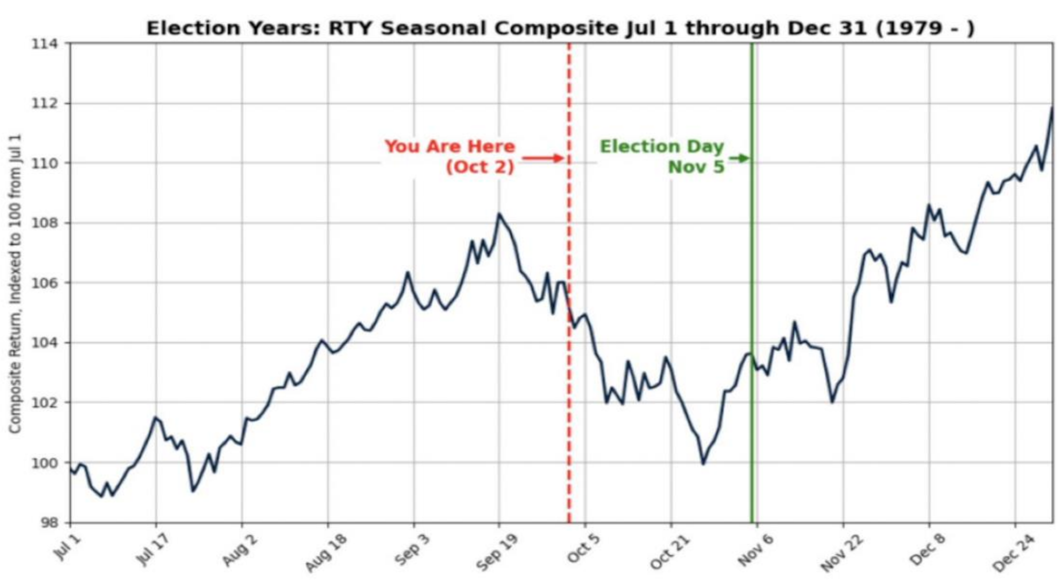
October 2024

Dear Clients and Friends,

Stock market bulls got just about everything they wished for in the third quarter. After years of hand-wringing about how narrow the market has been, the third quarter saw a marked shift in market breadth with a number of previously lagging sectors showing strength. Small-cap, mid-cap, international, and even emerging markets all posted strong gains while the long-leading tech sector took a breather. The result was a series of new highs in the equal-weighted indexes, finally matching the new highs achieved by the traditional S&P 500 and Nasdaq 100 indexes.

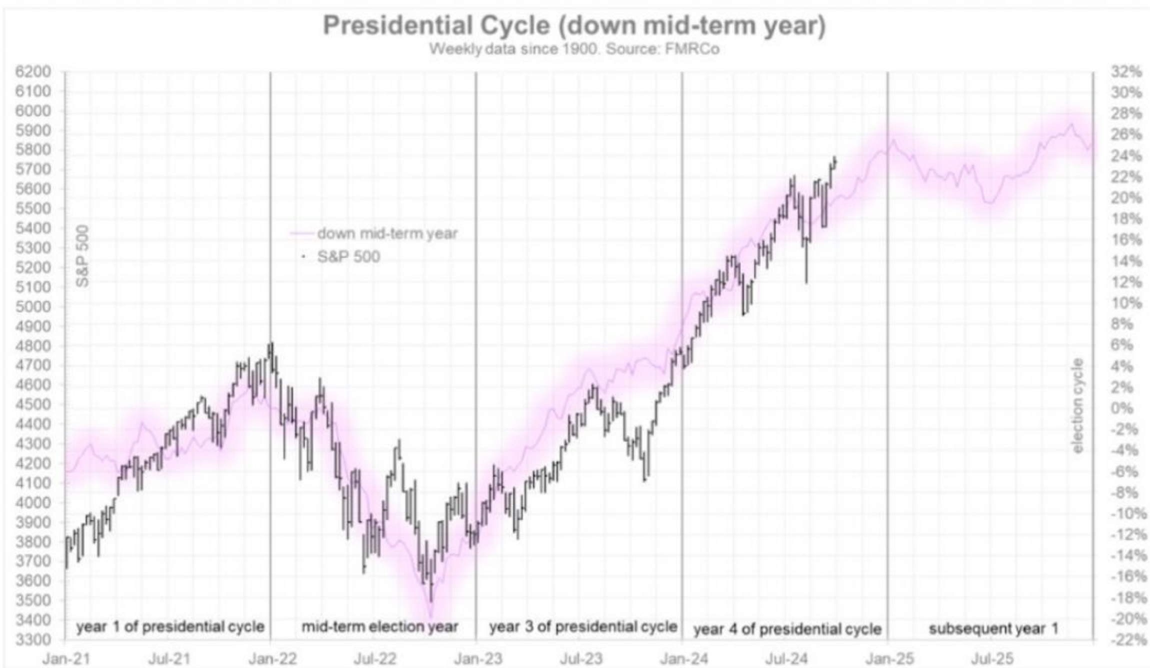
Further invigorating the bulls was a strong rebound from both a normal market pullback and a sudden market shock. The former came when soft economic data suggested that the Federal Reserve might be too late in cutting interest rates, leading to the feared “hard landing” where the economy loses steam too quickly. The market shock came from a surprise Bank of Japan action that briefly unnerved investors sending the Japanese stock market down more than 10% in a span of three days. Both of those market drops were quickly reversed higher by buyers. Finally, the historically treacherous month of September saw markets overcome investor worry and post solid gains. A sudden and dramatic change in China’s monetary policies provided a massive tailwind to global stocks late in the quarter. Thus, record highs, improved breadth, a hugely market-friendly move by China, and the Fed finally reducing interest rates all came together to leave the bulls feeling very good going into the fourth quarter.

