PUREfi Wealth Market Outlook

Regime Change

Q4 2024

What We Got Right and Wrong in Q3

What we Got Right:.

- **“The Fed Begins Cutting Rates in September”**
  The Fed cut interest rates in September for the first time since the beginning of the Covid pandemic.
- **“Expect Softer Economic Data”**
  We expected a catalyst for the Fed to begin cutting rates in September was weaker economic data, particularly in the labor market.
- **“Strong Q1 Returns Historically Bullish for Rest of Year”**
  The S&P 500 rose 10+% in the first quarter for just the 10th time since 1970. In the previous nine years, the S&P 500 had a median full-year return of 28.6%.
- **“Short/Intermediate Bonds > Cash Before Fed Cuts”**
  With a Fed cut expected, we recommended investors allocate to Bonds over Cash. The Bloomberg US Agg rallied +5.2% in the third quarter and outperformed Cash.
- **“Yield Curve (10s and 2s) Disinverts”**
  The longest inverted yield curve on record for the 10-year and 2-year finally ended. This part of the yield curve had been inverted since July 2022.

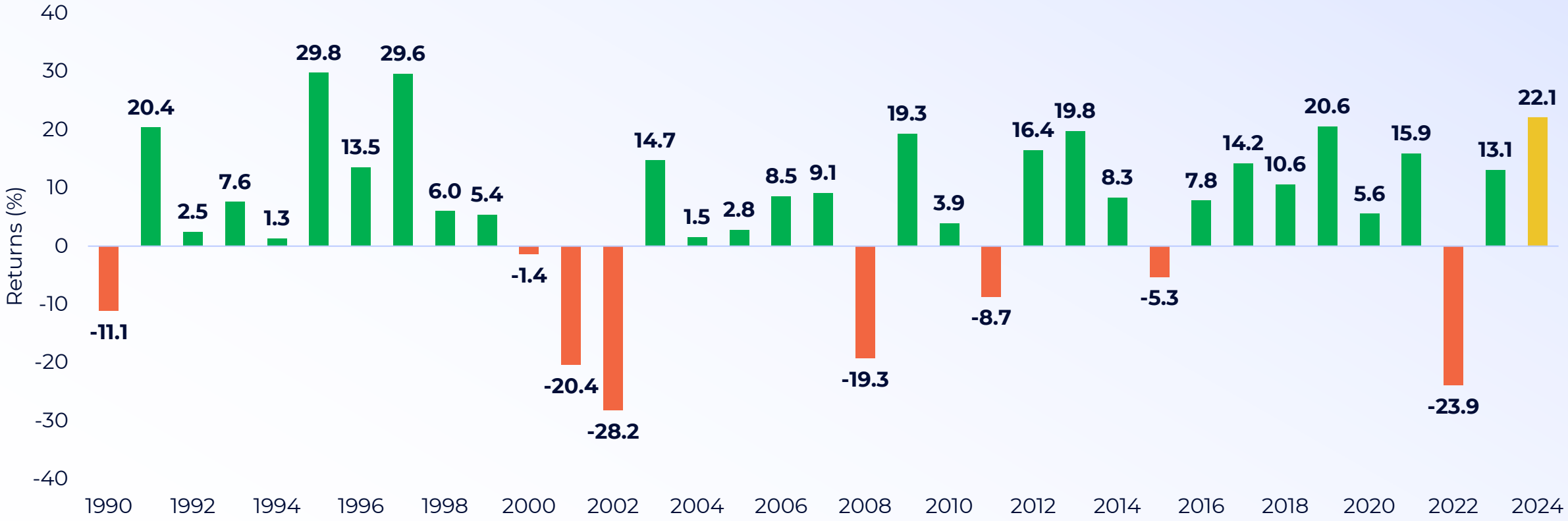
What we Got Wrong:

Source: Bloomberg, Morningstar Direct and Dynasty Financial Partners
As of 9/30/2024

S&P 500: Best Start to a Year Since 1997

US stocks are off to their best start to a year since 1997. US equities are on a five-month winning streak, in part to a broadening of the market and the Fed cutting interest rates for the first time since 2020. In looking forward, the market is entering a seasonally strong period but will have to contend with volatility around the US Election.

