The Longo Group

Independent Financial Firm

The Corner

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The Fed's Pivot is a Game Changer

What A September! 3Q 2024 Was One For The History Books!

September and 3Q24 delivered amazing market performance for investors at a time when geopolitical tensions have been boiling, the yen carry-trade exploded, and the U.S. markets have been hurtling towards an unprecedented Presidential election.

For September, the S&P 500 gained 2.1% on a total return basis, the best September since 2013 and the first positive September in five years! It was the fifth straight month of gains for the index and the 10th positive month in the past 11 months. All major asset classes rose on lower rates, led by gold, up +4.6%. Long-term Treasuries outperformed stocks, up +2.4%. Investment-grade corporate bonds rose 1.9%, while cash gained 0.4%. International equities lagged the S&P 500 in local currency terms (+1.6%) but outperformed in USD terms (+2.7%) as the dollar weakened. The MSCI Emerging Markets Index jumped 6.4% in USD terms, led by China (+23.5%), which posted the second-best monthly return in its history (the best was +29.6% in Nov. 2022).

It Was The Strongest 3Q since 2020

The S&P 500 gained 5.5% in 3Q, the best 3Q since 2020. But the real action was within the market, where the equal-weighted S&P 500 (SPW) jumped 9.4%, enjoying its best 3Q since 2010. It was also the best 3-month outperformance by SPW since Dec. 2022. Market breadth expanded during the quarter, with 67% of stocks in the S&P 500 outperforming the index in 3Q, reaching the 98th percentile of history (highest since 1Q02) for 3-month market breadth. Historically, only 31% of stocks in the S&P 500 ever outperformed the index.

These statistics on the markets are a very good reminder for why investors should focus on staying invested and not trying to time events in the market or in the world!

Executive Summary

On September 18th, the Federal Reserve (Fed) decided to lower interest rates for the first time in two years by 50 basis points (bps). Historically, the Fed begins an easing cycle (lowering interest rates) by 25 bps and lowers by 50 bps only when there are stresses in the economy or banking system. So, a 50 bps cut while the economy is still growing by 2% and the labor market is still at full employment was an extraordinary move. The Fed also positioned markets to expect continued rate cuts into the end of this year and into next year as well. This is a highly unusual action and, in our view, a game changer for markets. Why? This will provide additional liquidity to the markets and should provide confidence to the consumer to keep spending. The move should also stimulate the housing market.

Future cuts in rates would also keep a strong economy strong, allowing companies to continue to grow corporate profits. Lower interest rates also allow the price-earnings multiple of the equity market to expand.

Technology and Tech-related companies remain the leaders of this market, with semiconductors still at the top as the Leader of the Pack. Artificial Intelligence (AI) is expected to continue to be the driver of growth, granted, with periods of slowdown, but the long-term trend is clear – AI will be transformational new technology for all economies and all businesses.

The long-term effects of AI are yet to be seen. The last time this sort of innovation appeared was the technology boom of the 1980s-1990s, culminating in the Dot-Com Boom. An earlier innovation was the introduction of computers and advanced technology from the 1950s to the early 1970s, much of which was developed during World War II and the Cold War. Before that, during the Roaring '20s, advancements in radios, automobiles, and airplanes drove the market higher.

We don't believe the secular bull market has ended. Market breadth is still expanding, as is upside volume. Liquidity remains intact, and the Fed has announced that it has begun an easing cycle, joining other central banks around the world in providing more liquidity to the markets. Markets run on liquidity, and we have never before seen such liquidity provided to markets outside a financial crisis.

We remain positive on the market through the end of 2024 into 2025.

Fed Cuts Interest Rates: Bullish For The Markets And Consumers

On Wednesday, September 19, the Federal Open Market Committee (FOMC) cut its Fed Funds rate half a percentage point to 5.0%. This was an unusual and significant rate cut because the Federal Reserve (Fed) rarely lowers interest rates before the economy is showing some signs of distress. We believe this is bullish for risk assets (particularly equities), bullish for real estate, and bullish for consumers, who can now spend more freely. Moreover, the Fed has made it clear that this is the first in a cycle of rate cuts. Based on the material the FOMC released on October 2, the market is projecting rates will decline to 4.25% - 4.0% by year-end, and 3.0% or lower by the end of 2025. The rally in stocks is broadening as it includes traditionally more defensive issues to lock in yields.

The S&P 500 Has Broken Out Of A Major Base

The S&P 500 is well underway with a breakout of a major base. You can see the formation of the base from 2022 to 2024 in the accompanying chart. We are confident the S&P 500 can reach 6000 by year-end, driven by the Fed and other global Central Banks embarking on a major monetary easing policy. This move is especially significant here in the U.S. where our economy is growing at 2.0%, corporate profits are still growing, and we're seeing full employment (albeit, employment is slowing). We don't see the economy weakening, in fact, we believe the opposite: the economy should continue to grow powering strong earnings growth.

S&P 500 Major Base Breakout

Market Breadth Indicates That The Bull Is Still Running

The New York Stock Exchange advance-decline line, the cumulative sum of the daily number of advancing issues less the number of declining issues, has reached new highs confirming that the long-term advance of the equity market remains intact.

NYSE Cumulative Advance-Decline Line Confirms Bull Trend

Technology Remains the Leadership Sector – It's Just Consolidating Strong Gains

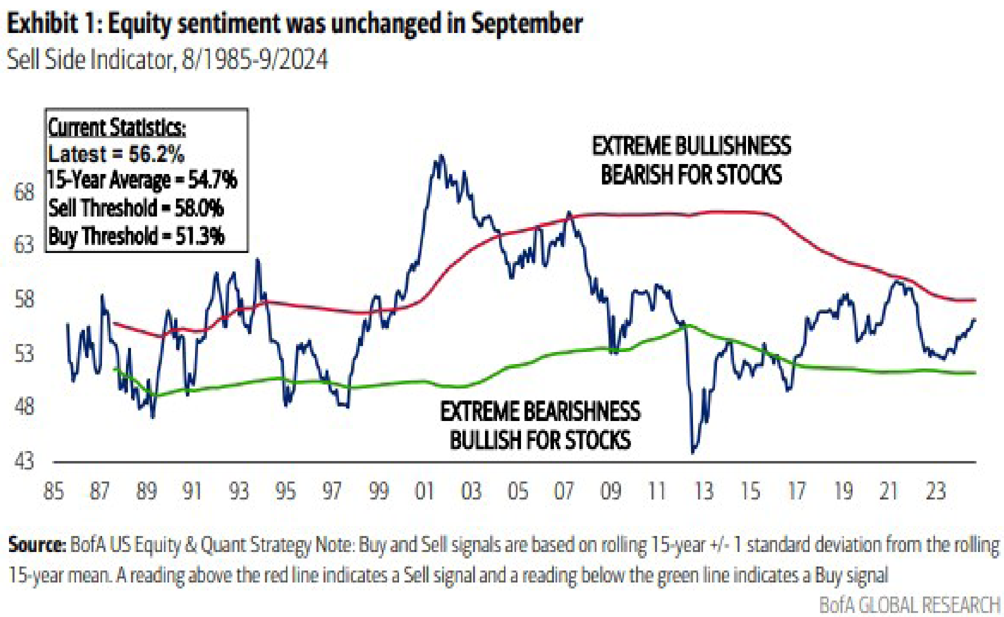
The Nasdaq 100 index, dominated by the leading digital firms, remains in a strong uptrend. *Expect new highs.*

The Nasdaq Digital Index Is In An Uptrend But Under A Bullish Consolidation

Sell Side Recommended Equity Allocations Are Not At An Extreme: That's Bullish

The Bank of America Sell Side Indicator, which tracks sell-side asset allocation recommendations, acts as a contrarian indicator. This means it tends to be positive when Wall Street professionals are not overly bullish, and negative when their optimism reaches extreme levels. Currently, the indicator remains in bullish territory, suggesting a 12-month expected return of 11.50%.