And that fourth quarter is often a very nice one, especially in an election year. Once the uncertainty of the election passes, investors typically feel much better putting money to work. The chart below shows how uncertainty and weakness just before the election gives way to a strong finish to the year, on average.



MARKETTREND Advisors
9508 Topridge Drive
Austin TX 78750
www.markettrendadvisors.com
512-255-8722 PH
512-335-9996-FX
info@markettrendadvisors.com

In a broader look, markets are following their typical election year seasonal path. Election years tend to be quite strong, on average, and 2024 has followed that script as Fidelity's chart below shows. However, the subsequent year offers a bumpy, ultimately flat year, historically.



Data source: FMRCo, Bloomberg, Haver Analytics, FactSet. Data as of 09/29/2024. Past performance is no guarantee of future results. Fidelity

Investor obsession with the pace and timing of Federal Reserve interest rate cuts finally got some resolution in the third quarter. By quarter's end, after months of anticipation, investors got the long-awaited shift in Federal Reserve policy. With inflation subdued, the Fed cut short-term interest rates by 0.5% and noted they were turning their attention to possible labor market weakness. (Note: the U.S. central bank is unique in carrying a dual mandate to focus on both inflation and employment. Most central banks are concerned only with inflation.). Interestingly, since the Fed's cut in late September, mid and longer-term interest rates have gone almost straight UP as economic data has recovered quickly from the summer swoon. Interest rates remain well below their highs of a year ago, of course. The market expects the Fed to post another 0.5% reduction over the remainder of 2024.

The forecasted reduction in interest rates in coming quarters along with a slowdown in inflation is expected to push corporate earnings to double-digit growth. With the stock market on the expensive side, it's very likely that the above scenario for a bumpy, flat 2025 plays out. That would allow earnings to "catch up" to stock market valuations setting the stage for the next significant move upward.

As we go to press, there are a number of risks swirling around, from the geopolitical risk posed by the ongoing action around Israel as well as the refinancing risk posed by small companies, in particular, as they roll over a mountain of debt; and the prospect for changes in tax policy as the pandemic-driven tax reductions expire. Any or all of these have the potential to weigh on markets in the coming weeks and months. Nonetheless, the bigger picture is one of a solid economy and a solidly bullish market environment. As has been said many times, record stock market highs are not bearish. So, we proceed accordingly while always being ready to proactively protect against any significant downward shift in market tone.

If you have any questions, or need to discuss any changes to your portfolio, please let us know. We appreciate the opportunity to serve you!

To future profits,

Don Lansing
Chief Investment Officer
512-289-0620