

Third Quarter 2024 Letter



Figure 1 – S&P 500



Figure 2 – U.S. 10-Year Treasury Yield

As we begin the fourth quarter of 2024, I have important news to share about our firm. First, I'd like to welcome Kevin Leahy, our new Client Advisor and Compliance Analyst. Kevin has extensive financial industry experience and a commitment to operational excellence. He'll be working with the rest of the team to service our clients while enhancing our ongoing compliance program.

I'd also like to welcome the clients of our friend David Hofstad and Independent Financial Advisors. David is retiring after a long and successful career as an investment advisor and financial planner. He chose Bernard Wealth Management to carry on his work in caring for his clients' financial needs.

Finally, it's with bittersweet emotion that I have to share that our colleague, Barb Morasso, will be retiring at the end of October. I started working with Barb in 1999 when I began my investment career at Sigma Investment Counselors. She has always been a fantastic client service professional: caring, diligent and focused on our clients' needs. I considered it one of the top moments of my career when I was able to lure her out of her first retirement in 2019 to work at BWM. I hope you'll join me in wishing Barb a beautiful retirement.

Market Recap

Stocks and bonds posted broad gains in the third quarter of 2024. The large cap S&P 500 rose +5.9% and is now +22.1% for the year. Other US indices fared even better, with the S&P Midcap +6.9% and the Russell 2000 Small Cap +10.1%. International exchanges also generally gained. Emerging markets, boosted by a stimulus fueled rally in China, jumped +8.7% while Europe and Japan rose 7.3%. Value stocks (+9.1%) outperformed growth stocks (+3.7%) for the first time this year, supported by the Federal Reserve's rate cut in September. Fixed income investors also benefited from the Fed's reduction, and the expectation of more to come, as the Bloomberg U.S. Aggregate Bond index posted a 4.7% gain.

Stocks slipped in July when earnings reports failed to top heightened expectations. The decline accelerated at the beginning of August when Japan's markets plunged a historic 12.5% in a single day as speculators struggled to cover rising yen positions. But stocks around the world quickly recovered after it became clear that markets were functioning effectively, and that it was unlikely that there would be any impact on the U.S. economy. As the quarter progressed, investors looked ahead with eager anticipation for the first U.S. interest rate cut since the COVID shutdown of 2020, boosting stocks across U.S. and international exchanges.

S&P 500 earnings rose 9.9% in the second quarter on 4.6% revenue growth, topping the first quarter's gain of 7.0% and the forecast of +8.6% at the beginning of earnings season. Earnings improvements were broad-based, with 79.8% of reporting companies beating earnings expectations. Technology (+18.7%) and medical (+19.3%) were among the strongest sectors. Looking ahead to Q3, technology is expected to post double-digit gains again, and the volatile aerospace segment is forecast to grow 30% over last year. While earnings growth is expected to slow this quarter to +3.9%, acceleration is expected in the fourth quarter and in 2025.

Economic Perspective

The U.S. economic picture remains solid, supported by consumer spending and steady employment. 2nd quarter GDP rose 3%, inline with forecasts and a significant boost from the first quarter's 1.4% growth. Manufacturing continued to lag slightly, with purchasing manager surveys indicating modest contraction. However, surveys for the much larger services sector rebounded strongly in September, with strength in new orders and exports. Housing permits and starts also recovered in September, suggesting that falling mortgage rates were improving home affordability.

Employment also improved as the third quarter progressed. The economy added successively more jobs each month, including 254,000 in September, well ahead of the consensus forecast of 140,000. The unemployment rate improved to 4.1% after hitting 4.3% in July and wage growth remained steady, +3.8% over last year. It's also worth noting that the Labor Department's survey of job openings ("JOLTS") showed 8 million openings in August, about 250,000 more than expected. Employers appear to be optimistic enough about the future to add employees.

Inflation continued to soften in the last quarter. The consumer price index (CPI) reached 2.6%, the lowest reading since March 2021, when prices began to rise rapidly as COVID started to wane. The producer price index (PPI) has posted similar results. These improvements have given the Federal Reserve room to cut interest rates, focusing on the employment facet of their dual mandate. In summary, employment is strong, inflation is weakening, and the Fed is cutting rates, adding stimulus to the economy. We may be experiencing a rare soft landing, which should be positive for stocks.

Looking Ahead

Technology stocks, including chip makers, still sport the highest expected earnings growth. In addition, this group, along with financials, were the only sectors whose earning estimates haven't been reduced heading into earnings season. Financials (**Figure 3**), including insurers and the major banks, should benefit from the initial interest rate cuts. We continue to overweight these sectors in our portfolios. Small cap stocks led equity markets last quarter. Historically, these stocks have fared well when the Fed lowered rates without a recession. This sector, which is historically cheap relative to large caps, may see accelerating earnings and solid returns.



Figure 3 – Financial Services iShares Fund



Figure 4 – S&P 600 Small Cap Index

As I write this letter, we are approaching the 2024 presidential election. For many this is understandably a time of heightened uncertainty and emotions. In the last four presidential elections, volatility did increase in the time leading up to voting, but stocks recovered and moved higher by the end of the year. Successful investors must look past or ignore the headlines, to realize the long-term returns that are possible.

If you are concerned about how the election may affect your investments, we encourage you to contact us. We hope you're enjoying the warm autumn.

Best regards,

Kenneth M. Bernard, CFA

Index returns taken from Morningstar.com