BofA Sell Side Indicator: Bullish

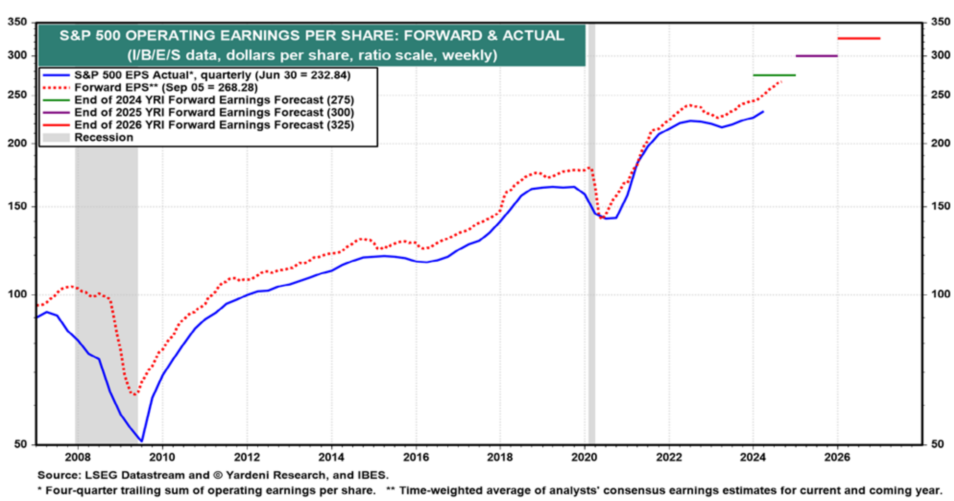


Source: Bank of America, October 1, 2024

Earnings Are Good For This Year, But 2025 Might Disappoint

Stock prices are fundamentally driven by earnings. Earnings this year have been very strong, and next year earnings are expected to have good growth. The Fed cutting interest rates this year into next year should support continued earnings growth for 2025.

EPS Growth Into 2025 Is Expected To Remain Strong

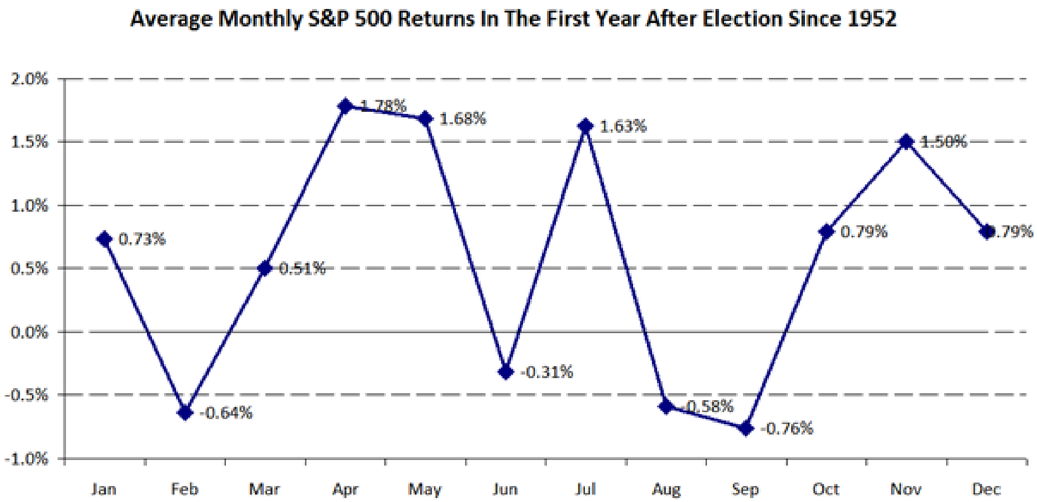


Source: Yardeni Research, September 2024

Market Returns In The First Year Of A Presidency Are Sometimes Weak

Market returns in the first year of a presidency are sometimes weak. This can be due to changes in policy that affect profit margins, and the fact that presidents generally prefer to suffer any economic contractions in the first year of their terms in office so that recovery is underway when election time approaches once again after four years. The shift in Fed monetary policy to lowering interest rates into next year will provide liquidity that we expect will power equities higher.

Monthly S&P Returns In The 1st Year Of A Presidency

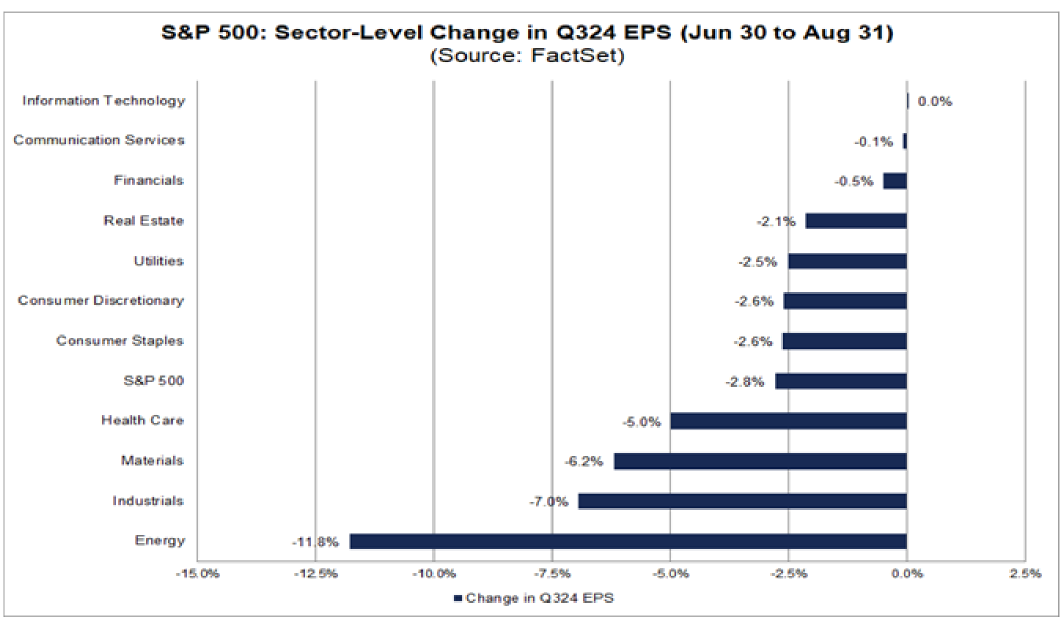


Source: Standard and Poor's, Sanctuary Wealth, August 2024

Expected Changes In 3rd Quarter Earnings Best For Tech At Unchanged

It is considered seasonally normal to have earnings estimates come down in 3Q of an earnings season. This year, virtually no sector rose in 3Q, but Energy, Industrials, and Materials had sharp downward revisions. Technology was best with no change.