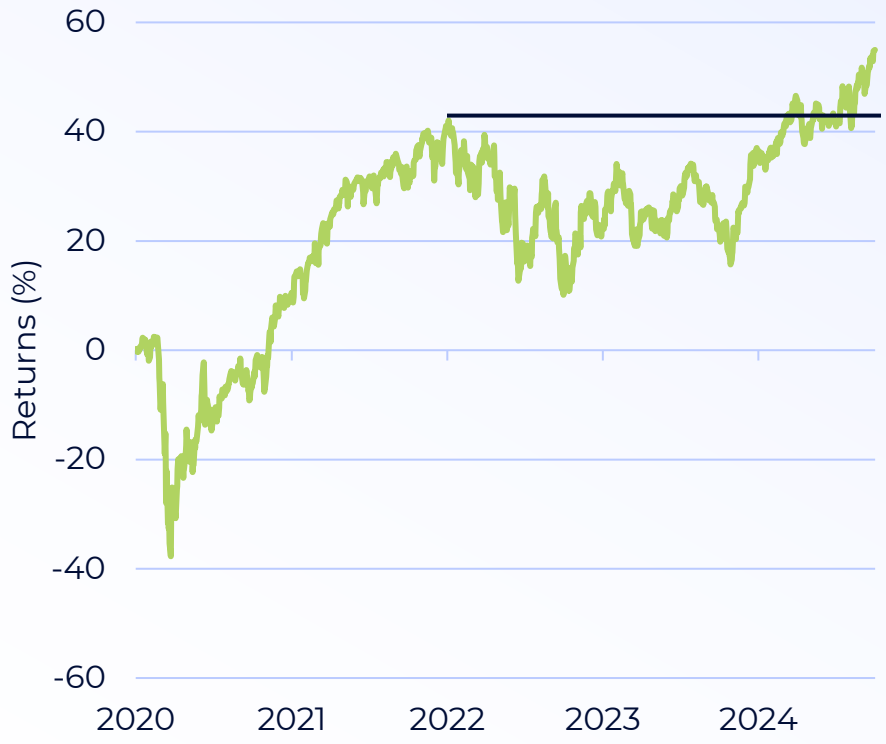
S&P 500 YTD Performance (%) Through Q3



Source: Morningstar Direct and Dynasty Financial Partners
As of 9/30/2024

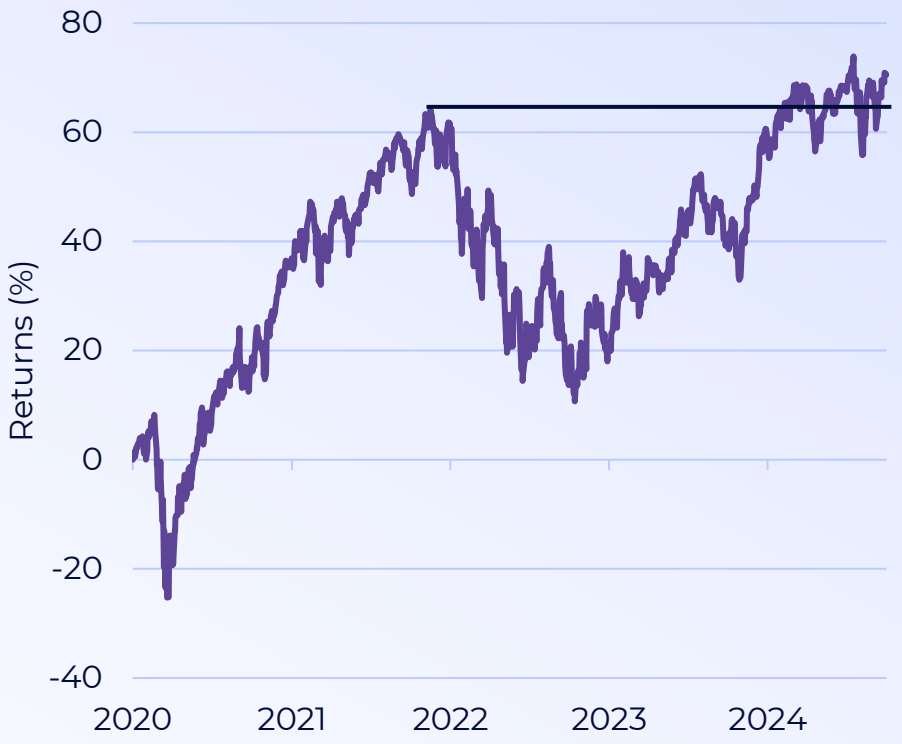
Bull Market has been Led by Mega-Caps

S&P 500 Equal Weight Returns



Despite an ongoing Bull Market, the S&P 500 Equal Weight Index and Nasdaq 100 Equal Weight Index are barely positive since 2022

Nasdaq 100 Equal Weight Returns



Source: YCharts and Dynasty Financial Partners
Data from S&P 500 Equal Weight Index and Nasdaq 100 Equal Weight Index.
As of 9/30/2024

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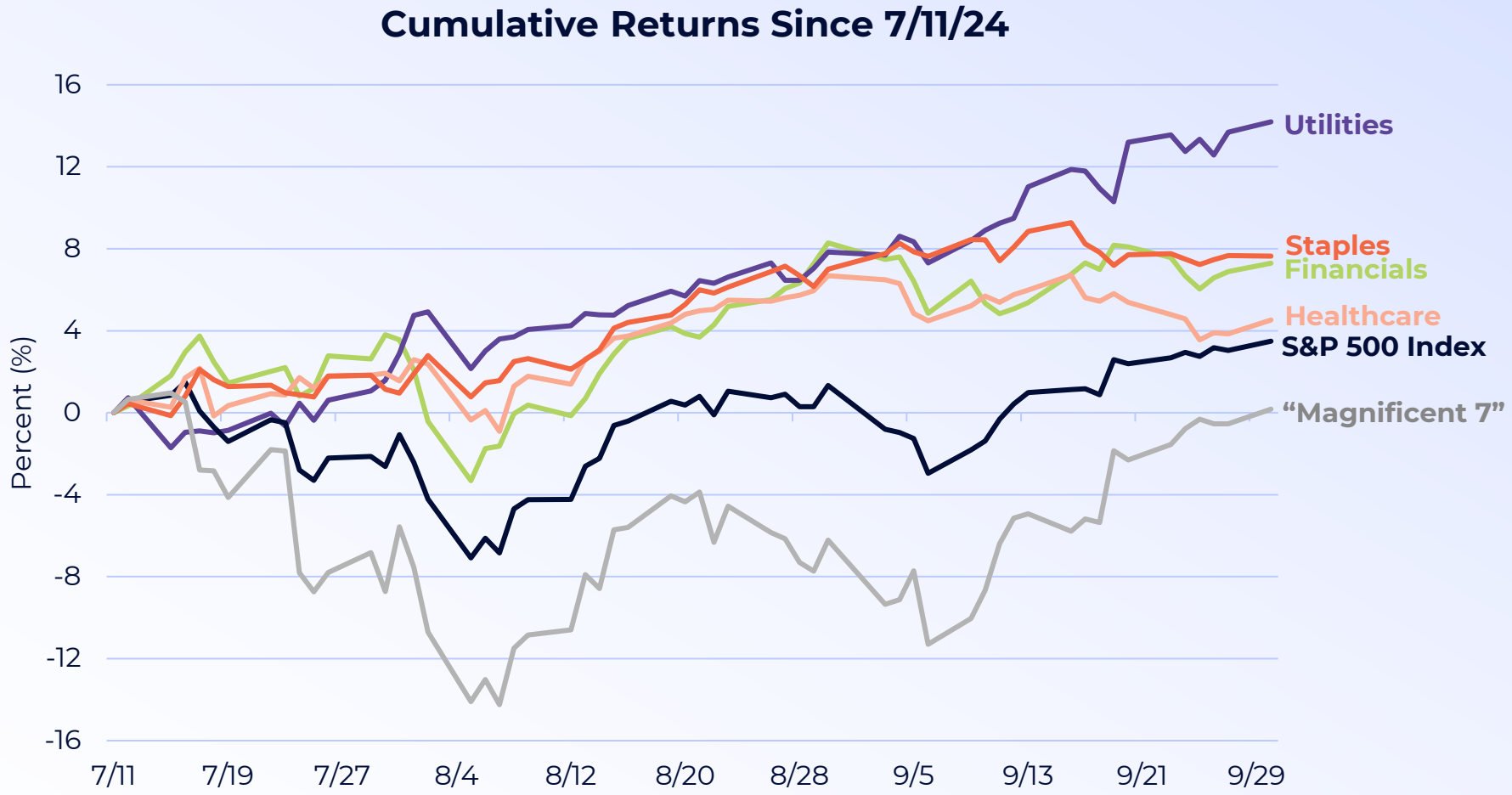
Recap of Third Quarter 2024: Change of Leadership

After a "soft" CPI print on July 11th, markets rotated out of Big Tech into more defensive-oriented stocks with attractive valuations



Source: YCharts and Dynasty Financial Partners
Financials represented by the Financial Select Sector SPDR ETF (XLF). Staples represented by the Consumer Staples Select Sector SPDR ETF (XLP). Healthcare represented by the Healthcare Select Sector SPDR ETF (XLV). Utilities represented by the Utilities Select Sector SPDR ETF (XLU). "Magnificent 7" represented by the Roundhill Magnificent Seven ETF (MAGS).
Data from 7/11/2024 – 9/30/2024 (since the June CPI Report on July 11th, 2024)

Recap of Third Quarter 2024: What Changed?

