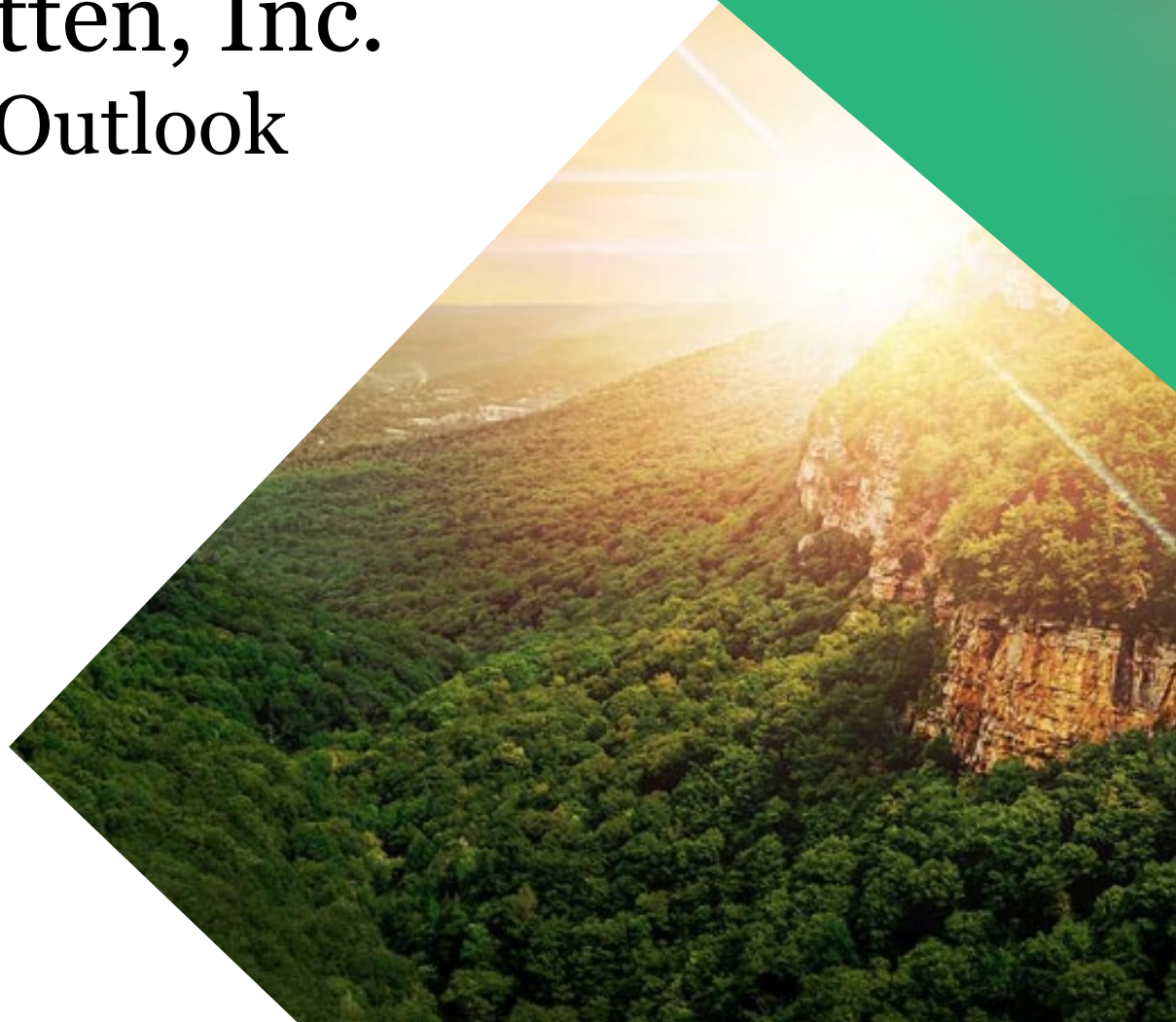


# Patten & Patten, Inc.

## 4Q24 Market Outlook

December 16, 2024



# Market Outlook

# Market Commentary – *September 30, 2024*

The Fed initiated a series of aggressive rate hikes in 2022, from near zero to eventually terminating at 5.50% in 2023. In September, the Federal Reserve ended months of speculation with a 0.50% decrease in the target rate for Fed Funds. With this policy reversal, the Fed acknowledged policy was restrictive – a view held by some investors. Pursuant to their dual mandate of price stability and full employment, the Fed justified the shift as a necessary “re-calibration” of policy. If the Fed had not cut rates, some argue the high cost of capital would have contributed to recession. However, the Fed’s policy reversal also risks re-igniting inflation.

Historically, the Federal Reserve has not cut rates in isolation. Investors now anticipate a series of rate cuts that could further reduce Fed Funds 1.25 – 1.75%. Further rate reductions should provide relief to capital intensive sectors that rely on low cost financing, including residential real estate. However, there is over \$6 trillion in money market and deposit balances that will experience reduced interest income. That excess liquidity should support markets during periods of uncertainty, but re-allocation of those funds could also contribute to market volatility.

Cash and money markets still have higher yields than longer maturity fixed income. This reflects a market anomaly known as the inverted Treasury yield curve. With the rate cut, portions of the curve have resumed a positive slope.

However, cash and money markets continue to provide greater current income than longer dated bonds. This dynamic will dissipate as the Fed “re-calibrates” policy. We expect cash and money market yields will decline commensurate with further rate cuts from the Fed.

The S&P 500 has posted attractive year-to-date returns, with recent acceleration fueled by the rate cut. Market leadership is no longer extraordinarily concentrated. Improved market breadth is a favorable development for the sustainability of the rally. In particular, we note that interest rate sensitive sectors, such as utilities, have performed well. There are technical market conditions that warrant caution, but overall, fundamentals remain healthy with corporate earnings expected to grow.

Recent economic indicators contributed to a view among investors that recession was imminent. However, other data suggest a more favorable outlook for economic growth. We note that higher rates boosted consumption. Thus, lower interest income could dampen consumption growth going forward. We maintain a favorable outlook for the economy while vigilant for signs of resurgent inflation. While we acknowledge there are headwinds to growth, there are also tailwinds. On balance, therefore, we remain constructive. We look forward to discussing these matters with you and reviewing your accounts. Please contact the office if you would like to schedule a virtual or in person meeting.

# Markets

# Year to date and historical performance of select asset classes

Asset Class	YTD	Annualized		Total Returns since...	
		1 year	3 Year	10/30/2022	1/3/2022
Domestic Equities					
S&P 500	28.55	30.36	10.74	60.34	32.10
S&P 500 Equal Weight (RSP)	16.83	19.10	6.51	34.40	17.30
S&P 100	33.64	35.60	12.51	73.15	38.50
Dow Jones Ind. Avg.	18.43	20.36	9.32	39.39	27.29
NASDAQ Comp	33.67	36.24	9.82	82.65	28.89
Russell 2000 (IWM)	17.14	22.07	3.87	30.89	7.45
International Equities					
Shanghai Composite (CIN)	13.03	13.70	-0.27	20.61	-0.32
Hedged Japan (DXJ)	27.82	28.20	25.30	84.00	91.50
Hedged Europe (HEDJ)	7.23	7.36	7.68	39.59	20.50
Emerging Markets (EEM)	10.26	14.00	-1.34	34.83	-5.21
Canada (EWC)	15.62	20.11	6.32	33.01	15.07
Bonds					
Long Treasuries (TLT)	-5.46	-3.17	-13.11	0.64	-31.40
Inv. Grade Corporates (LQD)	1.89	3.10	-3.07	16.40	-7.53
High Yield Corporates (HYG)	8.44	9.33	2.75	21.05	7.70
Core US Aggregate Bond (AGG)	2.04	3.21	-2.25	10.56	-5.59
US 1-3 Month T-Bills (BIL)	5.02	5.06	2.80	8.36	8.65
Real Assets/Commodities					
Commodities (BCI)	4.80	6.28	4.12	-2.67	9.78
Gold (GLD)	27.79	30.20	13.52	59.50	45.13
Oil (BNO)	9.23	12.40	14.33	-2.74	40.97
Real Estate Investment Trusts (RMZ)	12.80	15.49	0.36	28.38	-2.57
Agriculture (DBA)	33.27	33.07	13.68	48.04	47.66

YTD through 12/13/2024

Note: returns presented as %, assumes dividends are reinvested

Source: Thomson Reuters Datastream

# Year to date and historical performance of select equity sectors

Domestic Equity Sectors	YTD	Annualized		Total Returns since...	
		1 year	3 Year	10/30/2022	1/3/2022
<b>Domestic Equities</b>					
Consumer Discretionary	36.50	38.74	7.77	72.99	19.11
Retail	38.85	41.20	9.10	82.68	29.09
Consumer Staples	21.67	21.58	9.36	30.82	26.66
Energy	9.14	12.69	19.83	5.14	66.76
Oil & Gas Exploration	-3.18	0.13	16.12	-10.13	49.31
Financial Services	37.98	41.96	12.02	56.29	36.13
Regional Banks (KRE)	26.40	30.15	0.93	8.23	-2.64
Health Care	5.13	6.35	2.25	11.89	3.48
Industrials	20.07	23.24	9.60	48.60	30.11
Materials	6.01	9.48	3.65	28.57	8.14
Technology	39.12	41.07	13.92	108.44	45.05
Communication Services	40.47	42.44	15.47	112.39	50.76
Utilities	26.16	23.17	7.42	25.73	21.74
Transportation (IYT)	7.75	9.59	3.04	35.28	5.39
Real Estate	10.06	13.05	-1.58	24.33	-8.23