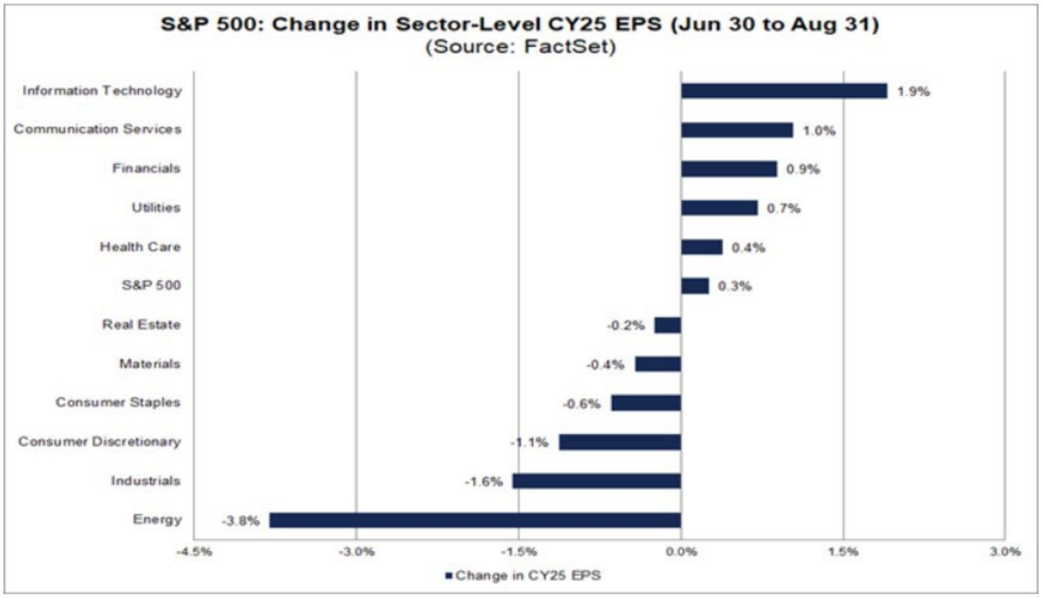
Sector 3Q24 Changes



Source: FactSet, September 2024

Bottom-Up Sector EPS Estimates For Calendar Year 2025 Strongest For Technology

S&P 500 Change Sector CY25 EPS: Tech Best And Energy The Worst

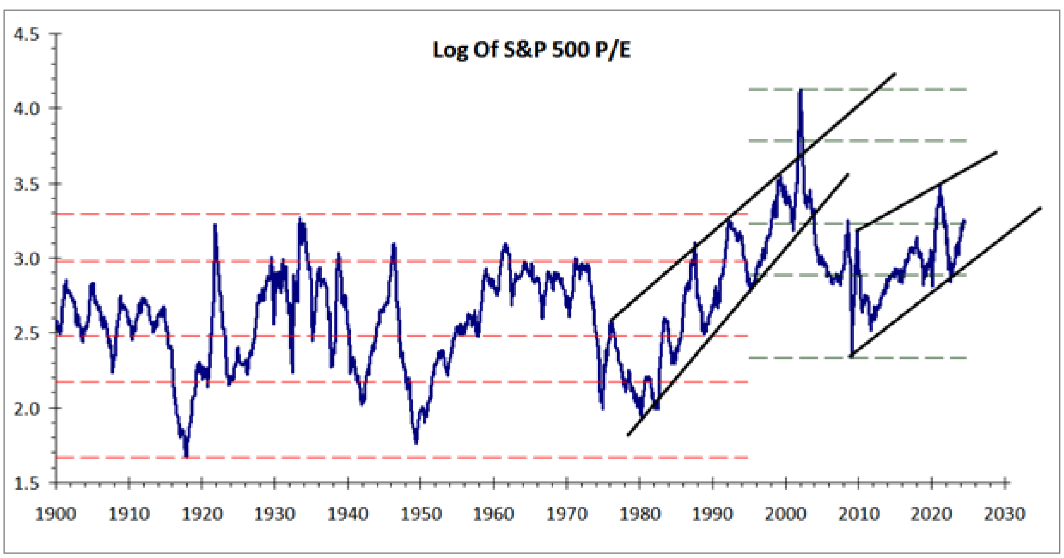


Source: FactSet, September 2024

Price-Earnings Ratios Are Expanding: We Are In A Secular Bull Market

Price-earnings ratios expand during secular bull markets. As the U.S. economy has shifted from a manufacturing economy to a digital economy – along with the shift from dividends to stock price gains (due to tax effects since the 1980s), price-earnings ratios have expanded. We expect this to continue, and we believe multiples can expand as interest rates fall.

P/Es Expand During Secular Bull Markets

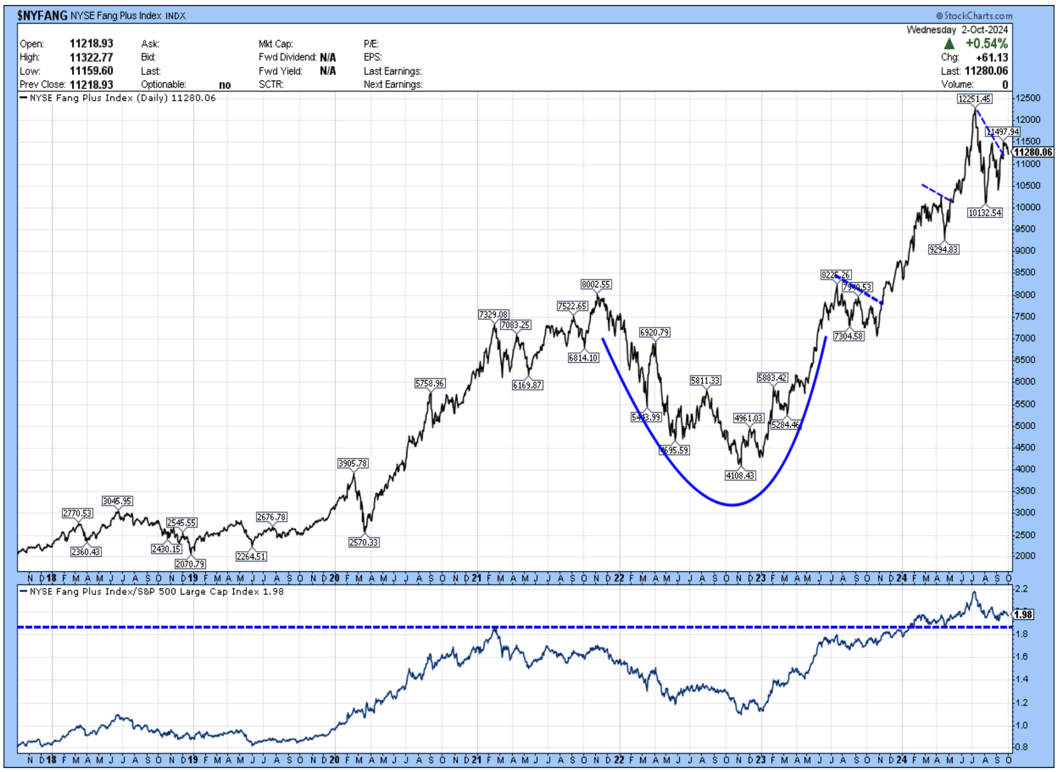


Source: Standard and Poor's, Sanctuary Wealth, September 2024

FANG+ Stocks Have Made A Higher Low, Indicating Continued Advance

The NYSE FANG+ is an equal-weighted index of ten of the most highly traded tech stocks: Meta, Apple, Amazon, Netflix, Microsoft, Google, Tesla, Nvidia, Snowflake, and Broadcom. The index has been consolidating its strong gains. We believe many of the stocks within this index, which have higher volatility than the rest of the market, are likely to resume their leadership going into the end of the year.