Questions on AI & Return on Investment?

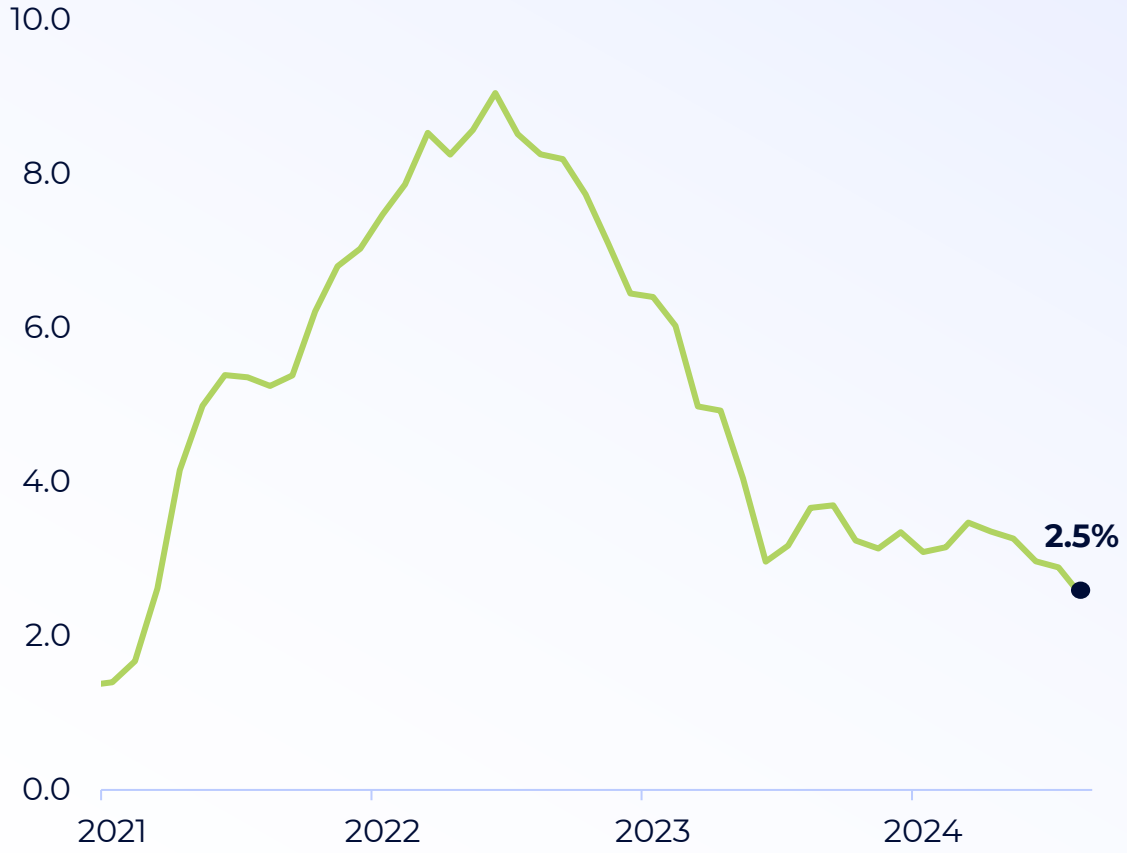
Shift in Focus from Inflation to Labor Market