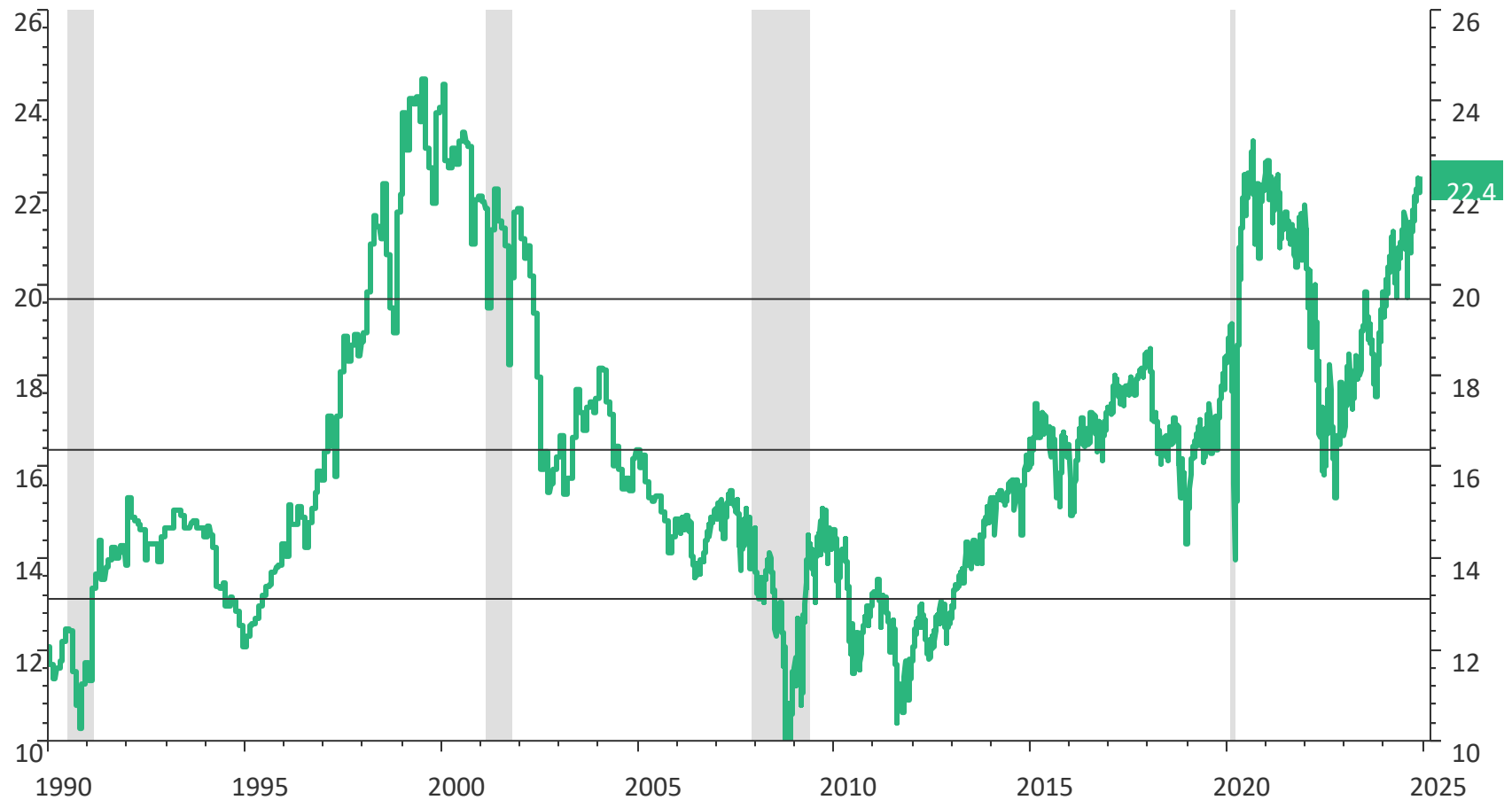
YTD through 12/13/2024

Note: returns presented as %, assumes dividends are reinvested

Source: Thomson Reuters Datastream

# S&P 500 Valuation

## S&P 500 - Price to Next Twelve Month Earnings Ratio



Source: LSEG Datastream

# Credit Spreads

## High Yield Credit Spread

Barclays US Corp. High Yield - 10 Yr. Treasury Yield

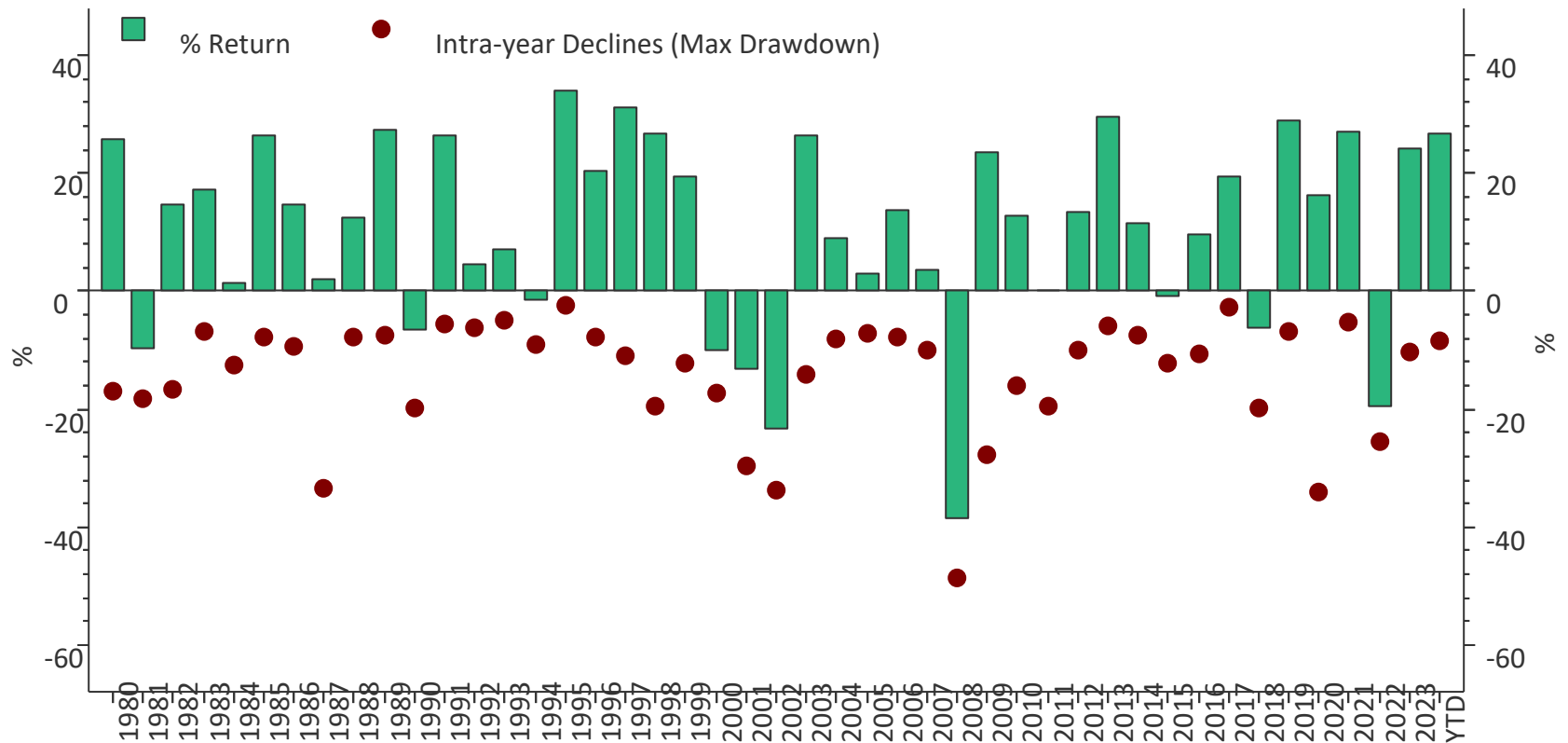


Source: Bloomberg



# Stock Market Performance and Max Drawdowns by Year

## S&P 500 Intra-year Price Declines (Max Drawdown) vs. Yearly Price Returns

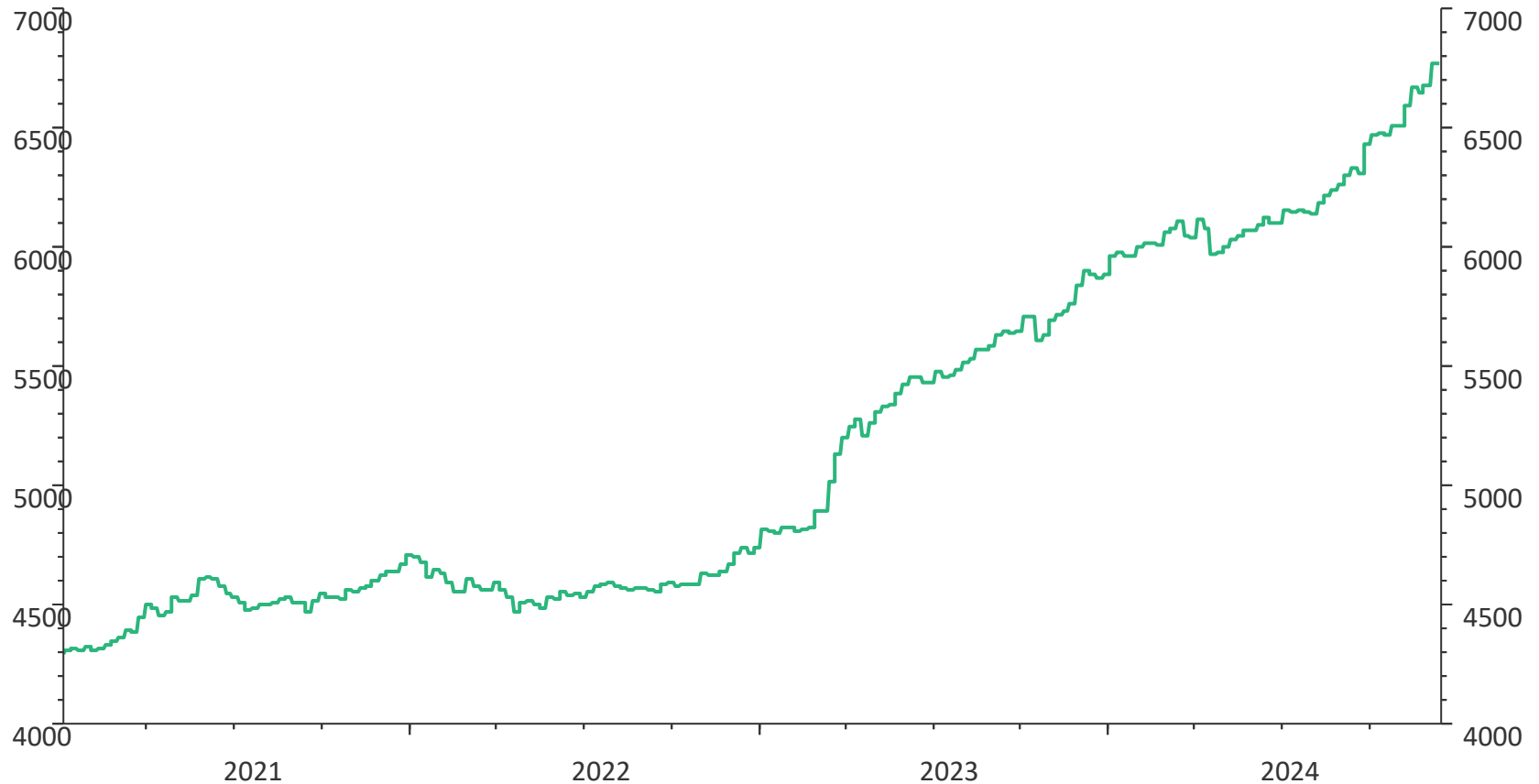


Source: LSEG Datastream

# Flight to Cash

## US Assets in Money Market Funds

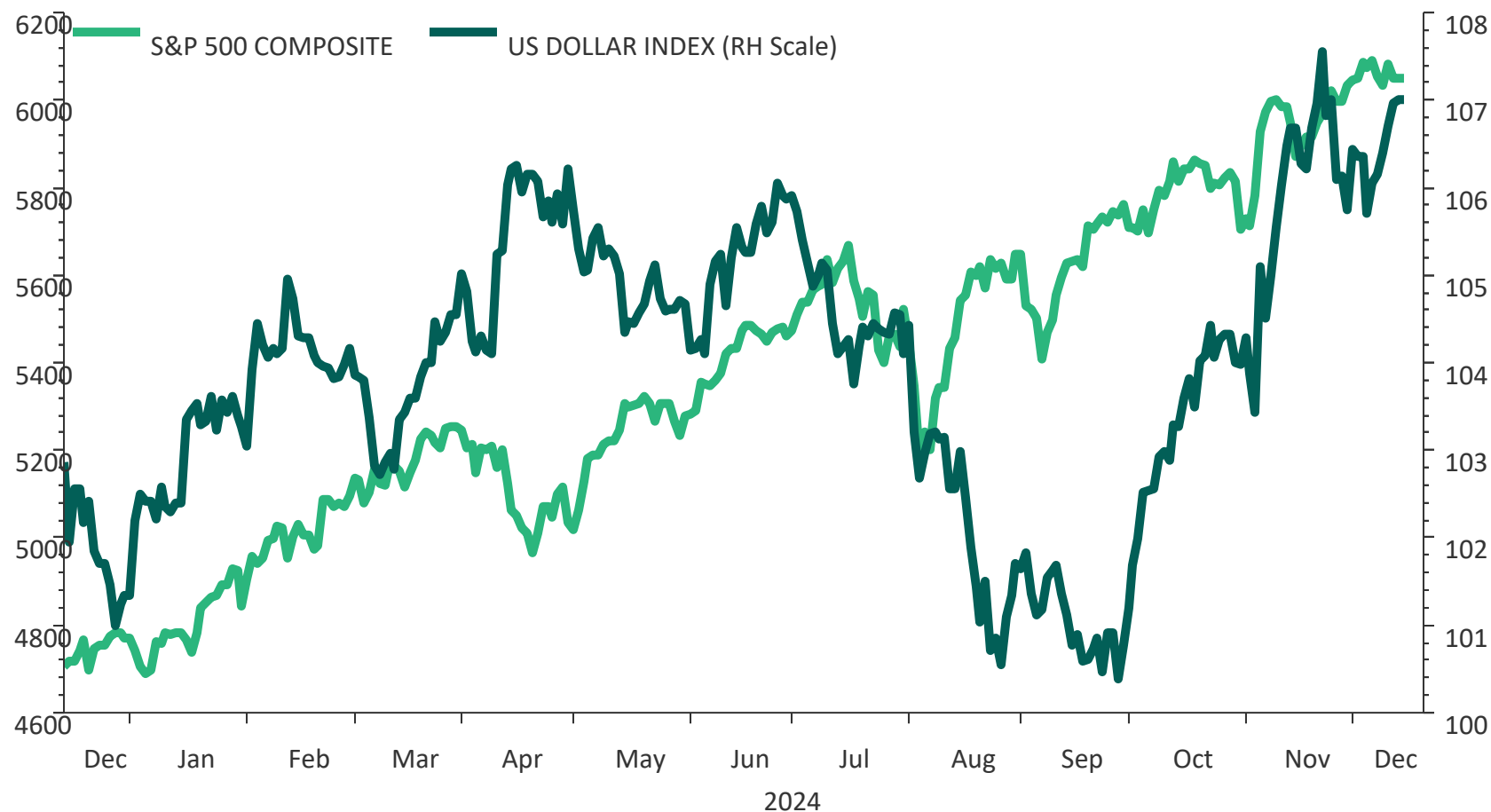
In \$ Millions



Source: LSEG Datastream, Investment Company Institute

# S&P 500 vs. the US Dollar Index

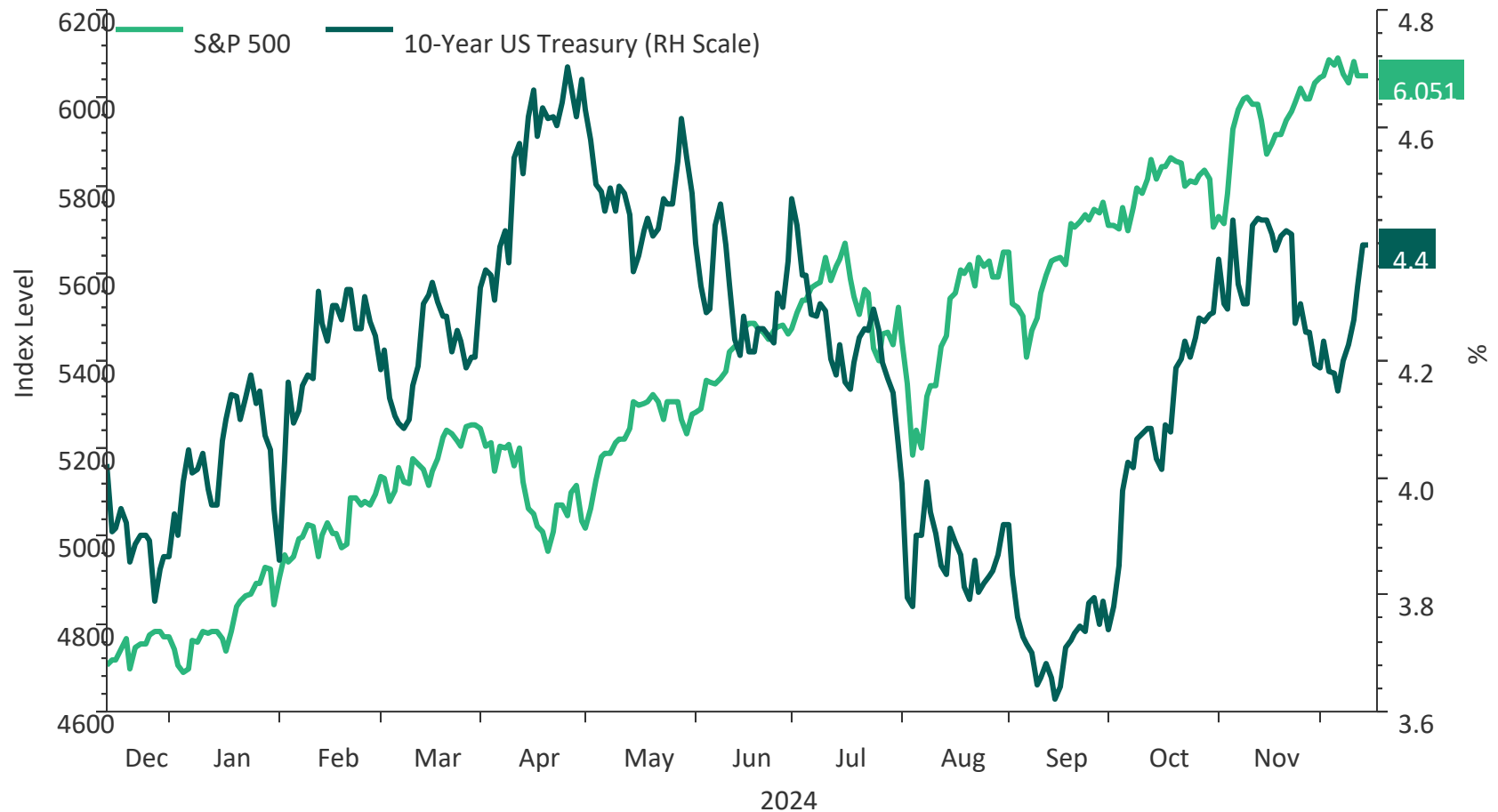
## S&P 500 vs. the US Dollar Index



Source: LSEG Datastream

# S&P 500 vs. the 10-Year Treasury Yield

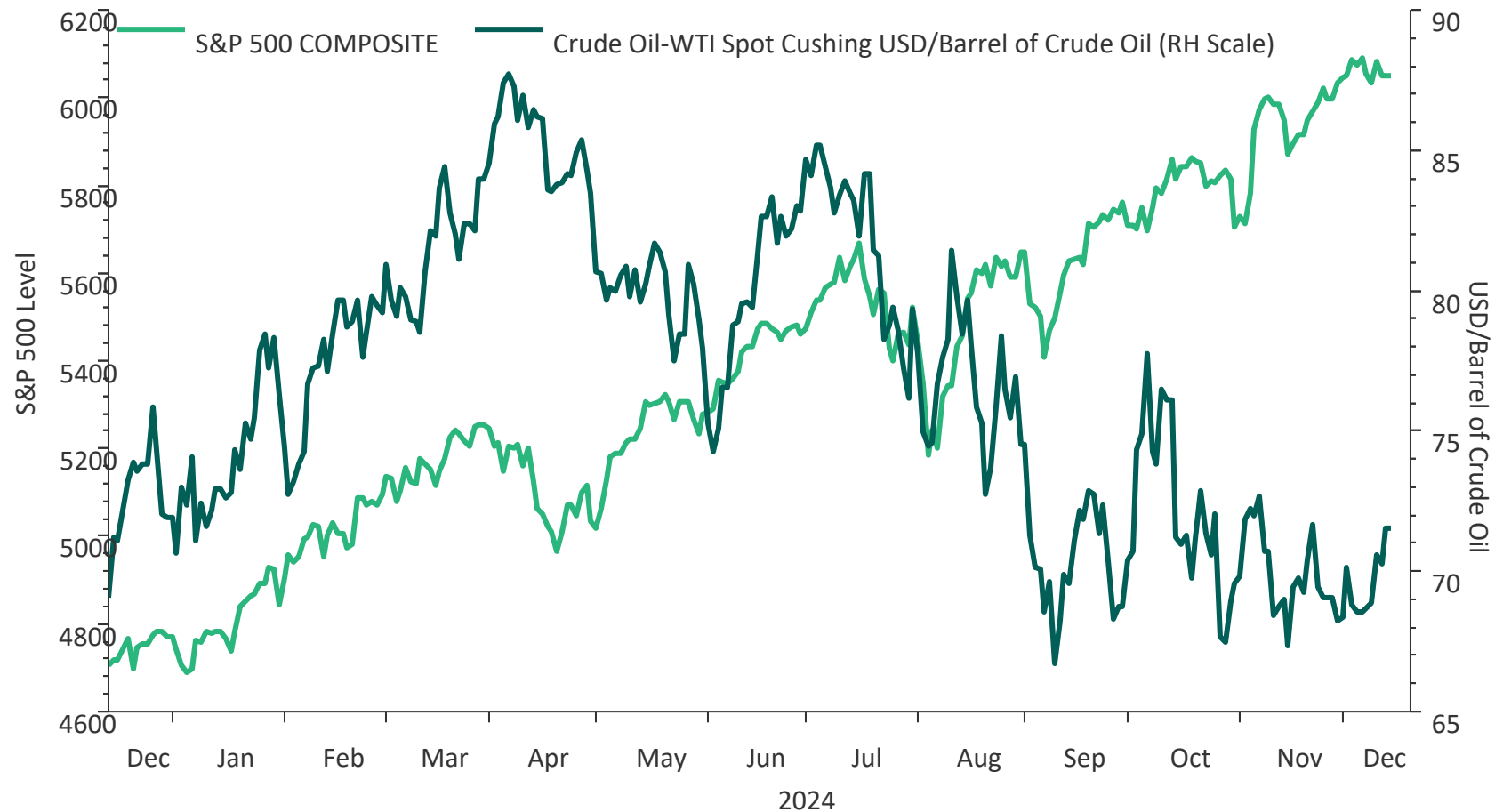
## S&P 500 vs. the 10-Year Treasury Yield



Source: LSEG Datastream