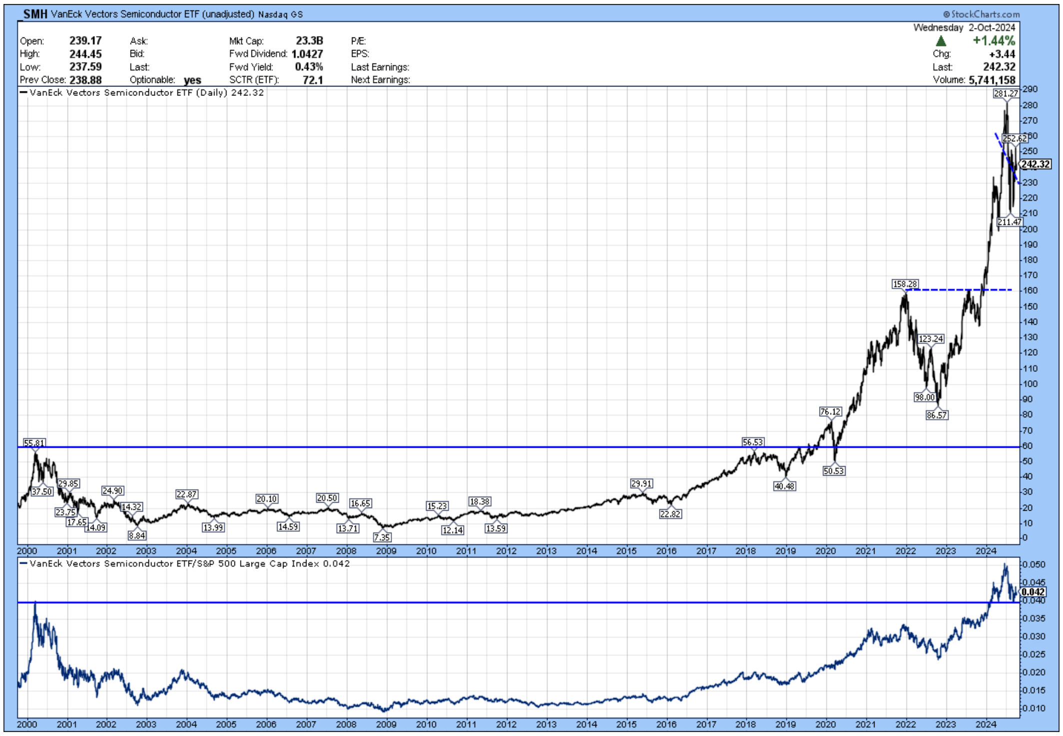
NYSE FANG+ Index With Relative Price To S&P 500



Semiconductors: Leaders Of The Pack

Semiconductor stocks have led the market higher. Their prices are more volatile than the rest of the market and are subject to short, sharp retracements. The VanEck Semiconductor ETF (SMH), formed a long base from 2000 to 2017. We believe these stocks are likely to rally again after this retracement.

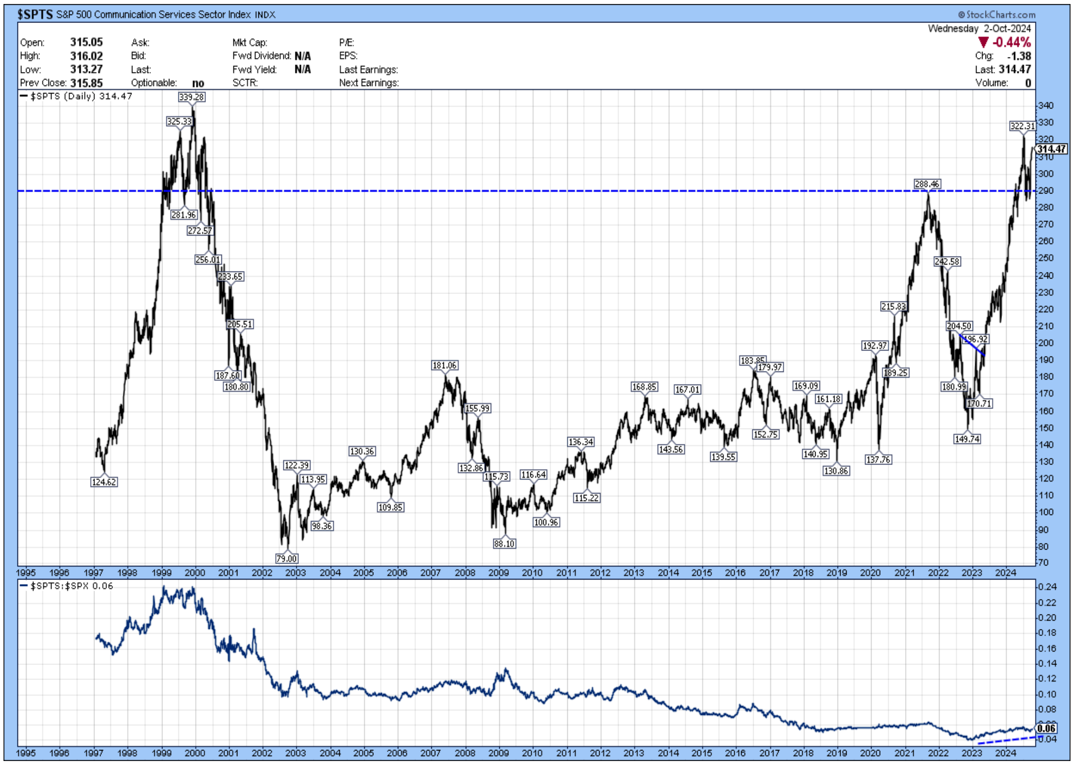
VanEck Semiconductor ETF (SMH) With Relative Price To S&P 500



