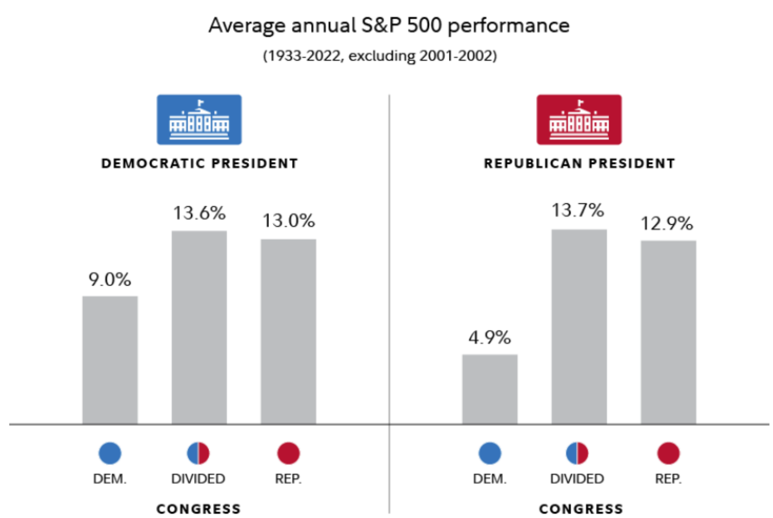
ICR® 3rd Quarter Newsletter – October 2024

Markets once again rallied in the third quarter, with the S&P 500 gaining 5.5% as investors remained optimistic about the Federal Reserve's chances of engineering a soft landing. With the Fed lowering interest rates and expectations for that to continue, two of the more interest rate-sensitive sectors led the way. Utilities rose 19% and real estate posted a 17% gain after having been the only negative sector over the first half of the year.

It feels like we rarely get to say this but, foreign markets outperformed the U.S. in the third quarter. The MSCI EAFE Index for foreign developed markets rose 6.7% while the MSCI Emerging Markets Index fared slightly better with a 7.8% increase. Gold continued its march higher, rising over 13% in the quarter as global central banks have spurred demand by purchasing over 1,000 tons of gold during each of the last two years.

With inflation numbers continuing to come down, the Federal Reserve lowered their benchmark rate for the first time since 2020. Perhaps realizing they waited a little too long, the first cut was 50 basis points (bps), but the expectation is that future cuts will likely be 25 bps each. The Fed's projections for future policy rates show a steady downward trend over the next year, but an unexpected return of inflationary pressures could derail that plan. Bond market investors signaled their anticipation that rates will continue to fall with the ten-year Treasury yield dropping 60 bps during the quarter.

We're at that point in the political cycle where we get a lot of questions about how the election will impact the markets, so we're going to use this space to discuss that. For as much attention as elections get, the outcome tends to have little predictive power about future stock market returns. Historically, markets have performed about the same whether the president has a D or an R after their name. While presidents can enact legislation that can impact markets, it has generally been other – often unforeseen – events that have pushed the markets up or down.



Past performance is no guarantee of future results. Data excludes 2001 to 2002 due to Senator Jeffords changing parties in 2001. Calendar year performance from 1933 through 2022. Source: Strategas Research Partners, as of November 5, 2023.

While it is tempting to try to identify investment winners based on election outcomes, that approach rarely works. For example, when Donald Trump was elected in 2016, the conventional thinking was that he would be good for the energy sector, but energy was the worst performing sector during his presidency. Was that because of something he did? Probably not. Even though Trump was largely seen as an ally for energy companies, the Covid pandemic decimating the travel industry and OPEC-instigated price wars proved to be far more impactful. Meanwhile, some view President Biden as an enemy of the oil and gas industry, but the energy sector has been by far the best performing one during his presidency. Again, this is (mostly) not because of his actions, but because the travel industry has roared back and OPEC has taken actions to prop up the price of oil.

That doesn't mean the election won't have any impact on markets, but it's impossible to know the magnitude of those effects. For example, Trump's economic proposals include extending corporate tax cuts, which would be a boon to companies' bottom lines. But, he has also promised to significantly increase tariffs, which economists fear could reignite inflationary pressures and prevent the Fed from continuing to lower interest rates. Which of those two policies will have a larger impact on the markets is impossible to know ahead of time.

The potential impact of who the next president is will hinge a lot on which party controls Congress. If the White House and Congress are divided, it may be very difficult for either candidate to advance their policy proposals. There's a line of thinking that a divided government is the best-case scenario for the markets, because little change will take place, and there's nothing markets appreciate more than eliminating uncertainty. Again, there will likely be other larger factors determining the direction of asset prices over the next four years than whether or not we have a divided government.

So, what should investors do as the election approaches? As long as one has a prudent investment plan in place, the answer is probably: nothing. We've invested through a number of elections, and every time we hear investors wondering whether they should sell everything because of who got elected. Every election since ICR was founded in 2006 that would have been the wrong thing to do. No matter what happens on November 5th, there will be a lot of commotion and overreaction, but investors should remain focused on their long-term goals and try to ignore the noise – at least, as it relates to allocation decisions.

If you have any questions, thoughts, or concerns, we're always available and look forward to hearing from you.

Sincerely,

James A. Heine

James L. Cobb

Market Report (as of 9/30/24)

Index	2024 (%)	3-Year Annualized (%)	5-Year Annualized (%)
S&P 500	20.8	10.2	14.1
Dow Jones Industrial Average	12.3	7.7	9.5
U.S. Aggregate Bond Index	4.5	-1.4	0.3
MSCI EAFE (Foreign Index)	10.4	2.7	5.5