# S&P 500 vs. the Price of Crude Oil

## S&P 500 vs. WTI Crude Spot



Source: LSEG Datastream

# Dr. Copper

## London Metal Exchange Copper Spot Price

\$/Metric Ton



Source: LSEG Datastream

# Interest Rate Outlook

# Global Interest Rates

## Global Bond Yields on December 16, 2024

Maturity	US	Canada	UK	Germany	Switzerland	Japan	Spain	Italy	Brazil	Greece
2 year	4.241	3.052	4.345	2.040	0.066	0.590	2.228	2.406	14.940	NA
5 year	4.245	3.004	4.272	2.059	0.057	0.725	2.505	2.757	14.600	2.393
10 year	4.393	3.219	4.424	2.240	0.223	1.072	2.920	3.389	13.913	3.083
30 year	4.607	3.313	4.971	2.475	0.299	2.292	3.574	4.061	NA	NA

## Change in Global Bond Yields since December 9, 2024

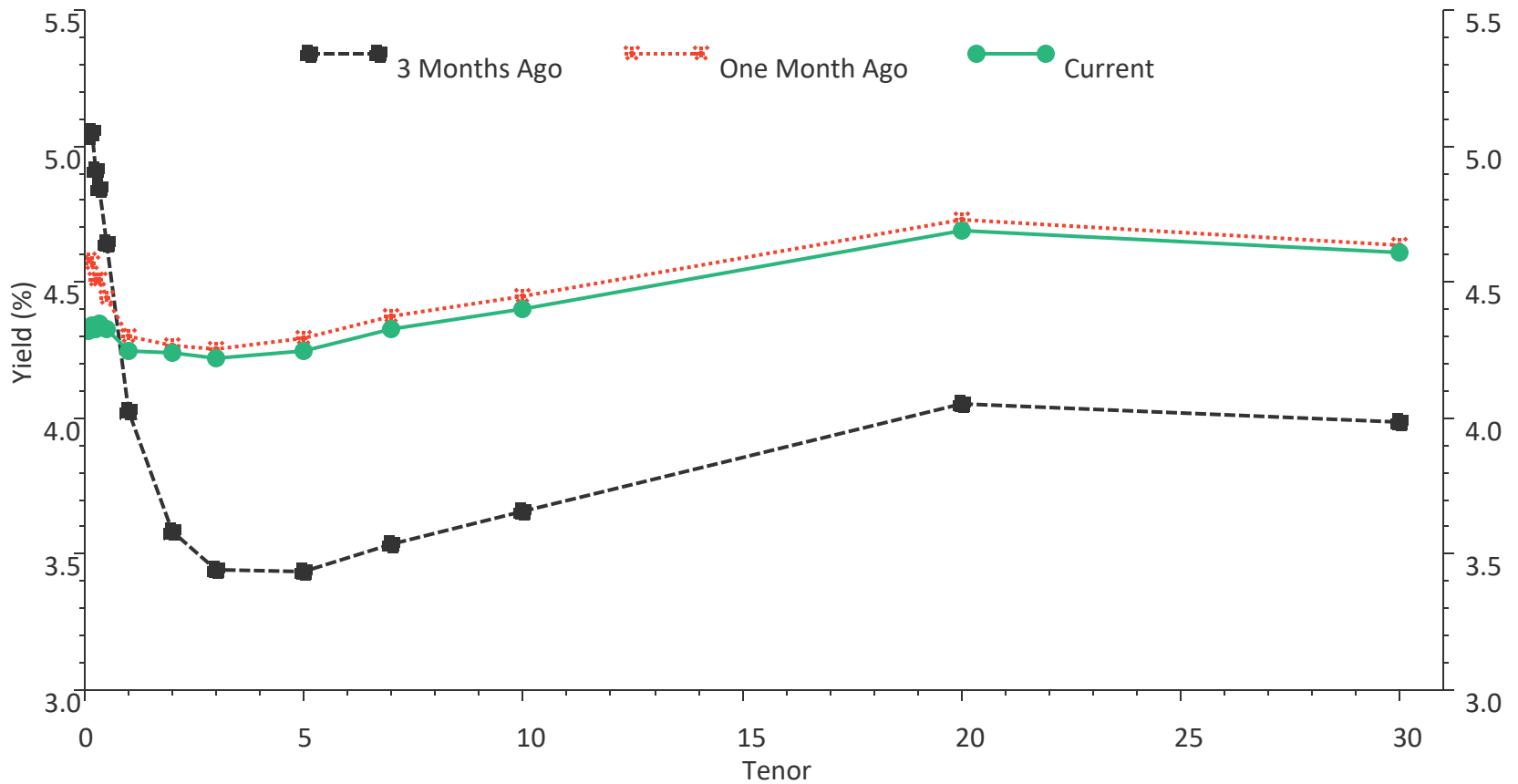
Maturity	US	Canada	UK	Germany	Switzerland	Japan	Spain	Italy	Brazil	Greece
2 year	0.000	0.029	0.037	-0.011	0.026	0.032	-0.042	0.011	-0.095	NA
5 year	-0.004	0.032	0.042	-0.015	-0.061	0.032	0.007	0.000	-0.143	0.006
10 year	-0.006	0.044	0.018	-0.008	-0.021	0.033	0.003	0.005	-0.170	0.019
30 year	-0.004	0.047	0.006	0.000	-0.009	0.048	0.009	0.001	NA	NA