Communication Services

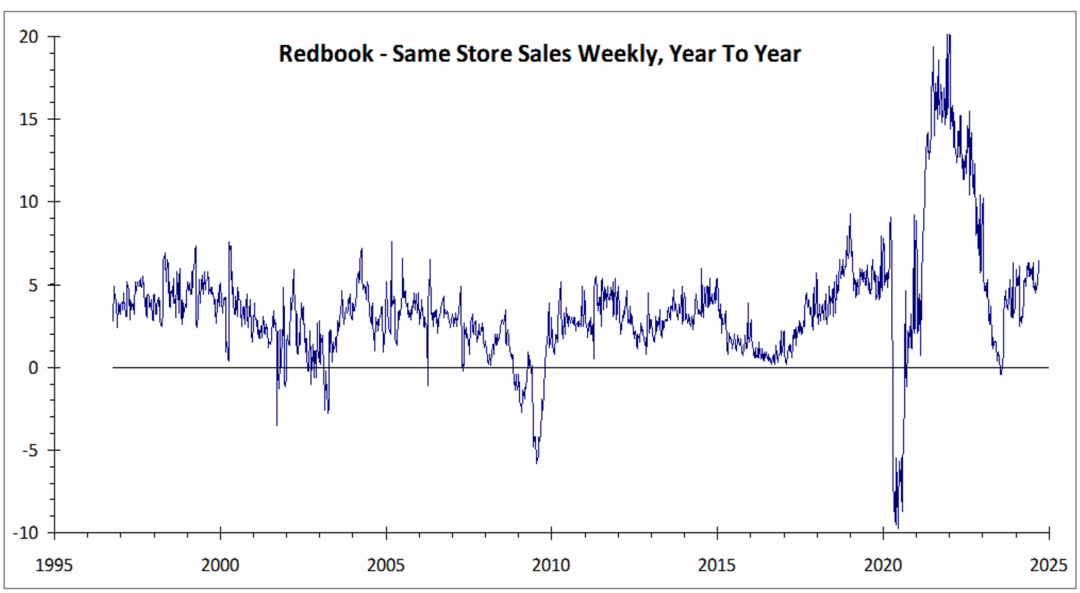
S&P 500 Communication Services has recently returned to levels last seen in 2000. The relative price is very weak, but select tech-related stocks in this sector are performing well.

S&P 500 Communication Services Index With Relative Price To S&P 500



Consumers Continue To Spend But Selectively

Consumers are still spending, but they're increasingly selective on what they're spending on.



Source: Redbook, Sanctuary Wealth, September 10, 2024

Consumer Discretionary: Laggard

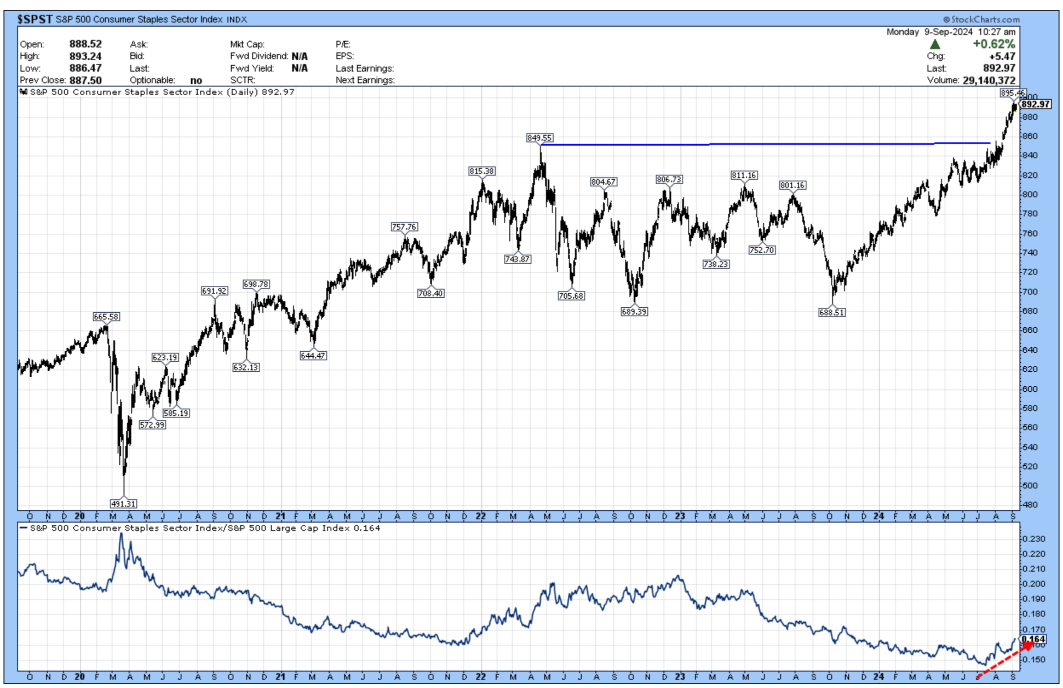
We think Consumer Discretionary has been a lagging sector. But the homebuilders have been one of the best performing industries this year.

S&P 500 Consumer Discretionary Index With Relative Price To S&P 500

Consumer Staples Breaks Out

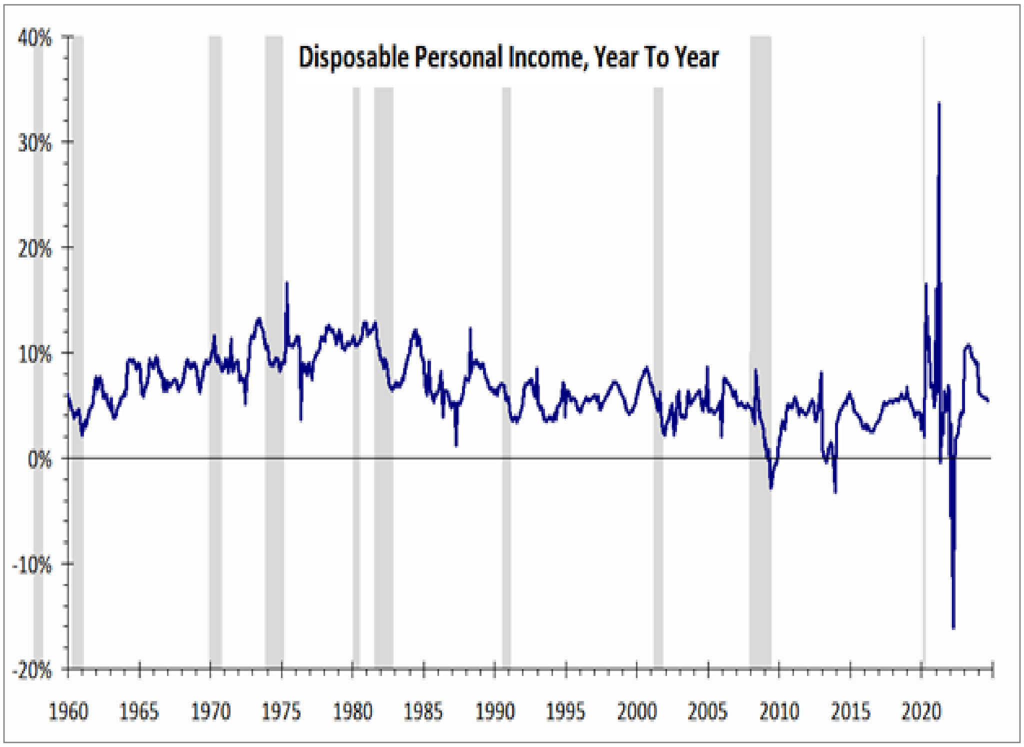
Consumer Staples has broken to new highs and the relative performance has begun to improve for the first time since the end of 2022. Investors have shifted to finding income within the equity market and this sector has income.