Anticipation of a Fed Easing Cycle

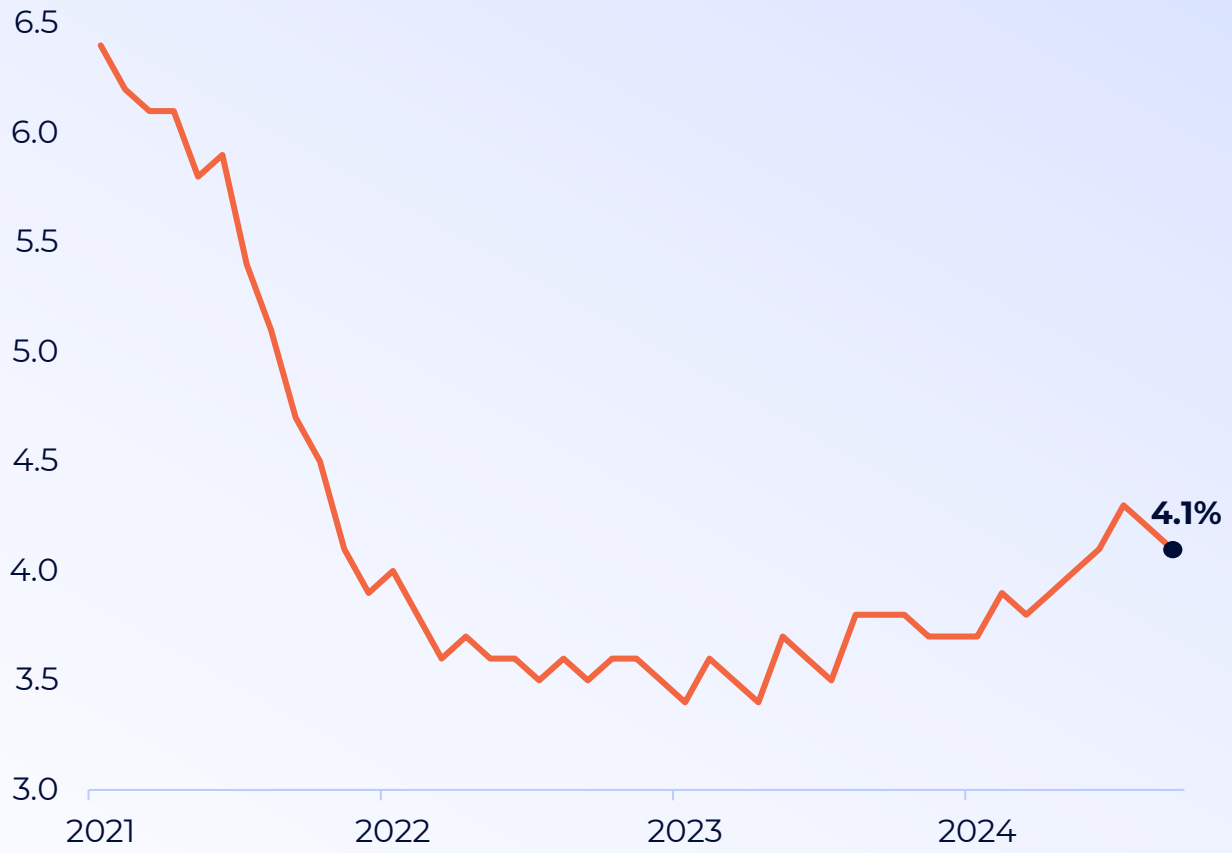
Source: Dynasty Financial Partners

Market (and Fed) Shifting Focus to Labor Market

US CPI Year-Over-Year (%)



Unemployment Rate (%)

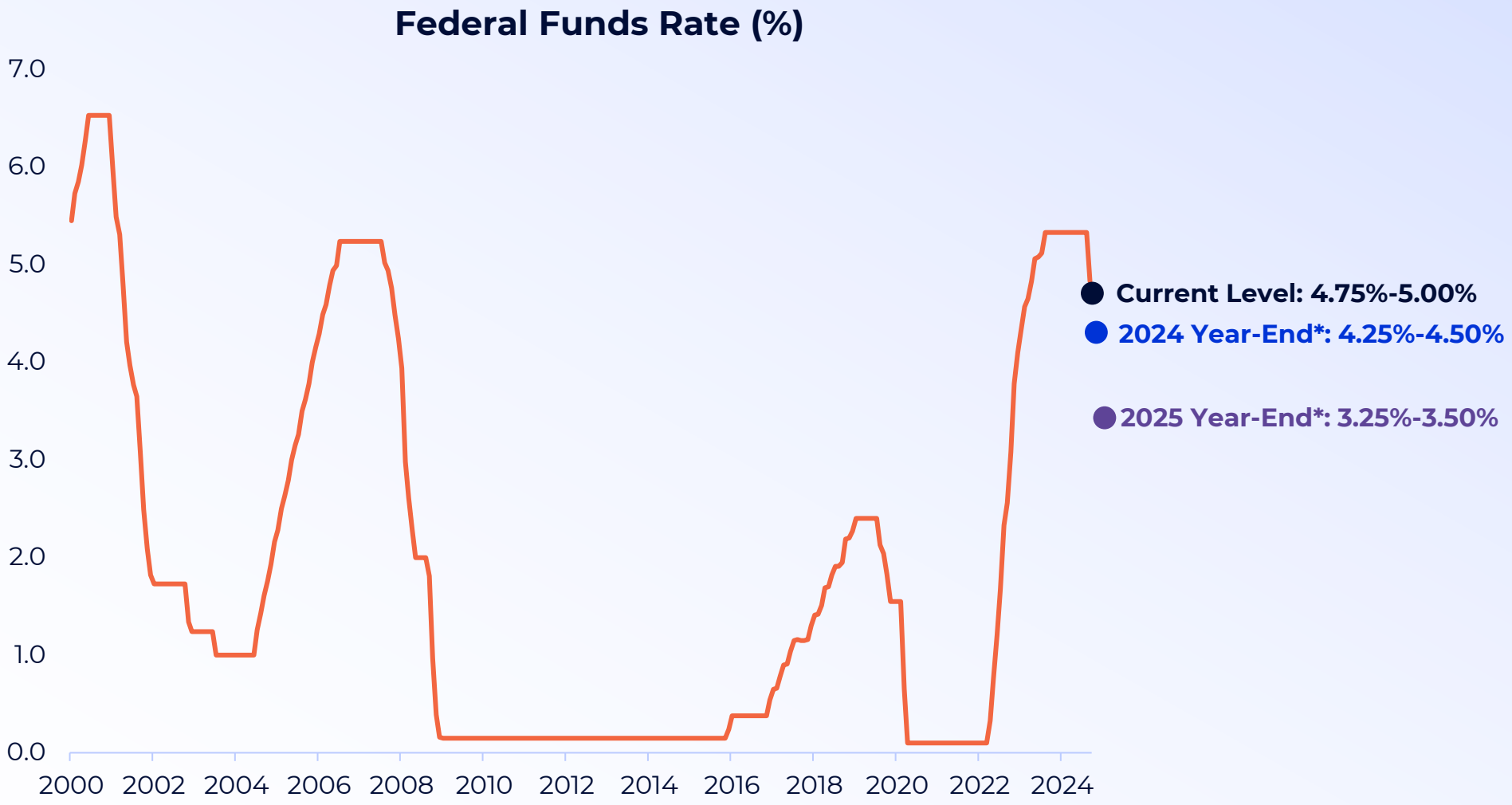


Source: US Bureau of Labor Statistics and Dynasty Financial Partners
As of 10/4/2024

Fed is Forecasting 200 Bps of Cuts by Year-End 2025

"The time has come for policy to adjust. The direction of travel is clear. The timing and pace of rate cuts will depend on incoming data, the evolving outlook and the balance of risks."

