growth as measured by Gross Domestic Product (GDP) is cooling as expected from the strong second half of 2023. Economists and the Fed continue to think GDP in 2024 will be close to 2%, which is the goldilocks scenario investors are hoping for.

Through mid-June the S&P 500 is up nearly 15%, continuing to hit all-time highs as anticipation for Fed rate cuts and artificial intelligence fuels investor optimism.

Small cap and value stocks have lagged, similarly to much of 2023, as many stock indexes were pushed higher by large technology companies with big index weights.

The strength of the U.S. dollar continued to drag international equities down. Developed and emerging international market returns are positive this year but lagging U.S. large cap gains.

Bonds had a rough start to the year but have made up a lot of ground recently and major broad market indexes are flat heading into quarter end.

The possibility of increased volatility seems high with stretched valuations and a narrowly driven market. Bonds offer diversification and relatively high yields. We think any volatility might be short-lived and could provide opportunities.

The Fed's Pivotal Quarter Overview

The U.S. Federal Reserve started lifting interest rates over two years ago and, we believe, finally stopped nearly a year ago. Investors, who tend to be forward-looking, went from anticipating rate hikes to anticipating rate cuts very quickly. The Fed acknowledges the Fed Funds rate is currently restrictive but wants to gain more comfort that inflation is easing toward their 2% target before cutting rates. It is a balancing act because inflation data is backward-looking, and restrictive Fed policy can increase unemployment and cause a recession.

The good news is the Fed finally got what they wanted in June. The May inflation data was promising, and we think these sorts of reports could continue as the economy cools and the labor market weakens, putting downward pressure on both wage and price inflation.

We are optimistic the Fed will end up cutting rates more than expected this year. While bond markets may not have fully priced this in, equity markets have been flying high on artificial intelligence enthusiasm. Valuations in technology and growth stocks are high and concentration in large cap indexes is also high. Few stocks with large weights in indexes have driven the whole market higher.

This could spell volatility for equity markets at some point, but currently the momentum is strong. A pullback could also create opportunities as a lot of cash is piled into money markets which could find its way into equities if investors find themselves with better entry points.

The bond market seems attractive now with good risk-and-reward dynamics, especially shorter-term bonds if the Fed does end up cutting rates more than expected. Bonds can also mitigate potential equity volatility.

Your Cetera financial professional can keep you focused on your personal goals and objectives. There will be added distractions thanks to it being an election year, but focusing on your own goals and objectives will help take the emotion out of investing. Election years tend to be good years for stocks regardless of who wins. There are larger macro-economic forces at play and the President's ability to enact change is limited, especially with a divided Congress. Both Biden and Trump have been president before, limiting the uncertainty of a new president.

For a more detailed look into what we are thinking and what is happening in the economy and markets, check out the rest of our 2024 Mid-Year Market Outlook.

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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.