S&P 500 Consumer Staples Index With Relative Price To S&P 500



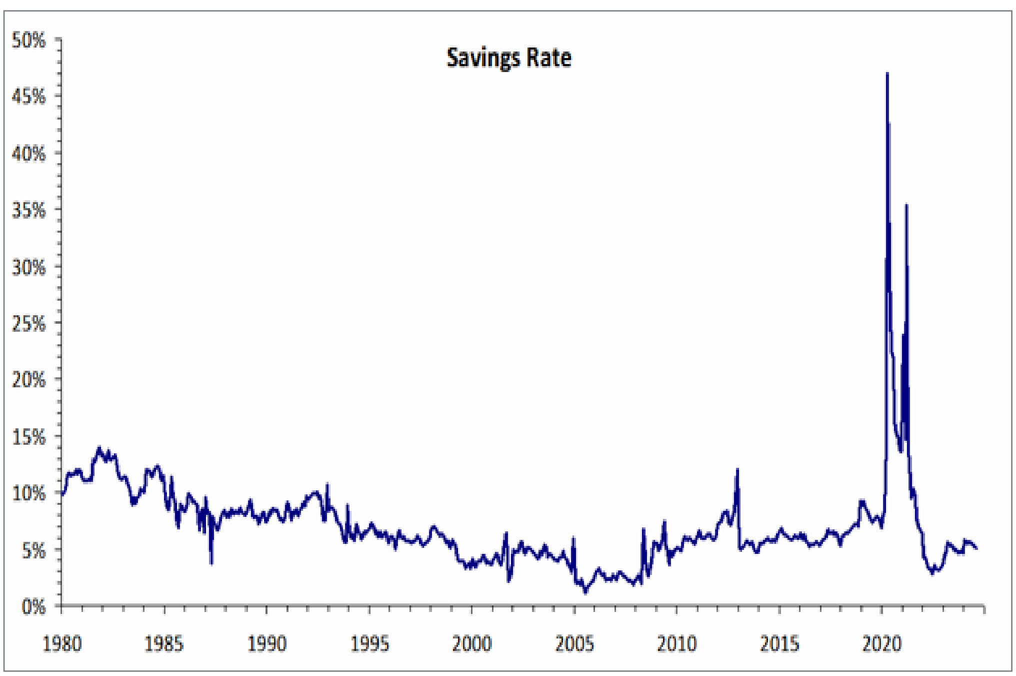
Consumers Still Have Money To Spend

Disposable personal income is a good measure to determine if the consumer has buying power. Looking at disposable personal income year-to-year, the measure is slowing but remains robust. Moreover, the savings ratio was just revised up to 5.0% from the previous 3.0% -- this is additional confirmation that the consumer can spend going into the holiday season.



Source: Bureau of Economic Analysis, Sanctuary Wealth, September 2024

Consumer Saving Rate At 5% Is High! – A Jolly Holiday Coming

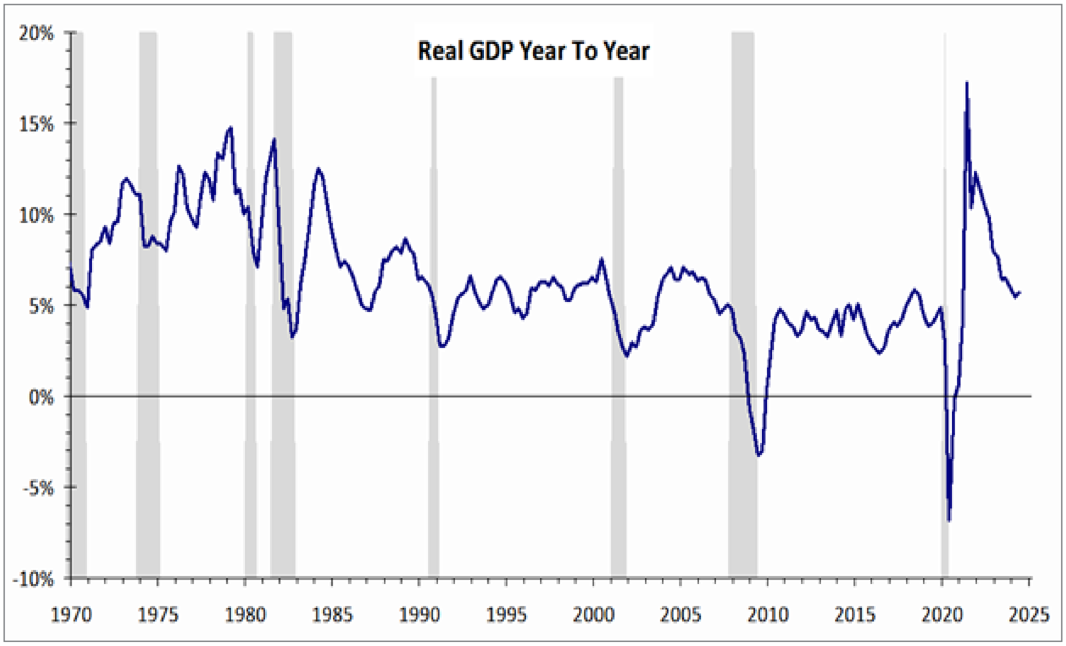


Source: Bureau of Economic Analysis, Sanctuary Wealth, September 2024

GDP Has Slowed But Lower Interest Rates Should Be Stimulative

The economy is still growing, but its rate of growth has slowed. A global easing cycle, particularly from the Fed, should spark continued economic growth into 2025.

GDP Growth Has Slowed But Still Strong



Source: Bureau of Economic Analysis, Sanctuary Wealth, August 2024

2-Year Treasury Yields Have Peaked

The yields on 2-year Treasuries peaked around 5.0%, where they also peaked in 2006. Currently they're just above 3.5%, and we think that a break below 3.5% would be significant, driving yields down to 2.0%-1.5%. But rates could stabilize and rise a bit here for a few months before falling again.

2-Year Treasury Yields Headed Lower

10-Year Treasury Yields Have Peaked

Yields on 10-year Treasuries also peaked near 5.0%, and they were last at these levels in 2006-2007. We expect to see them decline to 3.0%-2.5%. This move may be more choppy, up and down, but within a downtrend overall.

10-Year Treasury Yields Headed To 2.5%–3%

Energy – The Best Value

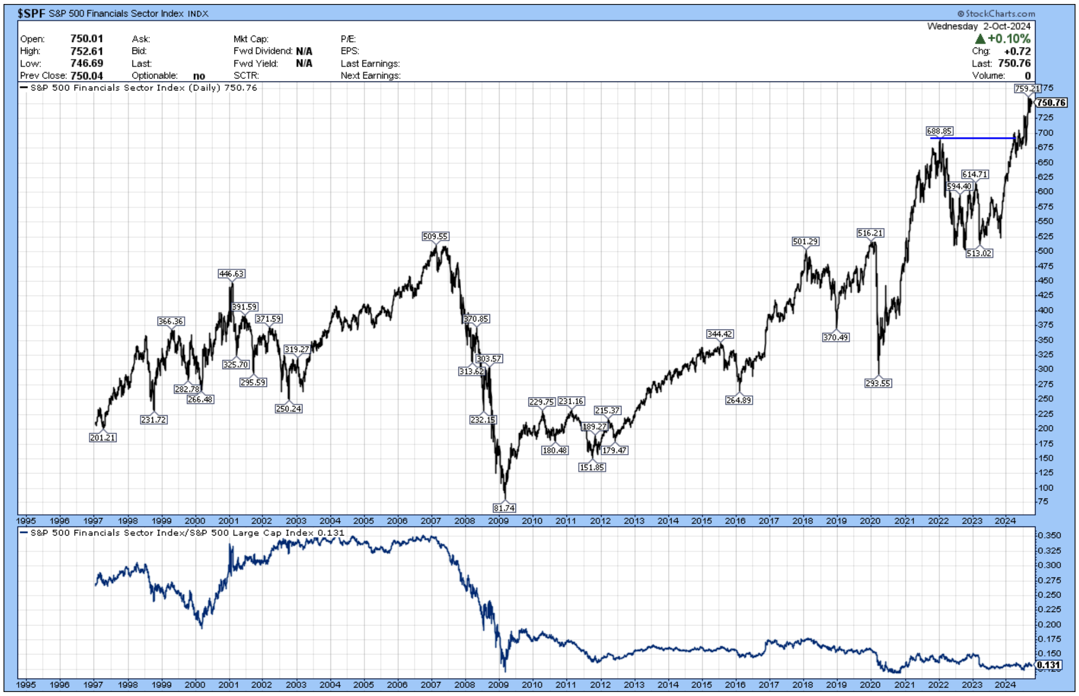
On a valuation basis, we like Energy stocks. They are near their highs of the past two decades, but we think they are not likely to perform well against the broader market.

