CAPSTONE
WEALTH ADVISORS

Outlook on the Markets

Mid-Year Fall-Winter 2024-2025 Issue

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Capstone Wealth Advisors is pleased to release our Mid-Year Outlook on the Markets written entirely by our advisory team. Our outlook is based on our views and philosophies as we see them impacting financial markets, and your money. Current trends, economic indicators and in-depth analysis is at the core of what we do. We monitor and analyze economic trends to help our clients have a clear understanding of the direction the economy is headed and how that impacts your portfolio strategies.

We have six offices throughout the Pacific Northwest, utilizing a team approach to provide continuity for your asset planning needs. Our investment committee meets weekly to discuss current economic events, market trends, asset allocations and more. By using a disciplined and methodical approach to investing, we remove the noise and emotion from your investment portfolio and allow you to focus on the things you love and enjoy most.

Navigating the 2024 Election

Election 2024 & Your Money

If you're nervous about the impact of the 2024 election, you're not alone. Presidential elections can be divisive and unsettling, with the fate of the nation often seeming to hang in the balance. But when it comes to investing, do elections really have a significant impact? Historically speaking, elections have made little to no difference in terms of long-term investment returns. U.S. stocks have generally trended upward, regardless of which party holds the White House

Presidential candidates tend to spotlight the country's problems, often amplifying negative messages and blaming the other candidate as being the cause of the problem, but it's essential for investors to look past all the noise and remain focused on their long-term investment plan. Allowing fear of short-term volatility during election cycles to dictate your investment strategy historically has been detrimental.

Investing during election years can be tough on the nerves, and 2024 promises to be no different. Current economic and political challenges may seem unprecedented, but history shows that controversy and uncertainty have accompanied every election cycle. Yet, the market has consistently proven resilient over those same time periods. Successful investors have stayed the course, relying on time in the market rather than attempting to time the market.

Markets dislike uncertainty, and few events are more uncertain than the period leading up to an election year, especially a presidential election year like we are seeing now. Pre-election market turbulence can create opportunities for investors with the fortitude to withstand short-term volatility. Historically, patient investors who remained invested during election years have often been rewarded the most. Since 1932, stocks have gained an average of 11.3% in the 12 months following the conclusion of the primaries (using May 31st as a proxy), compared to just 5.7% in similar periods of non-election years. Equity funds also see the highest net inflows in the year following an election, indicating that many investors prefer to minimize risk during the election season and wait for uncertainty to dissipate before re-entering riskier assets like stocks.

The best approach during election years is rarely to sit on the sidelines. Staying invested through volatility can often lead to significant gains as markets rebound post-election.

Facts to Consider

- **The S&P/Case-Shiller Home Price Index,** widely recognized as the gauge for home price movements, reported that national home prices have slowly increased since June 2022. The index currently sits at 325.02 in August 2024.[1]
- **The Consumer Confidence Index®** fell in September to 98.7 (1985=100), from an upwardly revised 105.6 in August. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—fell by 10.3 points to 124.3. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—declined by 4.6 points to 81.7, but remained above 80. "The deterioration across the Index's main components likely reflected consumers concerns about the labor market and reactions to fewer hours, slower payroll increases, fewer job openings—even if the labor market remains quite healthy, with low unemployment, few layoffs and elevated wages. The proportion of consumers anticipating a recession over the next 12 months remained low but there was a slight uptick in the percentage of consumers believing the economy was already in recession." said Dana M. Peterson, Chief Economist at The Conference Board.[2]
- **The Purchasing Managers Index (PMI)® for manufacturing** registered 54.9 percent, 3.4 percentage points higher than August's figure of 51.5 percent. The reading in September marked the seventh time the composite index has been in expansion territory this year. "Overall, economic factors are somewhat stable in the last month. Volatility was limited, based more on seasonal aspects than geopolitical issues or election season. That stability may be short-lived due to looming port labor issues heading into October." [Accommodation & Food Services][3]
- **The National Federation of Independent Business** reported that main street job openings fell to a three-year low. NFIB's September jobs report found that 34% (seasonally adjusted) of small business owners reported job openings they could not fill in September, down 6 points from August and the lowest reading since January 2021. "Overall, the job market appears to be softening," said NFIB Chief Economist Bill Dunkelberg. "Fewer small firms have openings they can't fill as we head into fall. But many still report trouble finding qualified applicants and plans to increase compensation is once again on the rise."[4]
- **The Bureau of Economic Analysis (BEA)**) reported that personal income increased $50.5 billion (0.2% at a monthly rate) in August. Disposable personal income (DPI), personal income less personal current taxes, increased $34.2 billion (0.2%) and personal consumption expenditures (PCE) increased $47.2 billion (0.2%). The increase in current-dollar personal income in August primarily reflected an increase in compensation that was partly offset by a decrease in personal income receipts on assets.[5]
- **The Official Unemployment Rate** in the US, known as "U-3", stands at a seasonally adjusted 4.1% in September reflecting a continual decline for the third consecutive month. A more comprehensive measure of unemployment known as "U-6", increased 0.7% to 7.7% in September compared to its September 2023 rate of 7.0%. [6]
- **Real Gross Domestic Product (GDP)**) increased at an annual rate of 3.0% in the second quarter of 2024, according to the third (and final) estimate released by the U.S. Bureau of Economic Analysis. In the first quarter, real GDP increased 1.6%. The increase in real GDP primarily reflected increases in consumer spending, private inventory investment, and nonresidential fixed investment. Imports also increased.[7]
- **CBOE Volatility Index (VIX)** continues to remain at levels below its historical average, closing out September 2024 with a reading of 19.30. The Volatility index, commonly referred to as the "fear gauge" for US stocks has seen periods of significant volatility over the past several years with its high reaching 66.04 in March of 2020. However, over the past year, it has been steadily declining since the index peaked in March 2022 at 36.45.[8]