Fed Chair Powell (August 23rd, 2024)

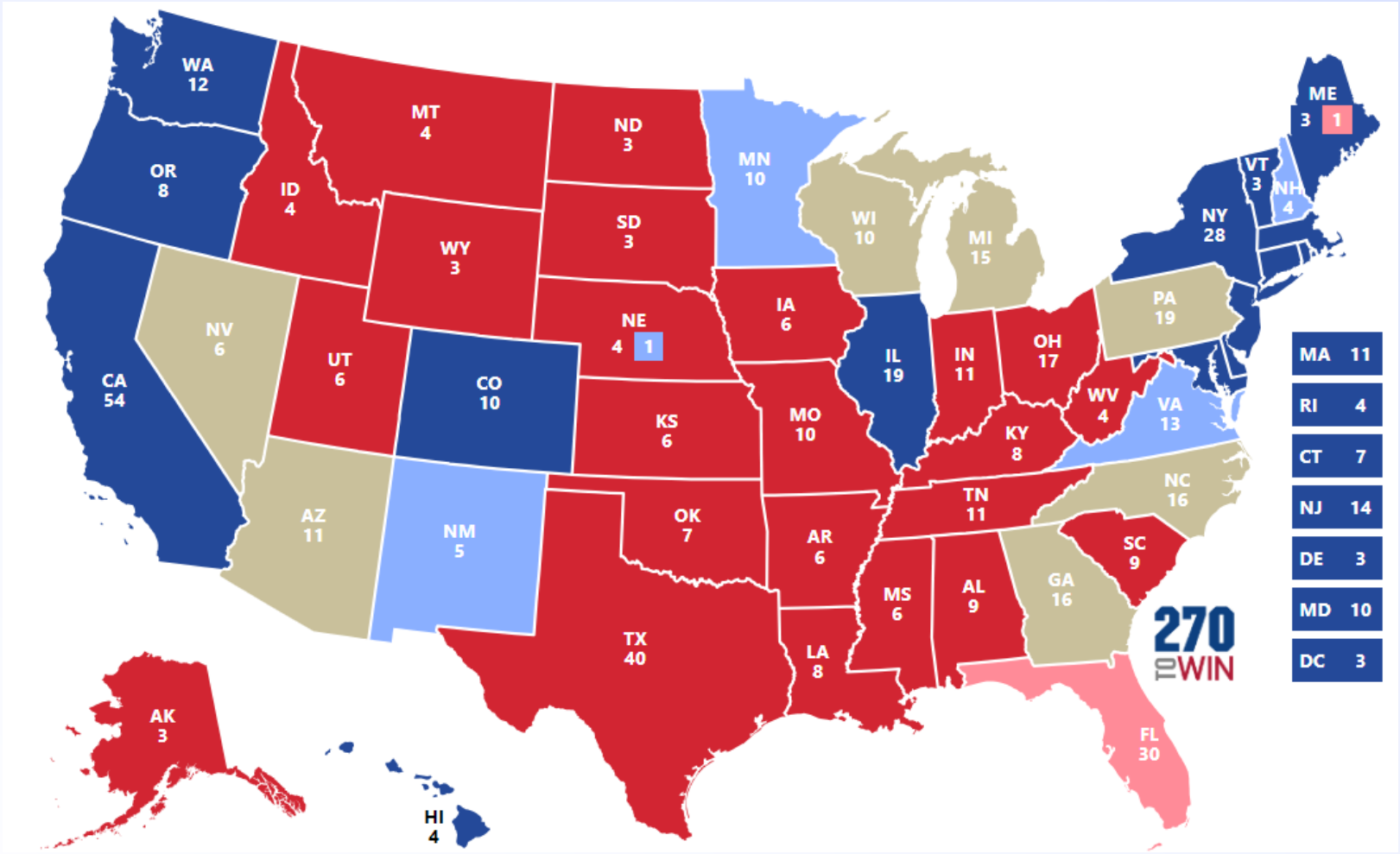


Source: US Federal Reserve and Dynasty Financial Partners
*Year-End Forecasts are based on the Fed's Summary of Economic Projections from September 18th 2024
As of 9/30/2024

Election: Battleground States to Decide the Presidency

A close Presidential Race should be decided only by a small number of battleground states:

Arizona
Georgia
Michigan
Nevada
North Carolina
Pennsylvania
Wisconsin



Source: 270toWin and Dynasty Financial Partners
270 Electoral Votes are needed to win the Presidency
As of 9/30/2024

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Election: Democrats Defending More Seats in Senate

Current Senate

Democrats: 51 Seats **Republicans: 49 Seats**

Current House of Representatives

Democrats: 212 Seats **Republicans: 220 Seats**

Upcoming Senate Race: 34 Seats in Play

AZ	MD	NM	VA
CA	ME	NV	VT
CT	MI	NY	WA
DE	MN	OH	WI
HI	MT	PA	WV
MA	NJ	RI	

Democrats Defending
23 Seats

Republicans Defending
11 Seats

FL	NE
IN	TN
MO	TX
MS	UT
ND	WY
NE	

Source: Bloomberg and Dynasty Financial Partners
51 Senate Seats Needed for a Majority (3 Senators currently are Independent but caucus with the Democrats). 218 House Seats Needed for a Majority (3 seats currently vacant).
As of 9/30/2024

Election: Market Focused on *Taxes*, Trade and Deficits

Despite the many issues on the ballot this November, we believe some of the most important issues for markets revolve around 1) Taxes, 2) Trade and 3) Deficits.

Taxes

Trump:

Corporate Tax Rate: Trump aims to keep at 21% or potentially lower.

Individual Tax Rate: Trump aims to make permanent current individual tax rates, which sunset in 2025.