S&P 500 Energy Index With Relative Price To S&P 500

Financials Break Out

The Financials sector has broken out to new highs on the expected and actual interest rate cut by the Fed. However, the sector is not strong relative to the market. Capital Markets has been one of the best performing industry groups in the sector.

S&P 500 Financials Index With Relative Price To S&P 500



Banks Rally

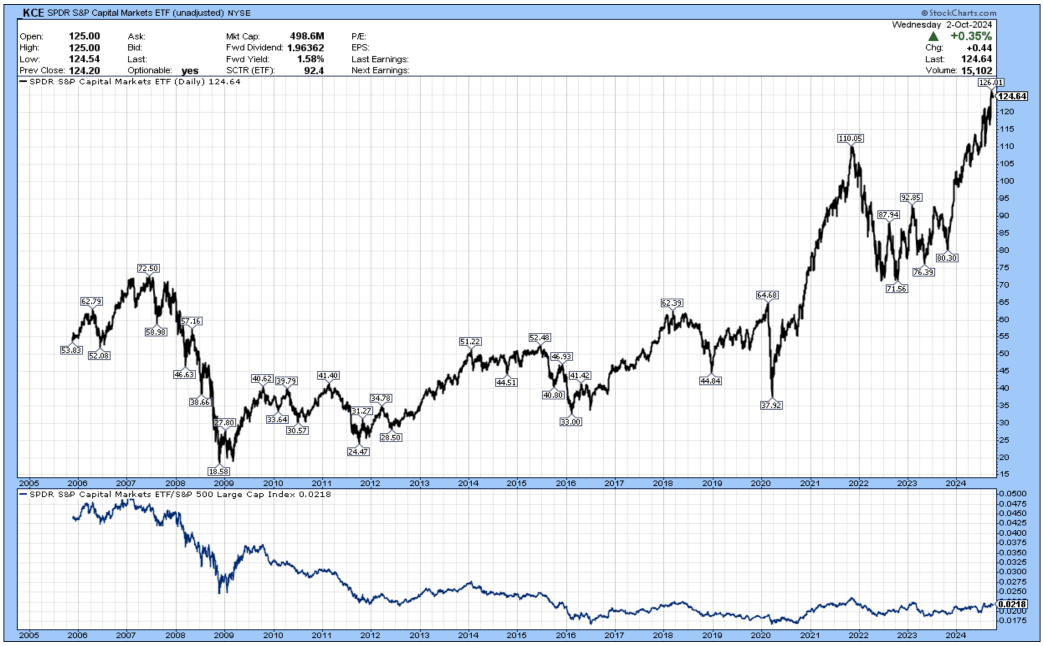
Banks are rallying off a low from late last year – but they are not leadership. We prefer the bigger banks over the regionals. Banks face some headwinds from increased capital requirements imposed by the Basel III Endgame rules, which are currently being finalized by the Federal Reserve in the U.S.

KBW Bank Index With Relative Price To S&P 500

S&P Capital Markets Outperform

S&P Capital Markets issues have broken out to new highs and are also outperforming the S&P 500. In our view, this is confirmation of the bull market in equities.

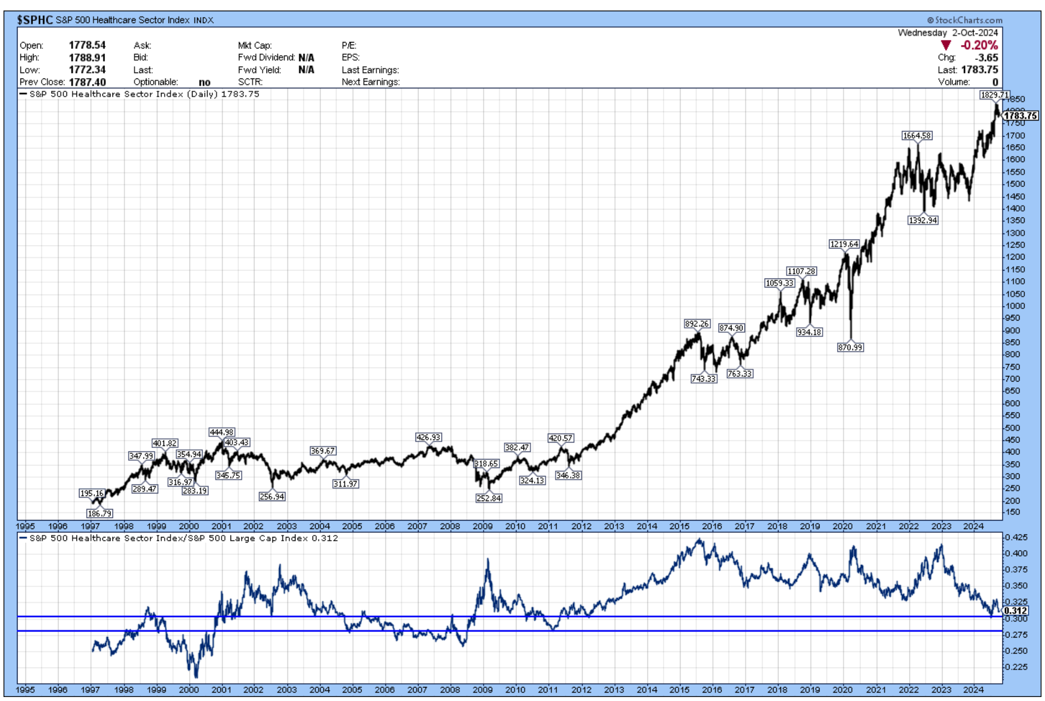
S&P 500 Capital Markets ETF With Relative Price To S&P 500



Healthcare: A Mixed Bag

Select Healthcare stocks have done well, driving the sector to new highs. The recent relative performance has been weak. Biotechnology is an improving industry group in the sector. (See below.)