Source: Patten & Patten



# US Treasury Yield Curve

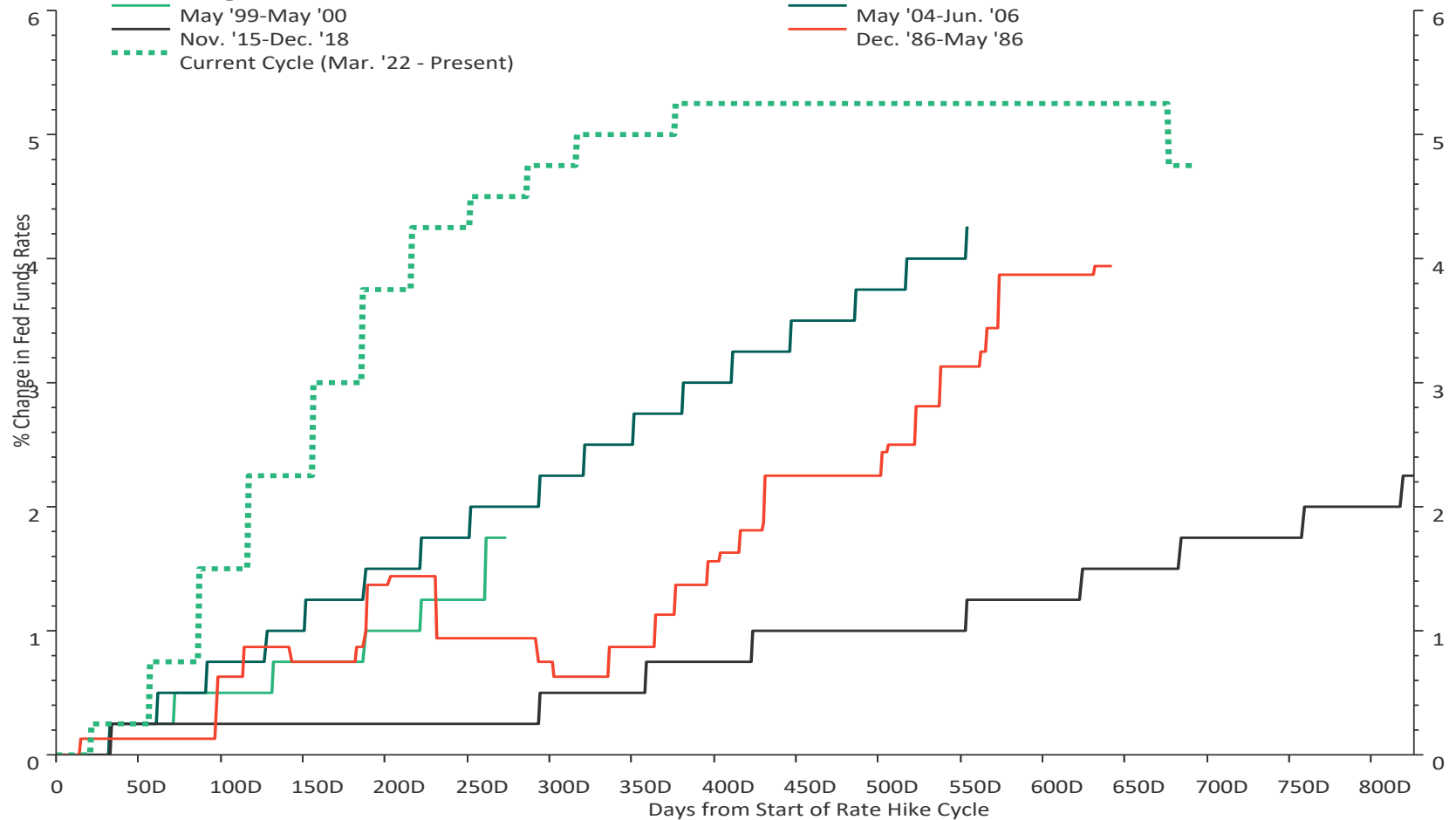
US Treasury Curve



Source: LSEG Datastream

# Historical Perspective of Current Fed Policy

Cumulative Change in Federal Funds Rate Since First Hike



Source: LSEG Datastream

# Fed Rate Hike Probability

## Rate Probability by Meeting

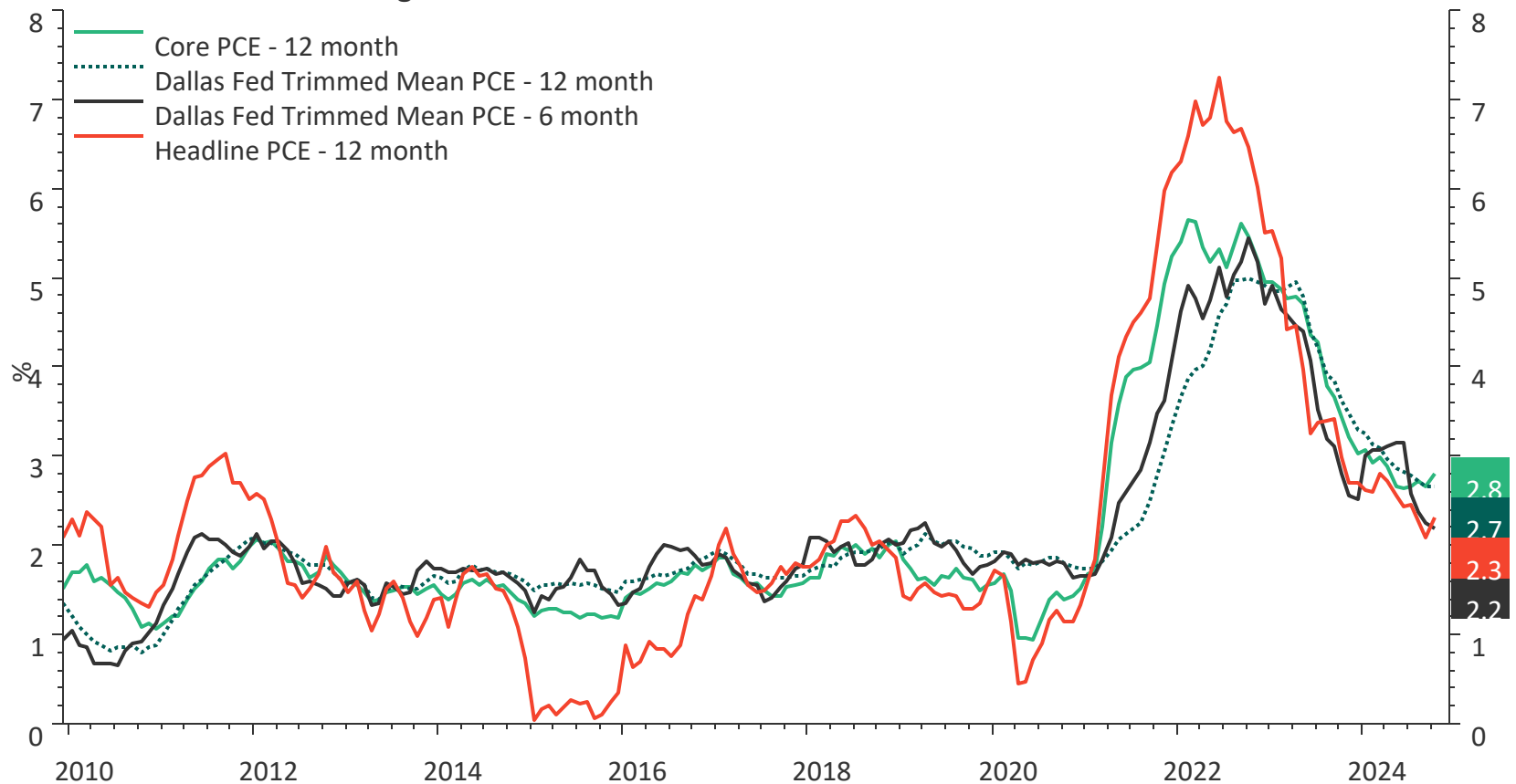
Meeting Date	Mid-Point of Fed Funds Target Range: Current Market Expectations								
	2.625	2.875	3.125	3.375	3.625	3.875	4.125	4.375	4.625
12/18/2024								94.20%	5.80%
1/29/2025							15.90%	79.30%	4.80%
3/19/2025						8.90%	51.40%	37.60%	2.10%
5/7/2025					2.20%	19.30%	48.00%	28.90%	1.60%
6/18/2025				0.80%	8.50%	29.90%	41.00%	18.90%	1.00%
7/30/2025			0.20%	2.40%	12.90%	32.20%	36.40%	15.20%	0.80%
9/17/2025		0.00%	0.70%	4.80%	17.30%	33.10%	31.50%	11.90%	0.60%
10/29/2025		0.10%	1.20%	6.40%	19.40%	32.90%	29.00%	10.40%	0.50%

