Adaptive Asset Program – Hybrid Program

Third Quarter 2024 in Review

The Federal Reserve cut interest rates by 0.5% recently because inflation is approaching its target. Economic growth and corporate profits have been solid, unemployment is still fairly low, and the job market appears more balanced. Both stock and bond markets have been in an upward trend. The bull market in stocks has broadened beyond the “Magnificent 7” technology companies to include other domestic and foreign stocks.

Outlook:

A recession has not occurred as many had anticipated and the outlook among investors is now much more positive. The Fed believes the inflationary threat has passed and is focusing on maintaining positive economic growth and low unemployment. It signaled that more rate cuts will follow later this year and next year. Lower interest rates could substantially reduce costs for homeowners and businesses; mortgage rates have fallen from around 8% to around 6%.

China, the second-largest economy in the world, appears to be having trouble gaining traction and is experiencing deflation (which will help lower US inflation). Its remarkable economic growth over the past 50 years was largely attributable to exports that depended on cheap labor. However, China may not be able to export its way out of its problems as other countries are keen to reduce their dependence on China. To refocus their economy away from exports, domestic consumption must be encouraged, but cheap labor means workers are underpaid. The government has responded with a stimulus program that has raised investor sentiment and caused Chinese stocks to rise sharply from oversold levels.

The US economy has been one of the world’s outperformers for some time. This has led many investors to become underinvested in international stocks. The companies that tend to populate most investors’ portfolios are actually large multinational companies whose businesses are not dependent on any one economy, including where they are domiciled. An investor should pay more attention to the strength of a company’s business and the valuation of its stock rather than where it is headquartered.

Veteran investors typically profess to ignore politics, but the upcoming US election is drawing quite a bit of attention. Both candidates are avoiding discussion of fiscal responsibility and making promises to cut taxes and increase benefits. A likely outcome is a divided government.

Your account:

The rise in worldwide equity markets has given us opportunities to take profits in several different areas by rebalancing. Last year we moved most of our cash balance into bonds, which have appreciated as interest rates have dropped. In addition to locking in current high yields, bonds can be a hedge for our stocks if the economy weakens. We continue to favor international stocks, which remain historically cheap compared to US equities. The Fed’s lowering of interest rates could lead to further weakening of the dollar, which would be positive for international equities.

9/30/2024

the market. Neither asset allocation nor diversification guarantee a profit or protect against a loss. All investments are subject to risk, including the loss of principal. Please consult your financial representative for advice regarding your specific situation