US Economy

On September 18, 2024, the Federal Reserve made a significant move by lowering interest rates by 0.50 percentage points, marking the first rate cut since 2020. The new rate range is now between 4.75% and 5%. This decision aims to make borrowing more affordable for both businesses and consumers, thereby encouraging a higher level of spending and investment. For financial markets, this typically translates to positive momentum in the immediate term, as companies find it easier to secure loans for expansion. Longer term however, rate cuts generally signal signs of an economic slowdown which have historically been when recessions have occurred.

Gross Domestic Product (GDP) estimates for the back end of 2024 remain in positive territory, meaning that a recession happening in the next couple months is unlikely, but this is something we are watching closely due to the exorbitantly large number of historical recession indicators currently flashing red.

The unemployment rate, another gauge of economic health in the US, is showing mixed signals. While currently at relatively low levels (4.1%), job openings in the US have steadily been declining. And an acceleration in unemployment figures over the past 12 months has raised some eyebrows as well. According to a well-known recession indicator called the Sahm Rule, when the average of the past three months of unemployment is greater than the average of the lowest three months within the past year, by more than 0.50%, a recession has resulted in 100% of cases going all the way back to 1959. The Sahm Rule indicator currently sits at 0.50%.

Government spending this year has been robust to say the least. Current estimates suggest that government spending will reach roughly $6.5 Trillion in 2024, far exceeding other years aside from Covid spending. This factor alone is largely the reason our economy has not already slipped into recession. However, if we keep spending levels where they are (or increase them), there will come a point in time that we won't be able to pay the interest on the debt through tax revenues. In fiscal year 2024 (ending September), the US paid approximately $1.05 trillion in interest alone on its national debt. The federal government collected about $4.9 trillion from various sources including individual income taxes, corporate taxes, payroll taxes, and tariffs. To put this in perspective the interest payment on national debt accounted for roughly 21.4% of the total federal revenue for the year. This is substantial and highlights the impact of debt servicing on the government's budget and underscores the importance of managing national debt levels properly.

International & Emerging Markets

When the Federal Reserve lowers interest rates, the US dollar usually weakens. This can have a big impact on International and Emerging Market stocks. A weaker US dollar means that US goods become cheaper for other countries to buy. This can boost sales for American companies, which is good news for their stock prices.

Emerging market stocks can also benefit. When the dollar is weaker, it's easier for these countries to pay off their debts, which are often in dollars. This can make their economies more stable and attractive to investors. Investors might look for better returns in these markets, driving up their stock prices.

However, there can be some downsides too. Currency fluctuations can create uncertainty, and higher inflation in emerging markets can be a risk. But overall, a weaker dollar tends to be positive for international and emerging market stocks.

What does this mean for you and your money?

Having the right kind of diversification in this market is essential to your overall success. Although there may be periods of increased volatility, we see the market maintaining its momentum through the end of the year. Our team believes the best approach in this market is to be "cautiously optimistic" when it comes to your investments. Long-term investors should keep in mind the strength and persistence of the US economy throughout history.

For our current clients, your portfolio already reflects this investment philosophy. If you would like to schedule a consultation with one of our professional financial advisors, please email info@capstonewealthadvisors.com or contact our office directly at (877)739-6007.

Conclusion:

Navigating the economic and political landscape of 2024 requires a balanced perspective and a focus on long-term investment strategies. While the upcoming election and recent economic shifts, such as the Federal Reserve's interest rate cut, introduce elements of uncertainty, history has shown that markets are resilient. Investors who maintain their composure and stay invested through periods of volatility often reap rewards. The key is to avoid making impulsive decisions based on short-term fluctuations and instead, trust in the enduring strength of the market.

As we move forward, it's crucial to monitor key economic indicators and remain informed about potential risks and opportunities. Whether it's the impact of a weaker US dollar on international and emerging market stocks or the implications of government spending and national debt, staying educated and prepared will help navigate these complex times. Ultimately, a disciplined approach to investing, grounded in historical insights and a long-term outlook, will serve investors well in 2024 and beyond.

References:

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