Source: Eikon

# Inflation Measures

## Core PCE vs. Dallas Fed Trimmed Mean PCE

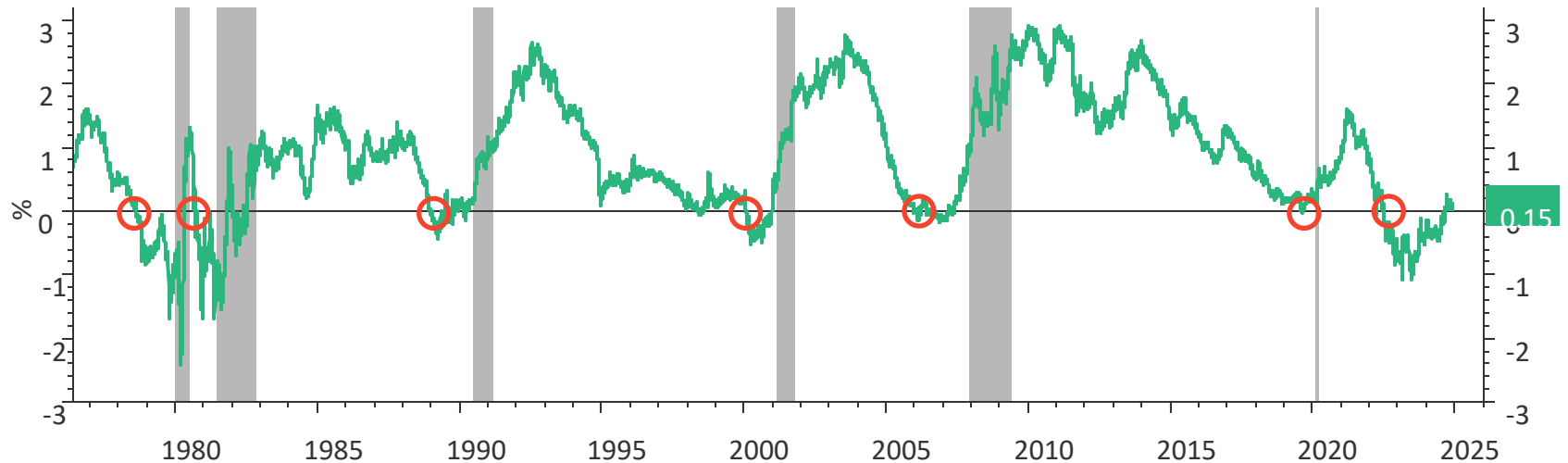
Year-over-Year Percent Change



Source: LSEG Datastream

# Treasury Yield Spread

## 2Yr/10Yr Spread

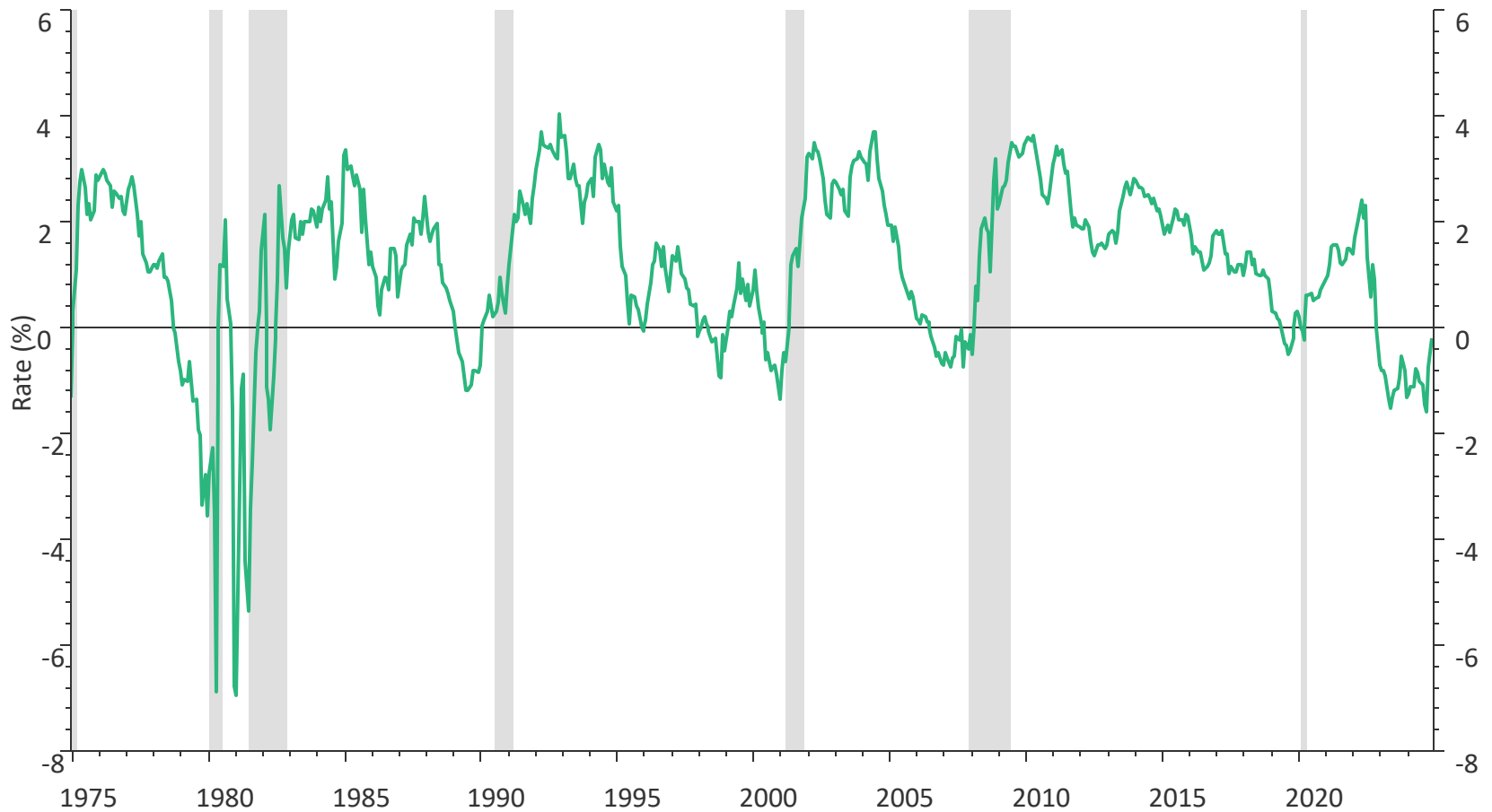


Source: LSEG Datastream

Yield Curve Inversion	Recession Lag	S&P 500 Peak Lag	S&P 500 Return to Peak post Yield Curve Inversion
Aug-78	17 months	19 months	<b>17.70%</b>
Sep-80	10 months	3 months	<b>13.60%</b>
Dec-88	19 months	20 months	<b>35.70%</b>
Feb-00	13 months	2 months	<b>8.40%</b>
Dec-05	24 months	23 months	<b>23.50%</b>
Aug-19	6 months	6 months	<b>0.75%</b>

# Interest Rate Spreads

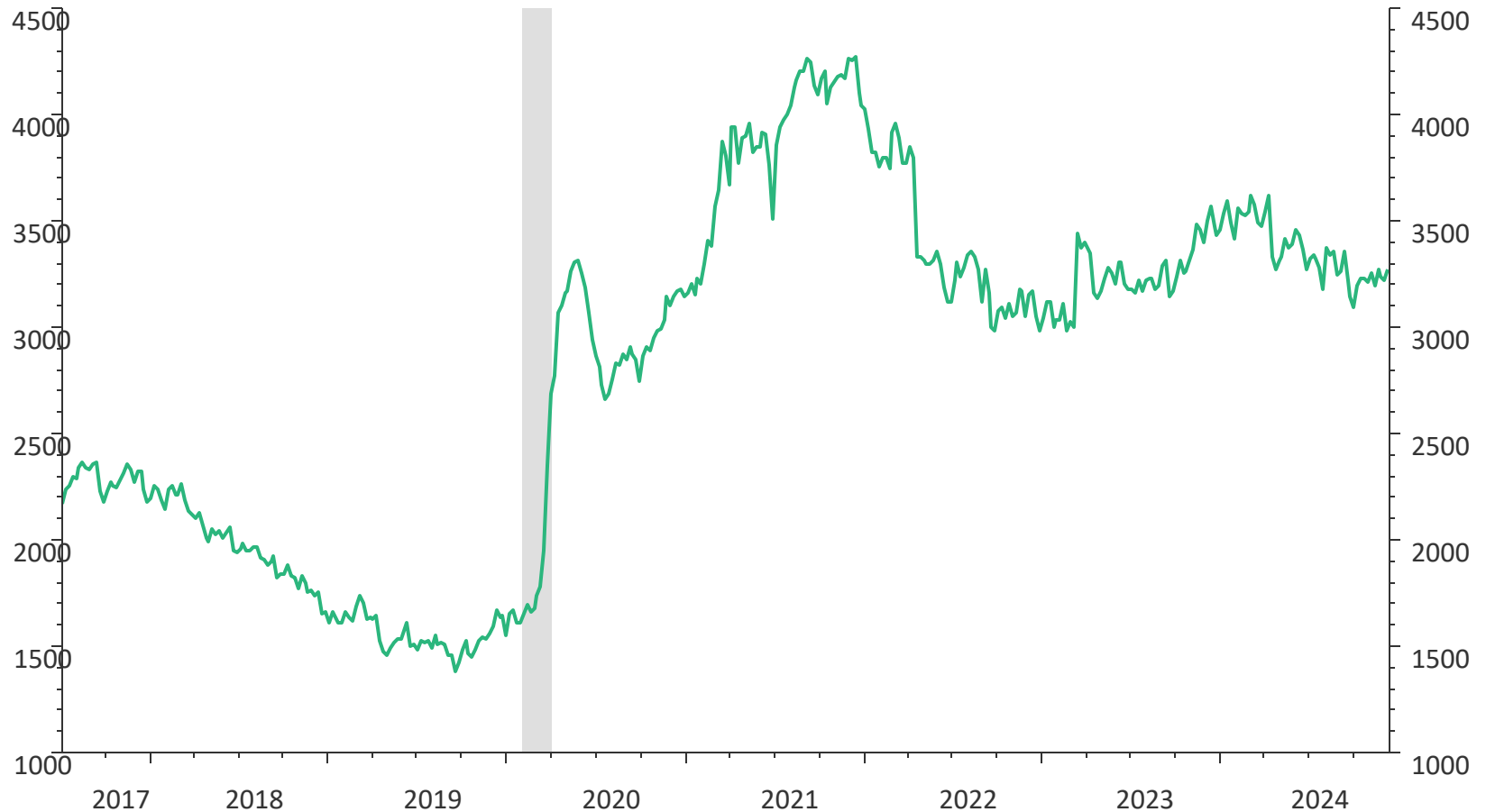
## 10-Year Treasury - Fed Funds Effective Rate



Source: LSEG Datastream

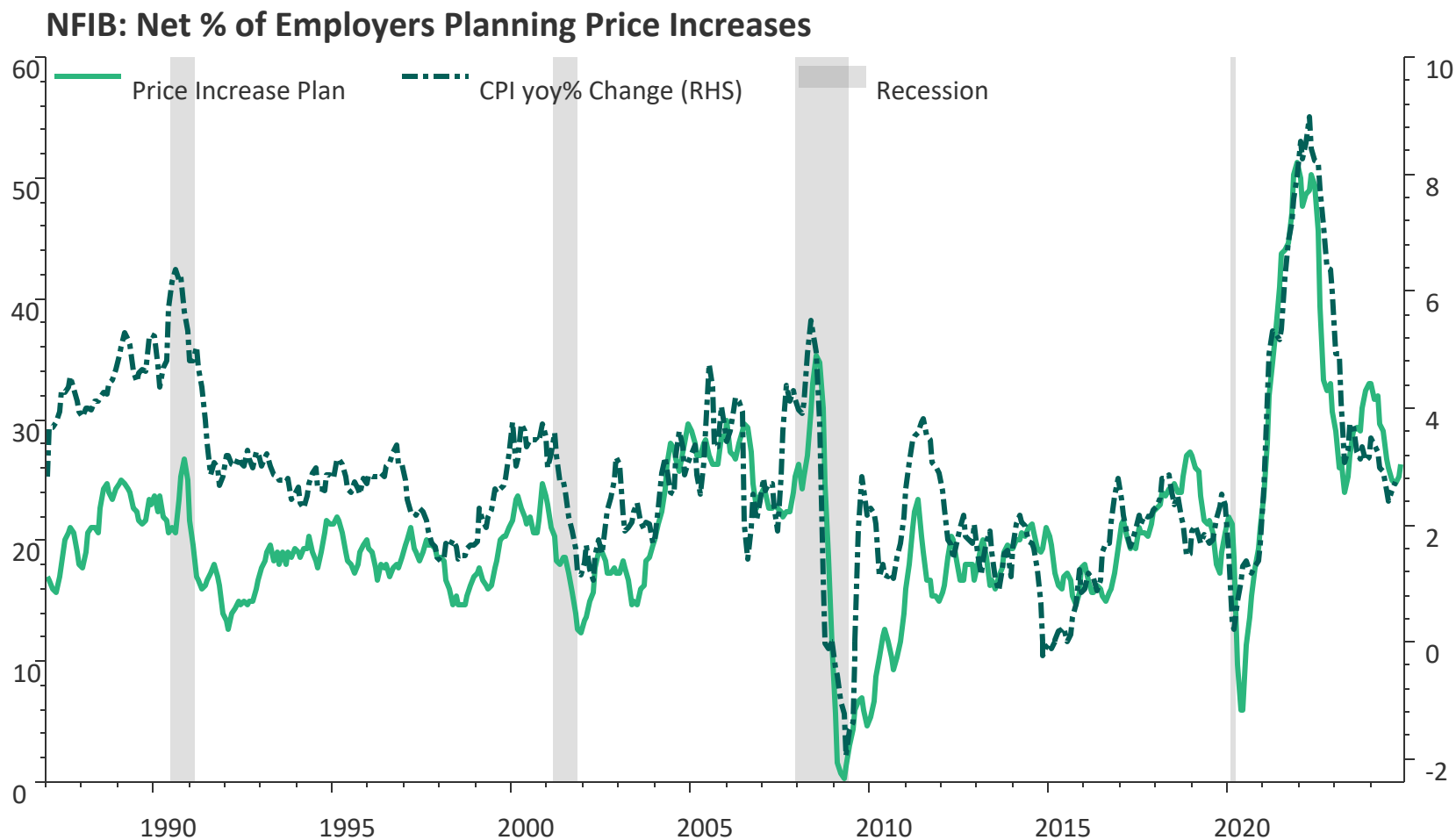
# Fed Balance Sheet

Fed Reserve Balances with Fed Reserve Banks (\$Bn)