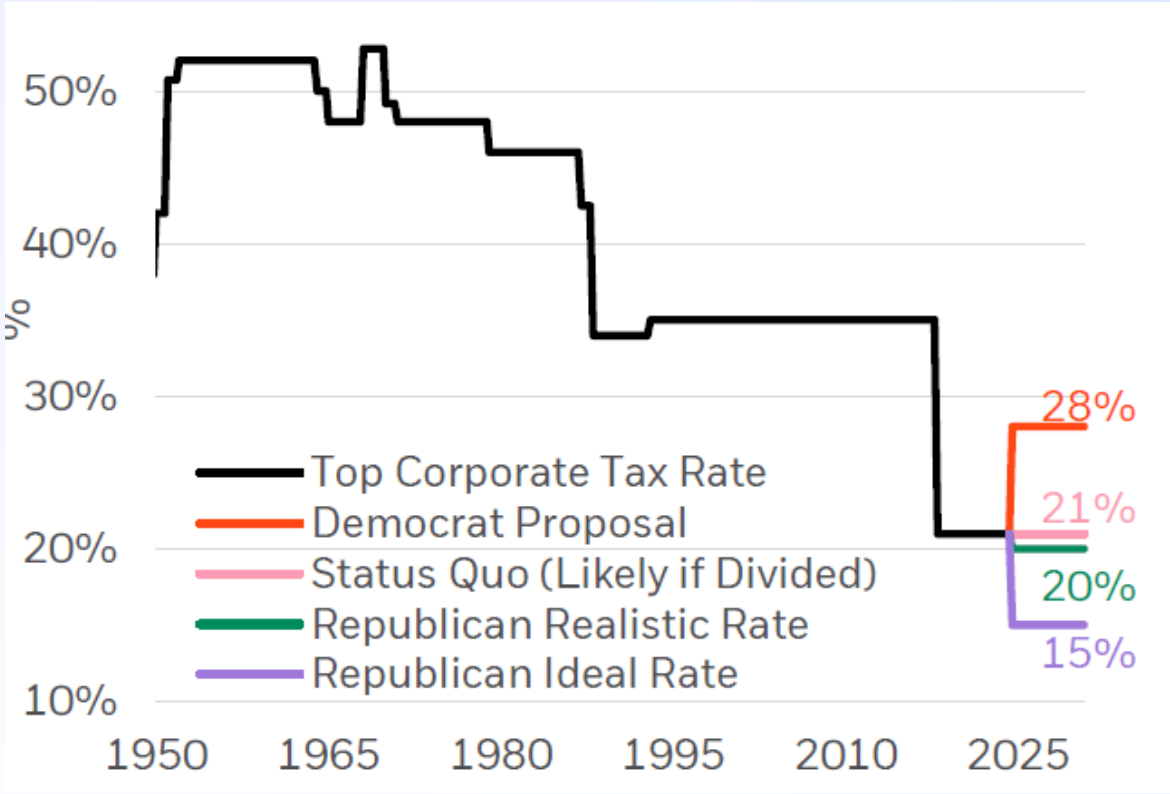
Harris:

Corporate Tax Rate: Harris aims to raise from 21% to 28%

Individual Tax Rate: Partial extension of 2017 tax cuts but potential hikes for high earners (above $400,000/year).

The 2017 Tax Cuts and Jobs Act is set to expire at the end of 2025.

Corporate Tax Rate (%)



Source: BlackRock and Dynasty Financial Partners
As of 8/27/2024

Election: Market Focused on Taxes, *Trade* and Deficits

Despite the many issues on the ballot this November, we believe some of the most important issues for markets revolve around 1) Taxes, 2) Trade and 3) Deficits.

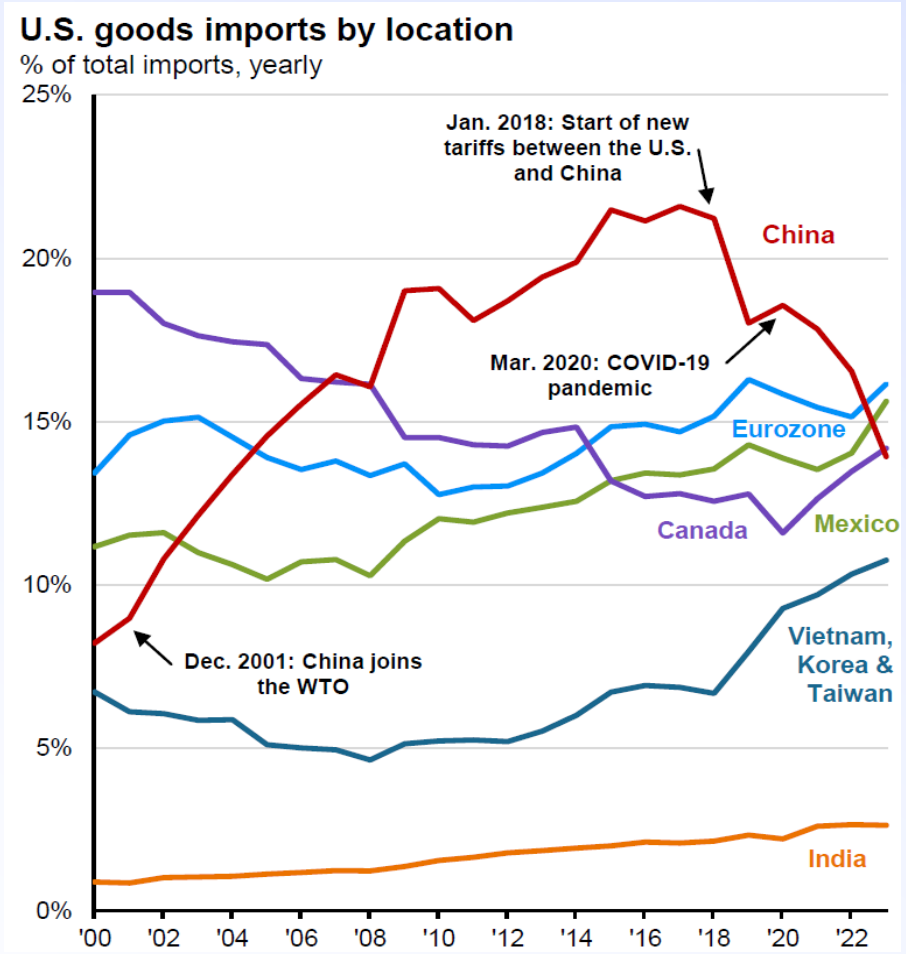
Trade

Trump:

Trump aims to increase tariffs not only on China, but for all imported goods. Trump has floated 60% tariffs on Chinese imports and a 10% universal tariff on the rest of world.

Harris:

Harris has pushed against additional tariffs, arguing it results in a "tax" on US consumers. Instead, Harris may pursue the current strategy of aligning US allies against China on trade.



Source: JPMorgan, FactSet and Dynasty Financial Partners
Data as off 7/22/2024

Election: Market Focused on Taxes, Trade and *Deficits*

Despite the many issues on the ballot this November, we believe some of the most important issues for markets revolve around 1) Taxes, 2) Trade and 3) Deficits.

