Market Review

as at September 30, 2024

ARGUS Wealth Management

As the third quarter of 2024 wrapped up, the market again surprised us on the upside, with all major US indices posting gains despite policy and geopolitical uncertainties. The US Federal Reserve's first interest-rate reduction of 0.5%, China's aggressive stimulus efforts, and the contrasting policy proposals ahead of the US presidential election create opportunities and risks as markets navigate the shifting economic environment.

The Fed's September 50-basis-point rate cut marked a pivotal shift in monetary policy, providing markets with relief after months of volatility driven by concerns over inflation, growth and recession risk. While the immediate market response was positive, questions linger about the long-term effectiveness of the cut in maintaining economic momentum. With inflation cooling but still a factor, the Fed must carefully balance further easing with the risk of overheating the economy. Investors are now closely monitoring upcoming data releases to gauge how these measures will influence market dynamics moving forward.

In the meantime, China's sweeping economic interventions have given markets in Asia a boost, yet questions persist about the long-term sustainability of these policies. Add to this the upcoming US election with its starkly different policy options, and it's clear that investors are grappling with significant policy unknowns as we enter the year's final months.

Against this backdrop of uncertainties, Q4 could bring some market turbulence. While volatility gets a bad rap, it is important to recognize that it can be healthy and normal. Corrections of 10% or more have happened in 20 of the last 35 years, but the S&P 500 still returned an average of 11% per year.

Market Returns

Q3 2024 closed with market gains. The MSCI World Index rose 2%, and the S&P 500 Index posted a solid 6% return, bolstered by positive sentiment around the Fed's rate cut. Small-cap and value stocks were particular beneficiaries of this shift in monetary policy. China's economic interventions helped push equities up by 11% in Asia, adding to global market momentum.

For fixed income, US Treasury yields fell substantially over the quarter, with 2-year yields leading the way, falling 111 bps, as the yield curve steepened to reflect the outlook for a lower interest rate policy. As a result, bond valuations appreciated significantly during the quarter. The US investment-grade performed strongly on the corporate bond front, as spreads remain at the tightest historical level. In addition, the cut and expectations of faster monetary policy easing by the Fed led to a weaker dollar against major currencies.

However, while equity and fixed-income markets thrived, commodities told a mixed story. Brent crude prices fell sharply, down 17%, reflecting concerns over weakening global demand. At the same time, gold continued its ascent, reaching new highs as investors sought safety in an uncertain economic environment.

China's Policy Stimulus: Necessary, But Sufficient?

Facing a steep economic slowdown, the Chinese government responded with aggressive measures, including interest rate cuts and a RMB500 billion fund to stabilize the stock market. These actions led to a strong rally in Chinese equities, with the CSI 300 surging nearly 20% during the quarter.

Yet, the country's real estate sector remains a major drag on growth, with unsold inventories and declining property prices weighing heavily on the broader economy. Moreover, weak consumer demand and high levels of precautionary savings suggest that Chinese households are not yet confident in a full recovery. These deeper structural issues raise questions about whether China's policies are sufficient to drive long-term growth or if this is merely a temporary reprieve.

US Election: A Crucial Source of Uncertainty

Adding another layer of unpredictability is the US presidential election. The outcome could potentially shift US economic policy, creating further market volatility. Kamala Harris and Donald Trump represent two starkly different fiscal and regulatory policy approaches. Harris's proposal to raise corporate taxes from 21% to 28% may dampen corporate earnings, especially in sectors like technology and finance. In contrast, Trump is advocating for further tax cuts, potentially reducing the corporate rate to 15%, which could provide a short-term boost to corporate profits. However, it also risks widening the fiscal deficit.

The regulatory landscape may also undergo significant changes depending on the election outcome. Trump favours further deregulation in sectors such as energy and healthcare, while Harris is expected to tighten oversight in areas like environmental policy.

What This Means for Investors

It would be natural to assume that an election year's heightened emotions and uncertainty could significantly impact market sentiment and performance. However, historical data has shown otherwise. Rather, markets have generally continued to rise in election years. It is important for investors to continue to focus on fundamentals and stick with their long-term financial plans.

A diversified investment strategy incorporating investors' return and risk objectives is the key to navigating market uncertainties. Growth stocks, particularly in technology and clean energy, could benefit from policy-driven tailwinds, especially if Harris pushes forward with green investment. Conversely, defensive sectors such as healthcare and consumer staples offer a safety net in the face of regulatory changes or slower growth. Fixed-income investments hold a place in the portfolio as a hedge against volatility, especially at the current interest rates.