Source: LSEG Datastream

# Businesses Plan Price Increases



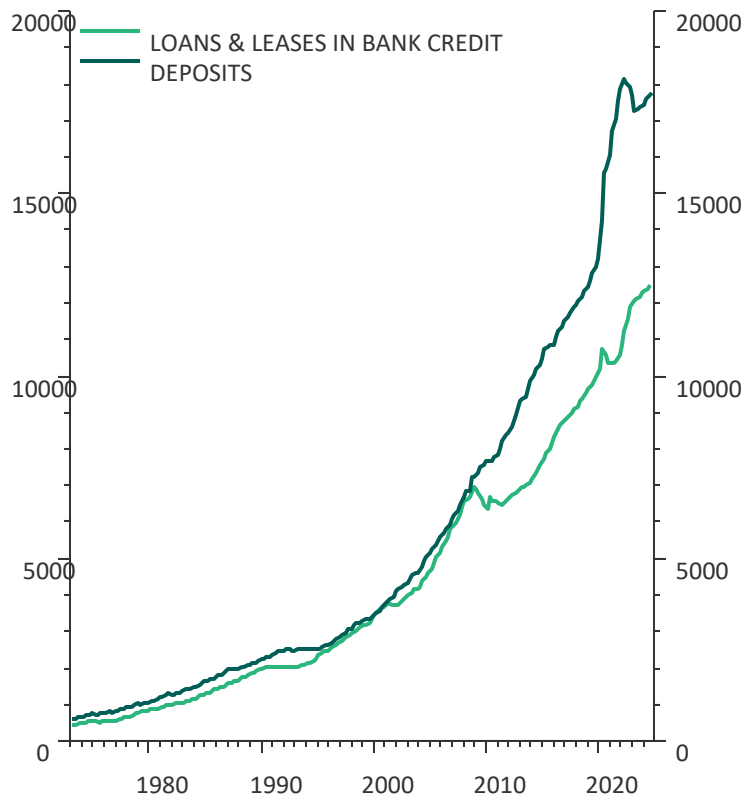
Source: LSEG Datastream



# Credit Growth has Lagged Deposit Growth

## US Commercial Bank Loans and Deposits

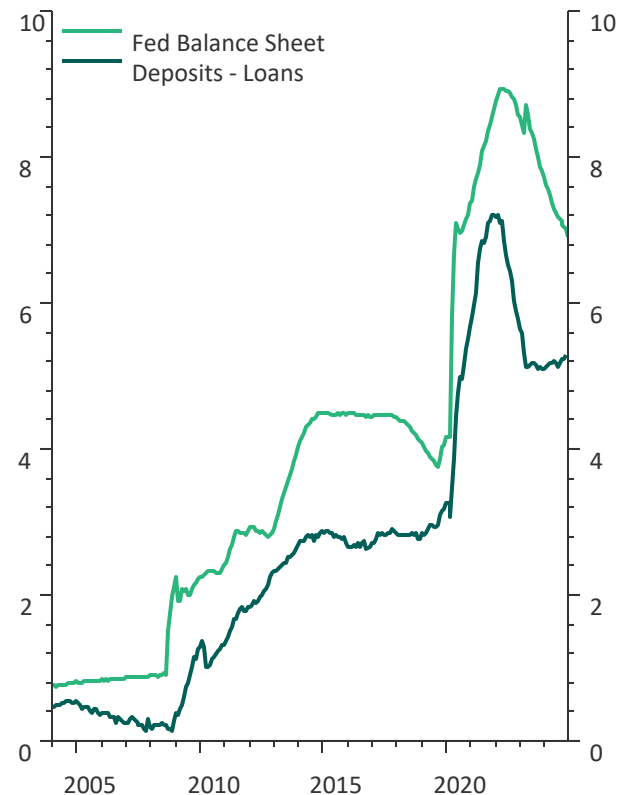
\$ Billions



Source: LSEG Datastream

## Fed Balance Sheet and Deposit Growth

\$ Billions

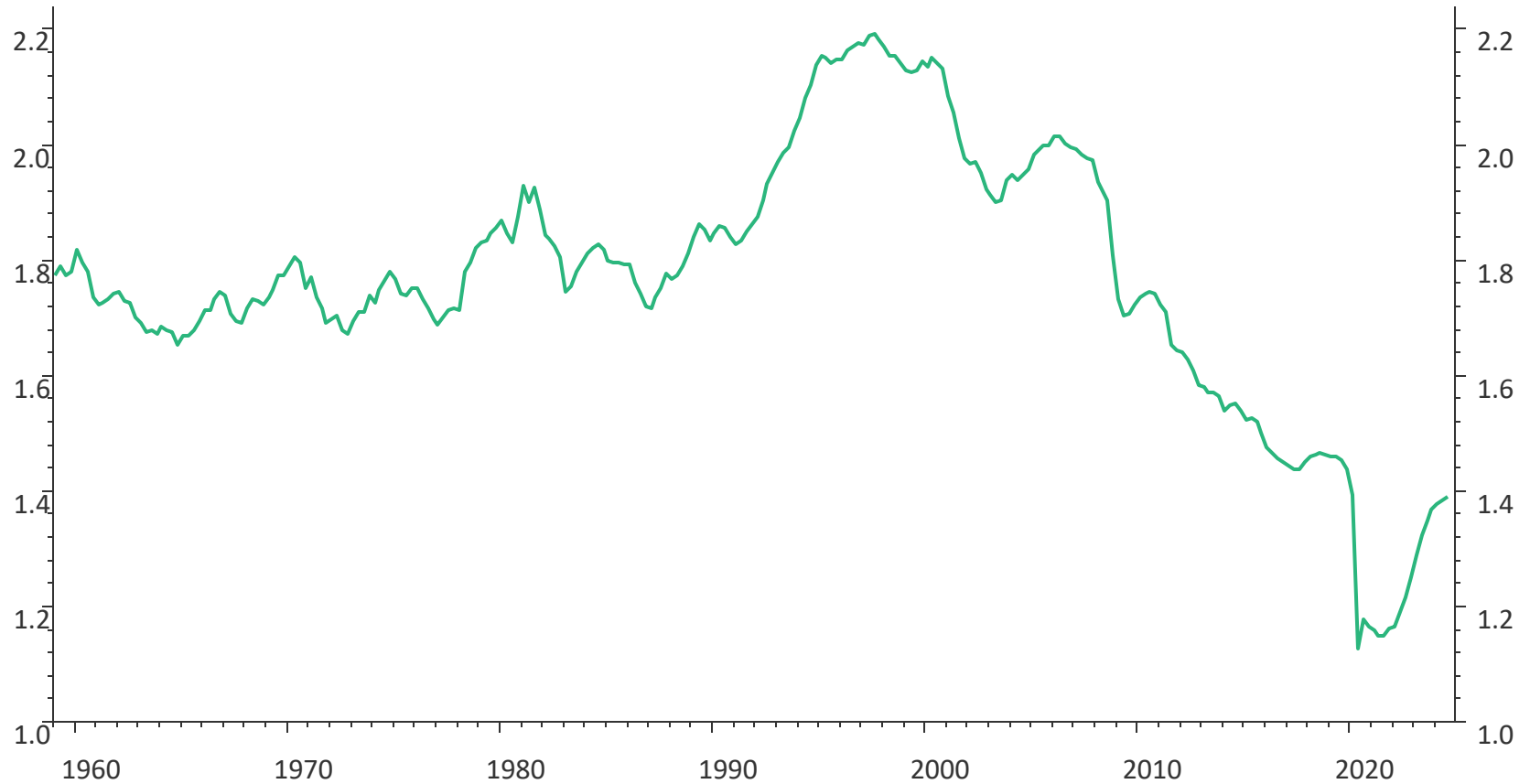


Source: LSEG Datastream

# Velocity of Money Near All-Time Lows

## Velocity of Money

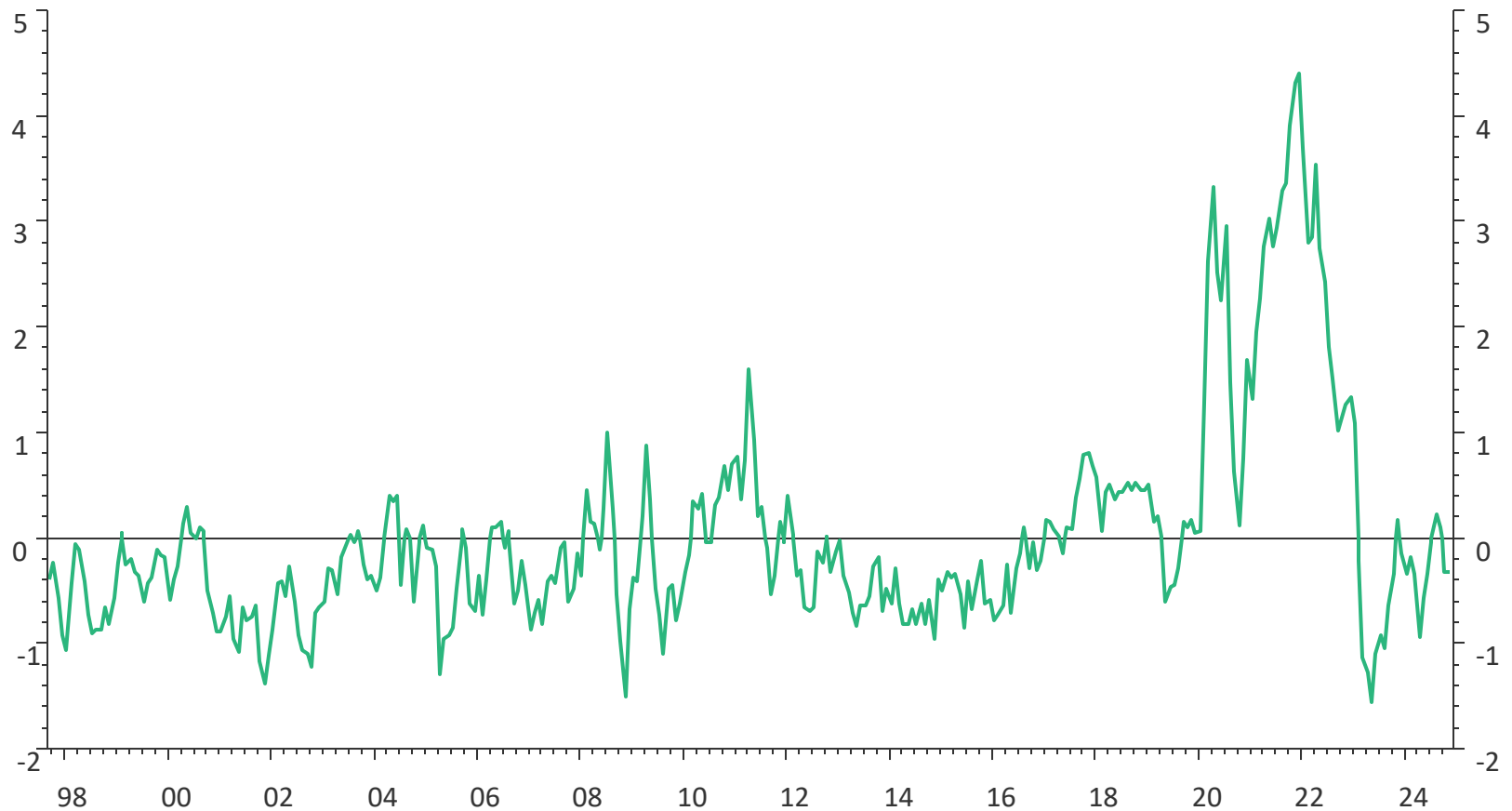
GDP/M2 Supply



Source: LSEG Datastream

# Supply Chain Normalization

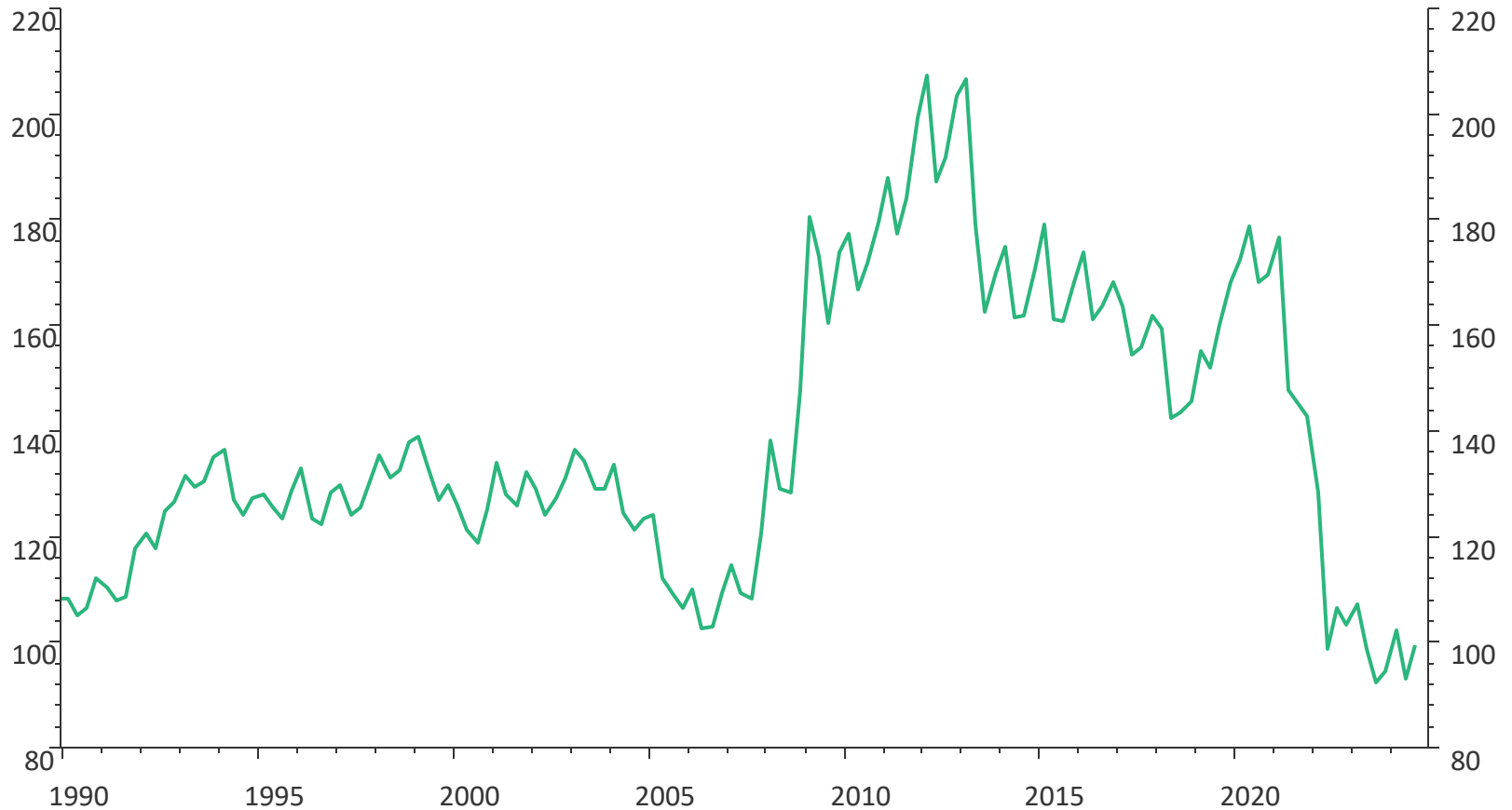
Global Supply Chain Pressure Index



Source: LSEG Datastream

# Housing Affordability Has Declined

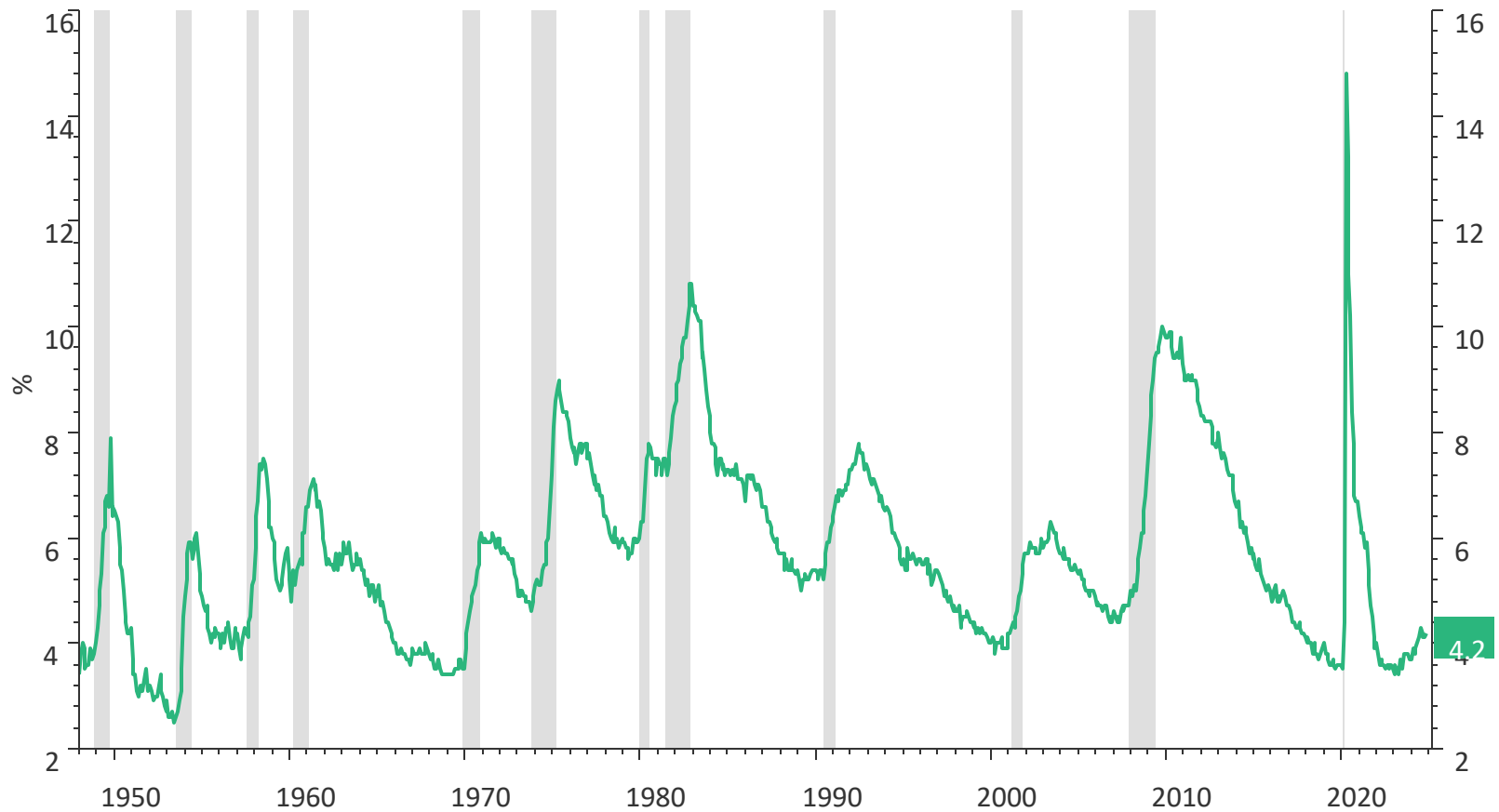
**Housing Affordability Index**



Source: LSEG Datastream

# Strong Domestic Labor Market

## Unemployment Rate

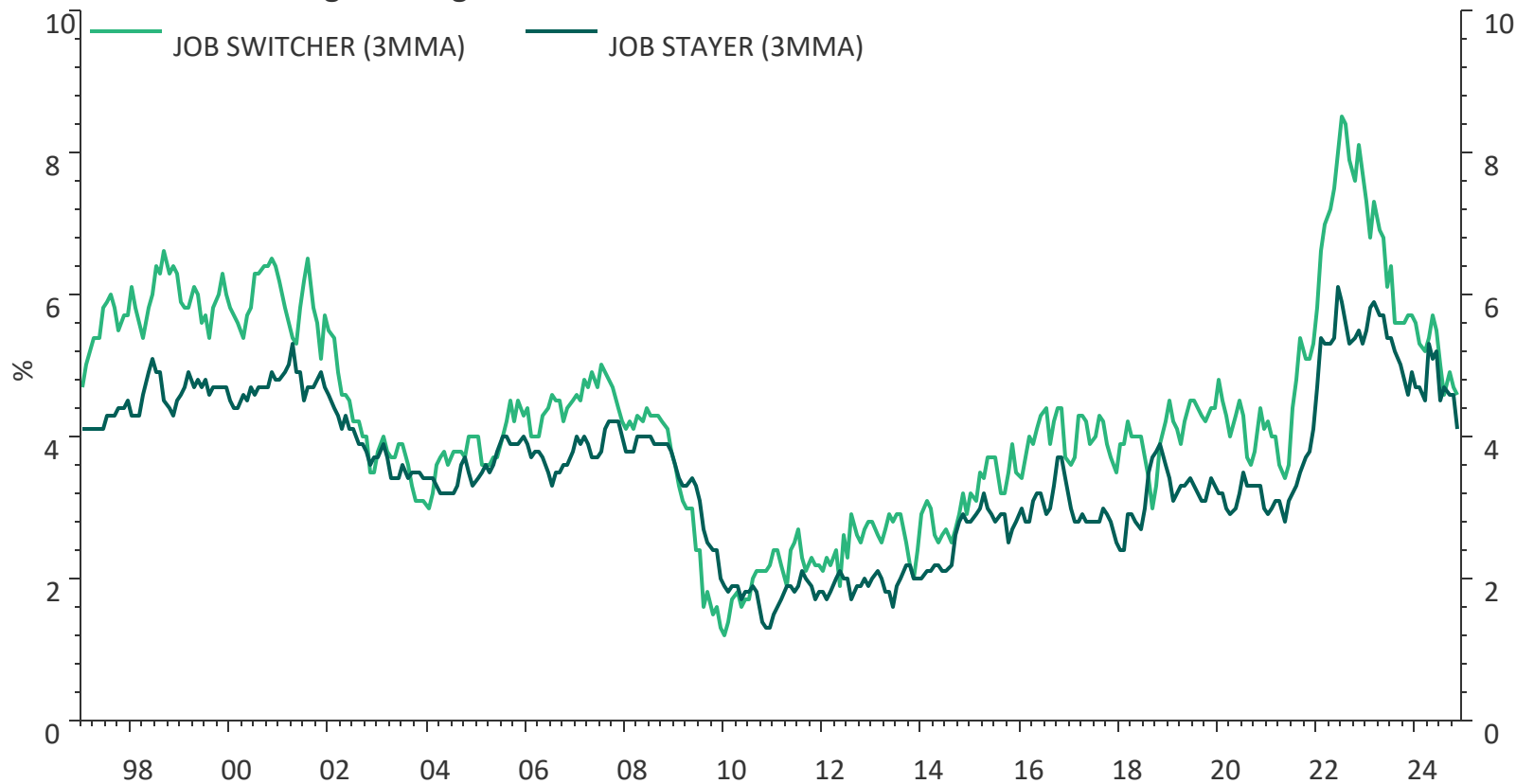


Source: LSEG Datastream

# Wage Inflation High but Moderating

## Atlanta Fed Wage Tracker: Job Switcher vs. Job Stayer

Year-over-Year % Change in Wages

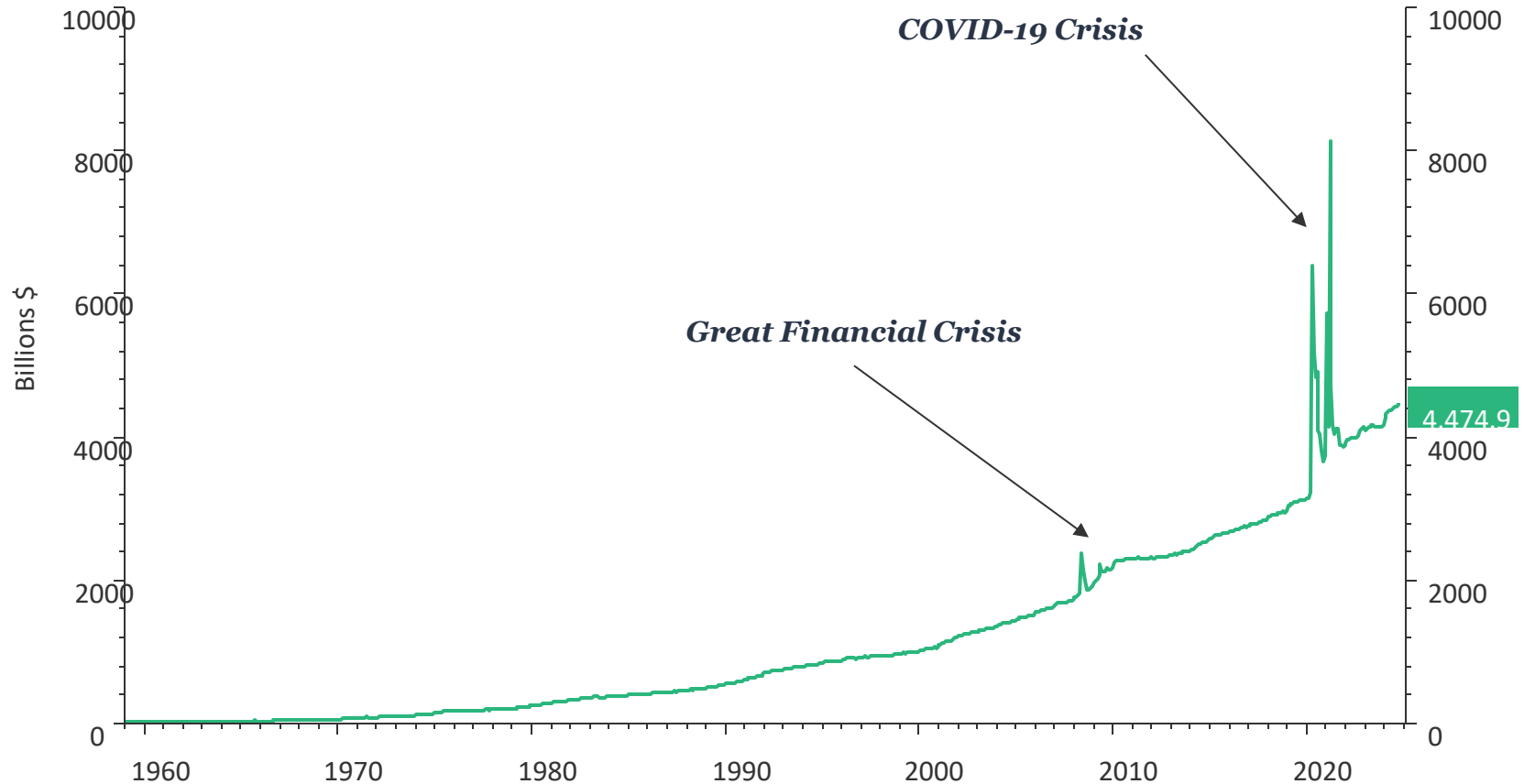


Source: LSEG Datastream

# Rapid, Large-scale Support for the Economy

## Government Social Benefits

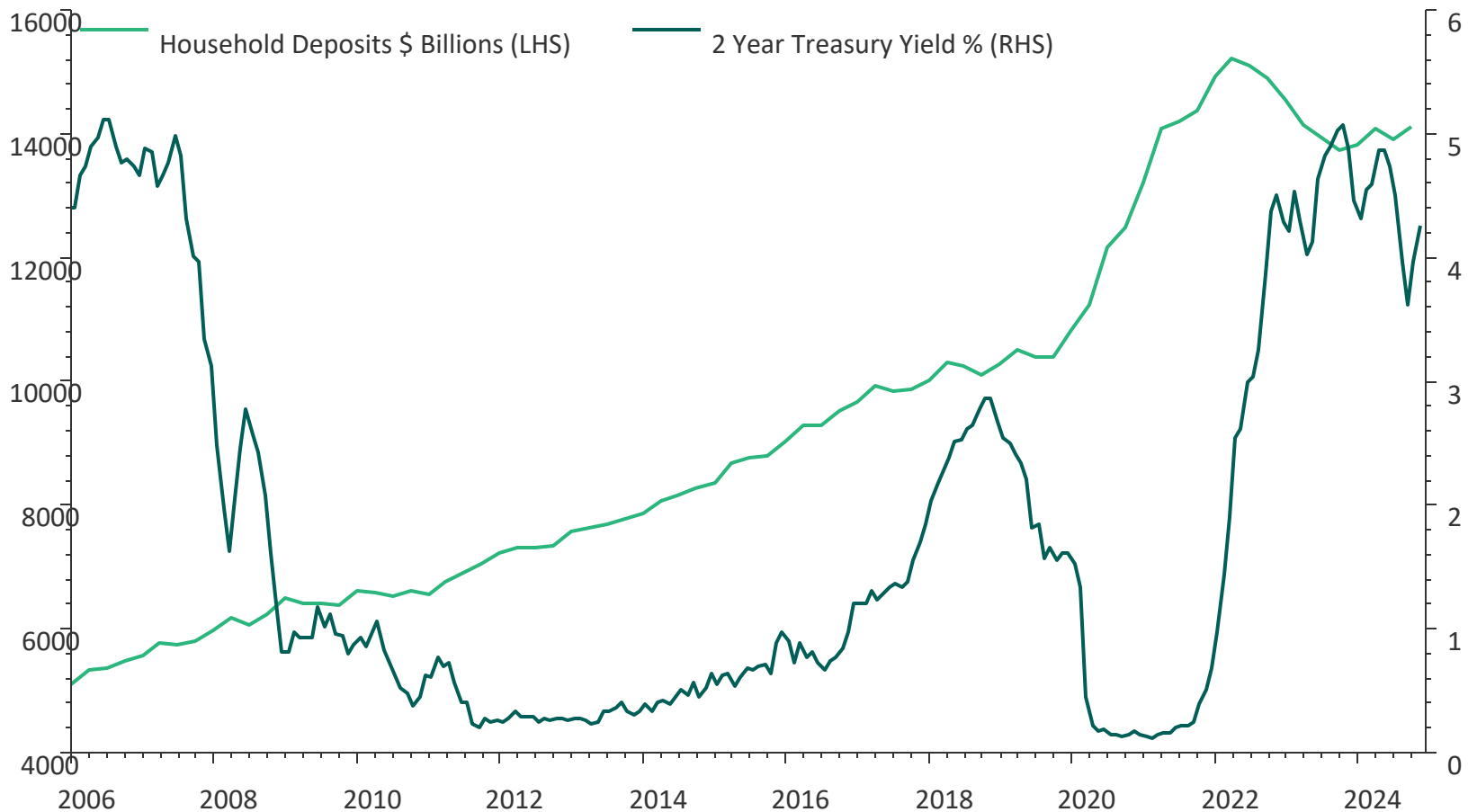
Annualized Rate, Seasonally Adjusted



Source: LSEG Datastream

# Households Hoard Stimulus

## Household Deposits vs. 2 Year Treasury Yield



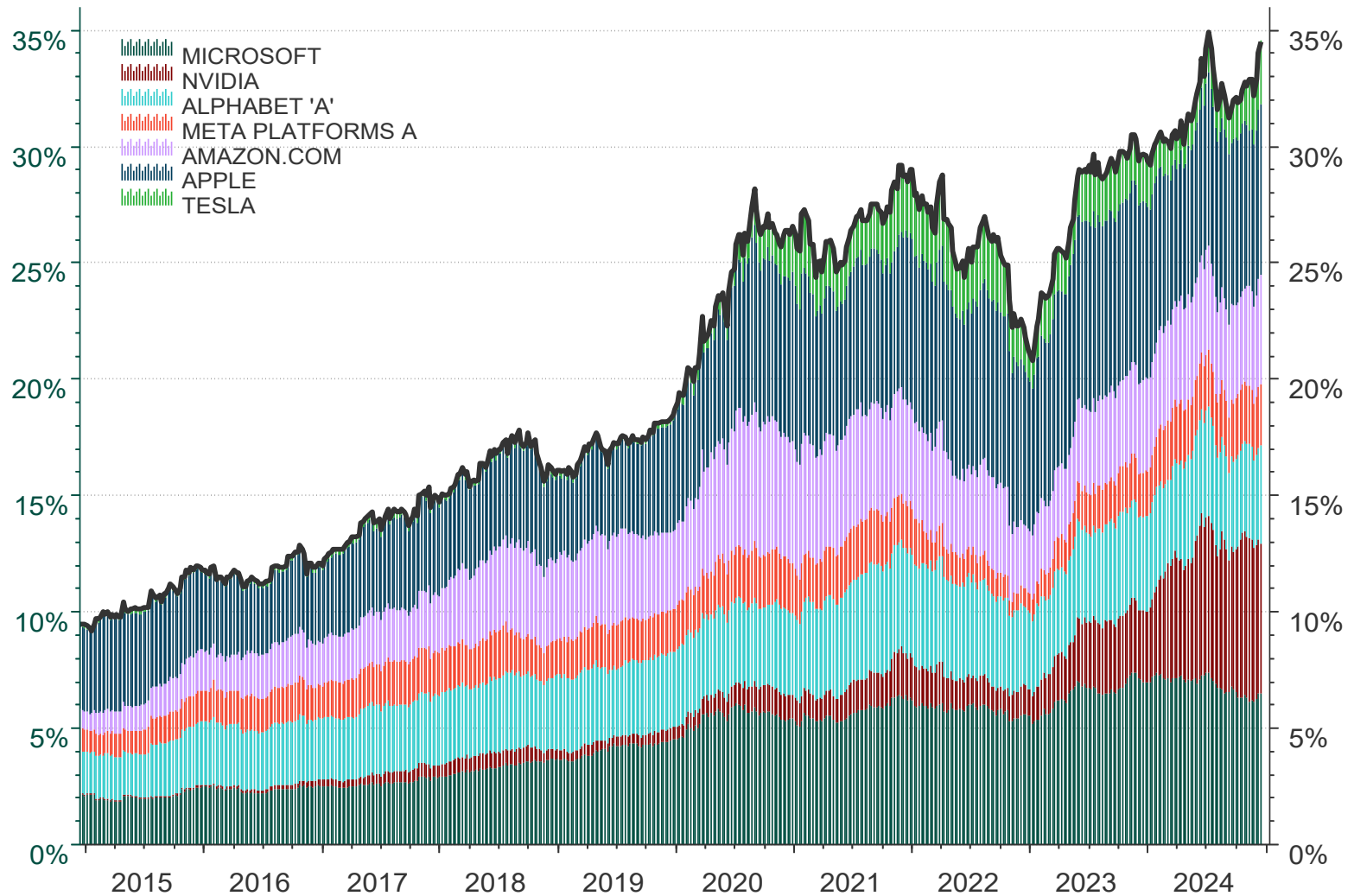
Source: LSEG Datastream



# Appendix

# Historical Market Concentration

Mag 7 % of S&P 500