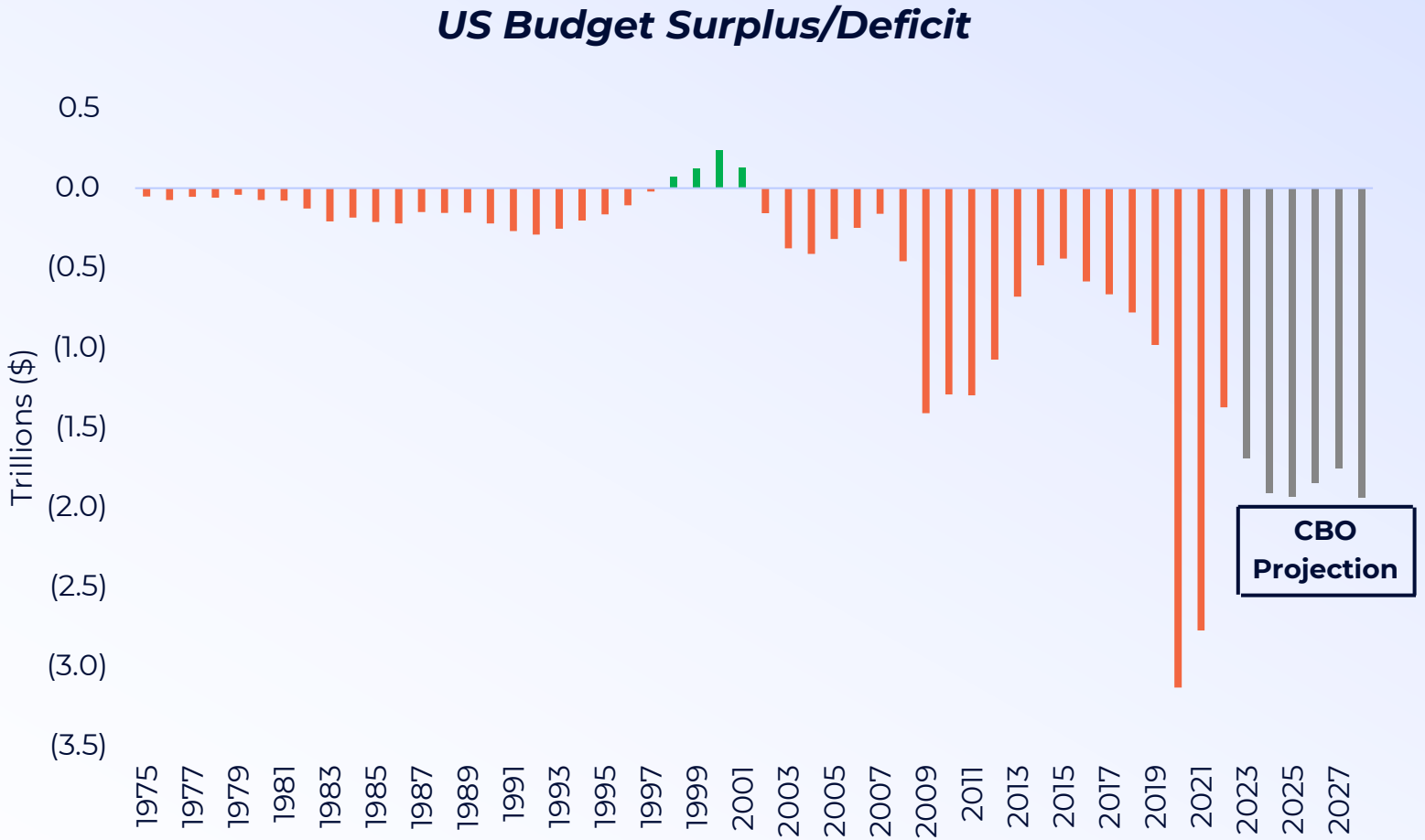
Deficits

Trump:

Trump plans to "pay" for tax cuts by increasing tariffs on imported goods and China.

Harris:

Harris plans to "pay" for fiscal spending by raising taxes on corporations and potentially higher income earners.

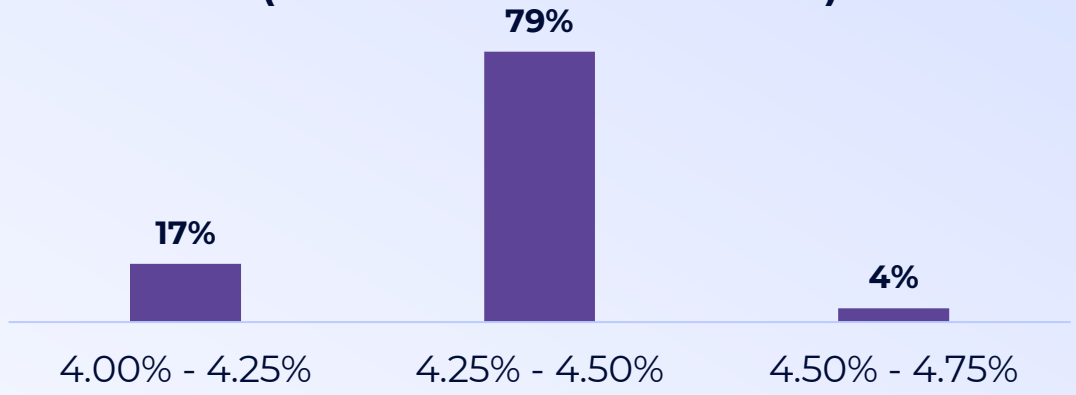


Source: Congressional Budget Office and Dynasty Financial Partners
CBO Projections from 2024-2028
As of 9/30/2024

Investment Implications

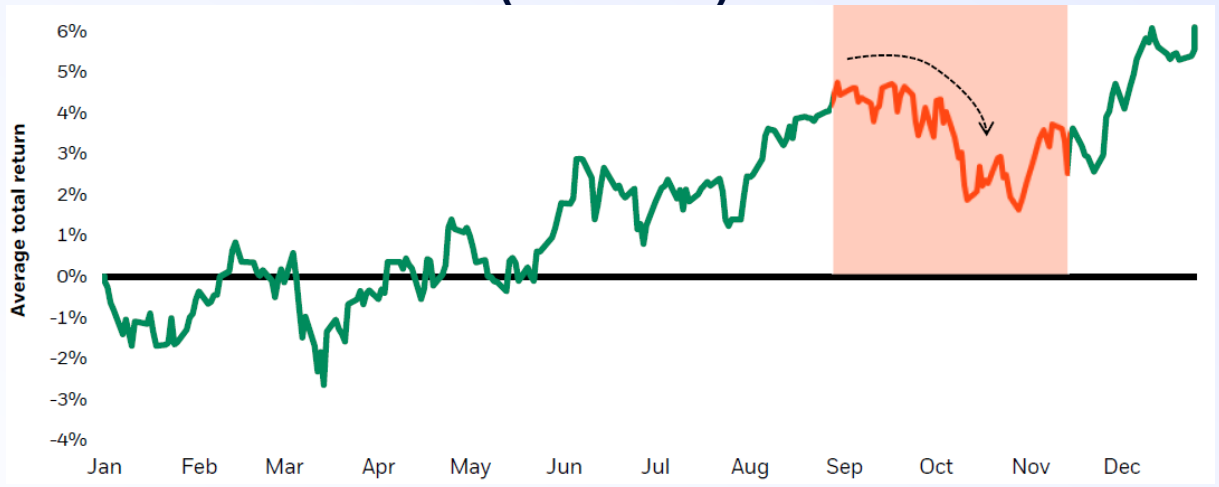
1. **Expect an Additional 50 Bps of Cuts by Year-End:**
   Not only did the Fed cut rates in September for the first time since 2020, but they cut by 50 basis points. The jumbo cut was a signal on the Fed's intent to not "fall behind the curve." The September Fed meeting also provided an updated "Dot Plot," which showed a majority of FOMC members expect an additional 50 basis points of cuts in 2024. With two Fed meetings left in November and December, current market odds agree with the Fed.