Outlook

As we enter the final quarter of 2024, the dominant theme remains policy uncertainty. The Federal Reserve's rate cuts have further boosted equities, but questions about inflation and future cuts linger. Similarly, China's stimulus efforts have generated short-term gains, but the sustainability of its recovery is far from guaranteed. This matters to investors as China is a critical player in global supply chains and trade, and its domestic struggles could have a ripple effect on global demand, potentially affecting everything from commodity prices to manufacturing output in other regions.

The US election adds another layer of complexity, with potential shifts in taxation, regulation, and government spending depending on the outcome. However, we think the volatility resulting from the election on the market will be short-lived.

In this environment, we remain vigilant and prudently optimistic. We believe a well-diversified portfolio that balances exposure to growth sectors with defensive positions is essential in managing potential volatility and unpredictable policy shifts.

Macro Indices Report as at September 30, 2024 (percent)

	SEP	AUG	JUL	Q3 2024	YTD	2023	Annualized 3 Years	Annualized 5 Years
GLOBAL EQUITY								
MSCI AC World Total Return	2.3	2.5	1.6	-3.4	18.7	22.2	8.1	12.2
MSCI EAFE	1.0	3.3	3.0	-4.0	13.6	18.9	6.1	8.8
NORTH AMERICA EQUITY								
S&P 500 Total Return	2.1	2.4	1.2	-3.3	22.1	26.3	11.9	16.0
DOW JONES INDUSTRIAL AVG	2.0	2.0	4.5	-2.1	13.9	16.2	10.0	11.8
S&P 400 Net TR	1.1	-0.1	5.8	-4.3	13.1	15.8	6.9	11.2
NASDAQ COMPOSITE	2.8	0.7	-0.7	-3.9	21.8	44.7	8.9	18.8
RUSSELL 2000 INDEX	0.7	-1.5	10.2	-5.1	11.2	16.9	1.8	9.3
S&P/TSX COMPOSITE INDEX	3.2	1.2	5.9	-2.2	17.2	11.8	9.6	11.0
EUROPE EQUITY								
BLOOMBERG EUROPEAN 500	-0.3	1.6	1.4	-2.0	12.3	16.7	8.4	8.9
FTSE 100 INDEX	-1.5	0.8	2.5	2.1	9.8	7.7	9.0	5.9
CAC 40 INDEX	0.2	1.3	0.8	-3.4	4.2	20.1	8.6	9.1
DAX INDEX	2.2	2.2	1.5	-4.7	15.4	20.3	8.2	9.2
ASIA EQUITY								
MSCI AC Far East Ex Japan	10.1	2.0	-1.8	-5.5	17.5	0.4	-3.9	2.3
NIKKEI 225	-1.3	-1.1	-1.2	-3.2	15.1	31.0	11.0	13.9
HANG SENG INDEX	18.3	3.9	-1.0	-4.2	29.2	-10.5	-1.2	-0.7
S&P/ASX 200 INDEX	3.2	0.6	4.2	-0.3	13.4	14.0	9.9	9.7
SHANGHAI SE COMPOSITE	17.6	-3.1	0.3	-1.4	15.3	-1.0	0.5	5.4
SOUTH AMERICA & EM EQUITY								
MSCI EM Net Total Return USD Index	6.7	1.6	0.3	-2.9	16.9	9.8	0.4	5.7
S&P LATIN AMERICA 40	0.0	4.5	0.2	-5.6	-7.7	34.2	9.4	3.0
BRAZIL IBOVESPA INDEX	-3.1	6.5	3.0	-1.3	-1.8	22.3	5.9	4.7
S&P BSE SENSEX INDEX	2.3	1.0	3.5	2.1	18.0	20.3	14.0	18.3
FIXED INCOME								
ICE BoA 1-3 Year US Treasury Index	0.8	0.9	1.1	0.7	4.1	4.3	1.3	1.5
BLOOMBERG US Agg	1.3	1.4	2.3	-3.2	4.4	5.5	-1.4	0.3
BLOOMBERG Multiverse (Unhedged)	1.7	2.4	2.7	-3.5	3.8	6.0	-2.8	-0.6
Citi World BIG US Hedged	1.2	1.1	2.1	-2.3	4.0	6.9	-1.2	0.0
ICE BoA US High Yield Index	1.6	1.6	2.0	0.5	8.0	13.5	3.1	4.5
JPM EMBI Global Core – US$	1.9	2.5	1.9	6.5	8.7	10.8	-1.9	4.0
JPM EM Global Cove – Local	3.1	3.0	2.3	8.6	4.6	10.9	0.9	2.2
COMMODITIES								
BLOOMBERG Commodity Index	4.4	-0.4	-4.5	3.3	1.7	-12.6	-0.1	5.2
GOLD	8.1	-0.3	-1.2	12.8	26.5	14.6	14.7	12.1
OIL (WTI)	-5.9	-3.6	-2.8	32.3	5.7	-3.8	10.1	-1.1

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