Source: LSEG Datastream

# 31 Years of Market Returns

# of Years Forward	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1	10%	1%	38%	23%	33%	29%	21%	-9%	-12%	-22%	29%	11%	5%	16%	6%	-37%	26%	15%	2%	16%	32%	14%	1%	12%	22%	-4%	31%	18%	29%	-18%	26%
2	6%	18%	30%	28%	31%	25%	5%	-11%	-17%	0%	19%	8%	10%	11%	-18%	-11%	21%	8%	9%	24%	23%	7%	7%	17%	8%	12%	25%	23%	3%	2%	
3	15%	20%	31%	28%	28%	12%	-1%	-15%	-4%	4%	14%	10%	9%	-8%	-6%	-3%	14%	11%	16%	20%	15%	9%	11%	9%	15%	14%	26%	8%	10%		
4	17%	23%	30%	26%	17%	6%	-7%	-5%	-1%	4%	15%	9%	-5%	-1%	-1%	-2%	15%	16%	16%	15%	14%	12%	7%	14%	16%	18%	13%	12%			
5	20%	24%	28%	18%	11%	-1%	-1%	-2%	1%	6%	13%	-2%	0%	2%	0%	2%	18%	15%	13%	15%	16%	8%	12%	15%	18%	9%	16%				
6	22%	24%	24%	13%	4%	4%	1%	-1%	3%	6%	2%	2%	3%	2%	2%	6%	17%	13%	12%	16%	12%	12%	13%	17%	11%	12%					
7	22%	18%	16%	7%	8%	5%	2%	1%	3%	-2%	6%	4%	3%	4%	6%	7%	15%	13%	14%	13%	15%	13%	15%	11%	13%						
8	17%	14%	10%	9%	8%	5%	3%	2%	-3%	2%	7%	4%	4%	7%	7%	7%	14%	14%	11%	15%	15%	15%	10%	13%							
9	14%	9%	12%	10%	8%	6%	4%	-4%	0%	3%	6%	5%	7%	8%	6%	7%	15%	12%	13%	15%	17%	11%	12%								
10	9%	11%	12%	9%	8%	6%	-1%	-1%	1%	3%	7%	7%	8%	7%	7%	8%	13%	14%	14%	17%	13%	12%									
11	11%	11%	11%	10%	8%	1%	1%	0%	1%	4%	9%	8%	7%	8%	8%	7%	15%	14%	15%	13%	14%										
12	11%	11%	12%	9%	3%	3%	2%	1%	3%	6%	10%	7%	7%	9%	7%	9%	15%	15%	12%	14%											
13	10%	11%	11%	5%	5%	4%	2%	2%	5%	7%	9%	8%	9%	8%	9%	10%	16%	12%	13%												
14	11%	11%	7%	6%	6%	4%	3%	4%	5%	6%	9%	9%	8%	9%	9%	11%	13%	13%													
