D|A|DAVIDSON WEALTH MANAGEMENT

The Weekly Market Update – 10/14/24: Bull Market Celebrates Two Years

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,815.03	1.11%	0.91%	21.91%	35.61%	5,815.03	0.0%
Dow Jones Industrial Average	42,863.86	1.21%	1.26%	13.73%	27.92%	42,863.86	0.0%
NASDAQ Composite	18,342.94	1.13%	0.85%	22.19%	38.76%	18,647.45	1.7%
Russell 2000	2,234.41	0.98%	0.20%	10.23%	25.17%	2,442.74	9.3%
MSCI EAFE (USD)	2,418.74	0.24%	-2.02%	8.16%	19.08%	2,506.69	3.6%
MSCI Emerging Markets (USD)	1,159.56	-1.68%	-0.96%	13.27%	21.70%	1,444.93	24.6%
Bloomberg Commodity Index	100.81	-1.24%	0.46%	2.19%	-3.85%	237.95	136.0%
Barclays U.S. Aggregate Bond	92.55	-0.49%	-1.58%	0.93%	7.22%	112.07	21.1%

Source: FactSet

Equities move higher in October as the S&P 500 “bull market” hits the two-year mark. The S&P 500 equity index closed above 5,800 for the first time on Friday, driving a modest month-to-date gain (up +0.9% in October, as of 10/11/24) and extending the 2024 year-to-date (YTD) move to +21.9% (not including dividends). We attribute U.S. stock market gains to solid economic data led by consumer spending and business investment, and to lower inflation trends, supporting the Federal Reserve Bank’s (Fed) policy shift to reduce short-term interest rates. This has stoked a surge in investor sentiment, driving equity prices and valuations substantially higher in 2024. The S&P 500 closed at a price level of 5,815 on 10/11/24, and this past weekend marked the two-year anniversary of the “bear market” low (the index closed at 3,577 on 10/12/22). We define bear markets as a peak-to-trough decline of -20% or more (the 2022 decline reached -25.4%) and bull markets are named when the index recovers at least +20% from that low. From the October 2022 low, it took nearly eight months to rally +20% (in early June 2023) and about fifteen months for the S&P 500 to close at a new all-time high (in January of this year). Through 10/11/24, the S&P 500 has closed at 45 new highs this year, and from that closing low two-years ago, the index gain was an impressive +62.6%. Over that two-year period, equity prices have increased much faster than earnings estimates. Based upon a multiple of earnings estimates, the S&P 500 is much more richly valued today. As of 10/11/24, the S&P 500 2024 FactSet consensus earnings estimate is $239, up +10.1% from $217 in 2023, and the 2025 consensus estimate is $274 (+14.6% from the 2024 estimate). The S&P 500, at 5,815, trades at 24.3x that 2024 estimate and 21.2x the 2025 estimate. The average forward year P/E over the past 10 years was 17.7x, so the current valuation is well-above that multiple. Two years ago, the 2024 S&P 500 EPS estimate was $258 (higher than it is now) and the 2025 EPS estimate was $269 (the 2025 is slightly higher now). Investors are comfortable paying a higher multiple in 2024 as data improves, but we would like to see earnings expectations rise more to support further gains ahead. While sentiment is high and the current equity market trend is positive, absent a lift in 2025 earnings estimates, we believe upside is limited.

September inflation data was higher than expected and can limit future rate cuts. The widely followed consumer price index (CPI), as reported by the Bureau of Labor Statistics, reflected September headline inflation of +2.4% year-over-year (Y/Y) and core CPI (excludes food and energy) of +3.3% Y/Y. Both exceeded their respective consensus estimates by +0.1%, but six months earlier (March 2024), CPI and core CPI were +3.5% and +3.8%, respectively. The higher monthly trend in core CPI was attributed to price gains in food (especially groceries), physician visits, vehicle insurance, apparel, and airline fares. The Fed wants to see core inflation get to +2.0% over time, which could still take a while, and we expect the Fed to move cautiously on larger cuts to its fed funds target at upcoming meetings in November and December. We believe rate cuts of -0.25% are more likely, rather than the -0.50% reduction enacted in September.

3Q24 earnings season builds this week, with upside to the growth outlook expected. This week, 43 S&P 500 companies are scheduled to report quarterly results. We believe there is upside to consensus estimates for +4.1% Y/Y growth (2Q24 growth was +11.4%) but more important will be forward guidance. Given equity market strength in recent weeks, we believe investors see upside to earnings outlooks in 4Q24 and full-year 2025, creating high expectations and the potential for volatility.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The annual price returns of the S&P 500 index are calculated using index closing value on 12/31 of one year to 12/31 of the next year. 2024 returns are calculated as of 9/30/2024. Intra-year, peak-to-trough percentage declines are calculated using the index closing prices from an intra-year high date to a subsequent low date. Closing prices are provided by S&P Global through FactSet. Averages across years are calculated using the arithmetic mean. The closing price of the S&P 500 on 10/12/22 was 3,577 and on 10/11/24 it was 5,815. We define a bear market as an index peak-to-trough (using closing prices) decline of at least 20% and a bull market is a 20% gain from that low. The 2022 bear market reflected an S&P 500 index closing price of 4,797 on 1/3/22, dropping to 3,577 on 10/12/22. The subsequent bull market rally was reached on 6/8/23 at 4,293.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The minutes from the most recent FOMC meeting is here. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. As of 10/7/24, the fed funds target range was 4.75% to 5.25%.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work. From the surveys, the BLS compiles average hourly earnings for workers, a measure of wages looked at both year-over-year, and month-to-month.

The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. Business investment is determined from the non-residential fixed investment category.

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet. The 10-year average P/E of 17.7x covered the time from 10/11/14 to 10/11/24 and used the next fiscal year (FY2) estimate.