Fed Funds Rate Probabilities by Year-End
(Current Level: 4.75% - 5.00%)



2. **Equities May Struggle in the Leadup to the Election:**
   September-November is historically the weakest 3-month stretch for equities in a Presidential Election Year. While the S&P 500 rallied 2.1% in September, a big contributor was the Fed's jumbo rate cut (50 bps). The Fed's next meeting is not until after the election and equity valuations are elevated. We also could see added volatility if we do not have a declared winner for days or weeks. On a positive note, US equities historically rally after the Presidential Election into year-end.

Average S&P 500 Performance in Presidential Election Years
(Since 1988)



Source: BlackRock, Bloomberg, CME FedWatch Tool and Dynasty Financial Partners
As of 10/4/2024

Investment Implications (continued)

3. **Strong Q1 Returns (+10%) Historically Bullish for Rest of Year:**
This is just the 10th time since 1970 the S&P 500 had 10+% returns in the first quarter to start a year. In the previous nine occurrences, the S&P 500 had a median return in the third quarter of 1.9%. The S&P 500 was able to surpass this, finishing the third quarter up 5.9%.

   In looking at the fourth quarter and full year returns in these years, the S&P 500 had median returns of roughly 8% and 28%, respectively. In fact, none of these years produced a single negative calendar year return.

Previous Years with 10+% Returns in Q1 (Since 1970)					
Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
1975	22.9%	15.3%	(10.9%)	8.6%	37.2%
1976	15.0%	2.4%	1.9%	3.2%	23.9%
1986	14.0%	5.9%	(7.0%)	5.6%	18.7%
1987	21.3%	5.0%	6.6%	(22.5%)	5.2%
1991	14.5%	(0.2%)	5.3%	8.4%	30.5%
1998	13.9%	3.3%	(9.9%)	21.3%	28.6%
2012	12.6%	(2.7%)	6.3%	(0.4%)	16.0%
2013	10.6%	2.9%	5.2%	10.5%	32.4%
2019	13.6%	4.3%	1.7%	9.1%	31.5%
2024	10.6%	4.3%	5.9%	?	?
Median				**8.4%**	**28.6%**

Source: Morningstar Direct and Dynasty Financial Partners
As of 9/30/2024

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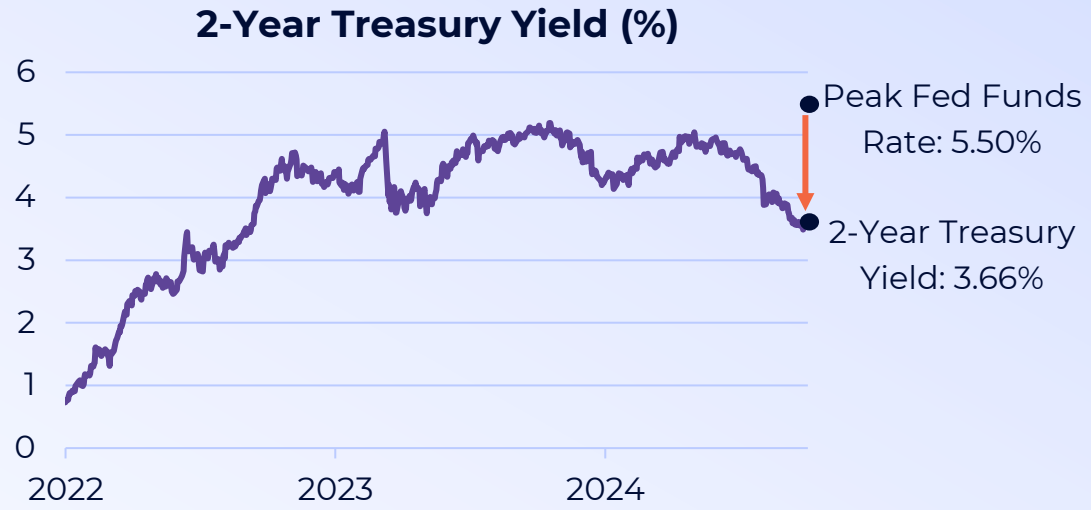
Investment Implications (continued)

4. **Bond Market Pricing in Too Many Cuts:**
   We believe there is a disconnect between the bond & equity markets. Equities remain near all-time highs but the bond market is pricing roughly 200 basis points of cuts over the next year (according to the 2-year Treasury yield). We believe bond market pricing is overdone and yields have dropped too far in anticipation of a quicker cutting cycle. The economy remains resilient but inflation may be sticky. As highlighted in our last quarterly outlook, we prefer short-to-intermediate bonds in the fourth quarter.



5. **Chinese Stimulus May Mark a Turning Point:**
   In late-September, Chinese equities posted their best week since 2008 after the government announced a massive stimulus package (highlighted to the right). As a reminder, China has been stuck in a lengthy downturn due to a property crisis, deflation and weak consumer confidence. In our view, the magnitude of this stimulus is reminiscent of US stimulus provided in March 2020 by the Fed and US government. Ultimately the size of this stimulus and commitment "to do more" may help finally stabilize the Chinese market.

Recap of Recently Announced Stimulus in China

- Interest rate cuts
- Incentives for State-Owned enterprises to acquire unsold property
- Equity support, including facilities that provide funding to firms & investors for equity purchases
- Reduce level of cash banks must keep in Reserve
- Cut outstanding mortgages by 50 bps
- Lower the minimum down payment on homes.
- Encourage buybacks

Source: The Federal Reserve of St. Louis, Bloomberg and Dynasty Financial Partners
As of 9/30/2024

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