15	10%	6%	8%	7%	5%	4%	5%	4%	5%	7%	10%	8%	9%	10%	11%	9%	14%														
16	7%	8%	8%	6%	6%	6%	5%	4%	5%	8%	9%	9%	10%	11%	9%	10%															
17	8%	8%	8%	7%	7%	6%	5%	5%	6%	7%	10%	10%	11%	9%	10%																
18	8%	8%	9%	8%	8%	6%	5%	5%	6%	8%	11%	11%	9%	10%																	
19	8%	8%	10%	9%	7%	6%	6%	5%	7%	9%	11%	9%	10%																		
20	8%	9%	10%	8%	8%	7%	6%	6%	7%	10%	10%	10%																			
21	9%	9%	9%	8%	8%	7%	7%	7%	8%	8%	11%																				
22	9%	9%	10%	9%	8%	8%	7%	8%	7%	9%																					
23	9%	9%	10%	8%	9%	8%	8%	6%	8%																						
24	9%	10%	9%	9%	9%	9%	7%	7%																							
25	10%	9%	10%	10%	10%	8%	8%																								
26	9%	10%	11%	10%	9%	8%																									
27	10%	10%	11%	9%	9%																										
28	10%	11%	10%	10%																											
29	11%	10%	10%																												
30	10%	10%																													
31	10%																														

For any given year, 1993 – 2023 (X-axis), the chart provides the annualized return after “x” number of years (Y-axis).

Example: If you invested in the S&P 500 on 1/1/1993, the 5-year annualized return was 20%. The 31-year annualized return was 10%.

Calendar-Year Annualized Forward Returns

For any given year, 1993 – 2023 (X-axis), the chart provides the annualized return after “x” number of years (Y-axis).

Example: If you invested in the S&P 500 on 1/1/1993, the 5-year annualized return was 20%. The 31-year annualized return was 10%.

Source: Ritholtz Wealth Management, *A Wealth of Common Sense* blog, Sept. 4, 2024