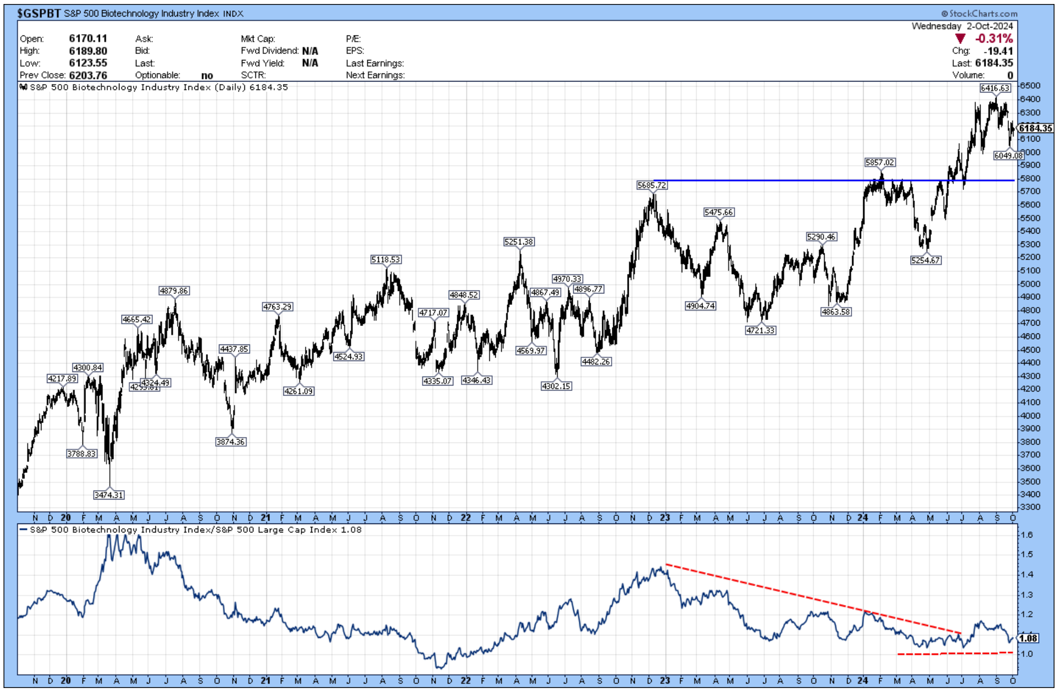
S&P 500 Healthcare Index With Relative Price To S&P 500



Biotechnology Correcting From Highs

Biotechnology has broken to new highs and is currently correcting. The relative performance to the market appears to be bottoming and possibly improving.

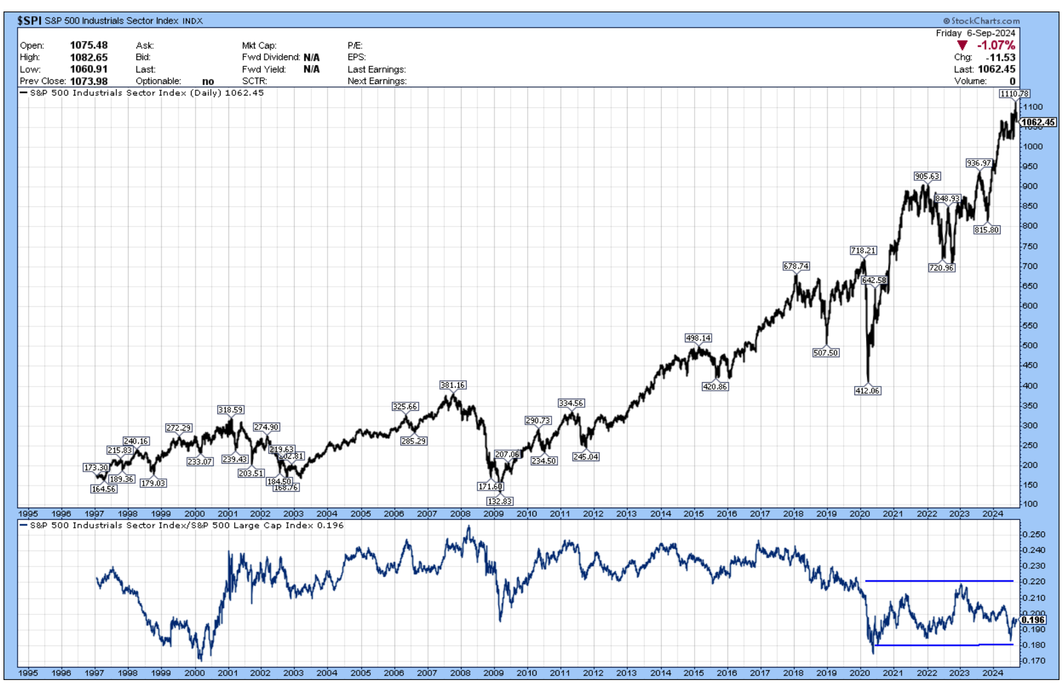
S&P 500 Biotechnology Index With Relative Price To S&P 500



Industrials On The March

Industrials continue to charge higher to new record highs. This sector is a favored sector, benefiting from Infrastructure spend and Defense spending.

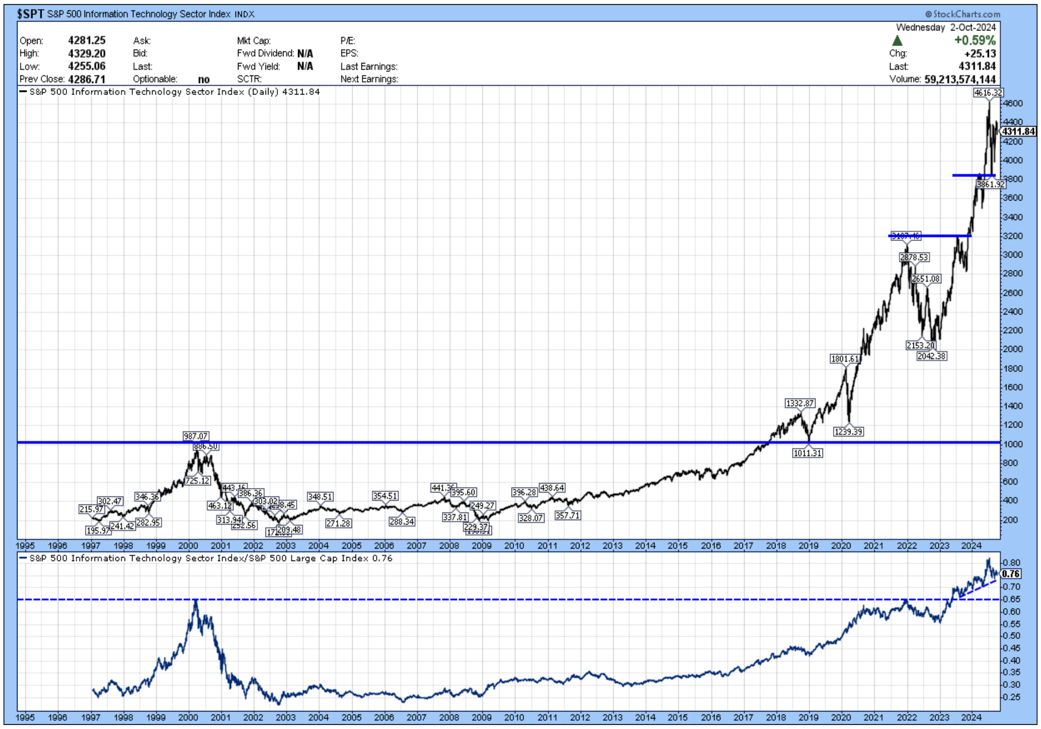
S&P 500 Industrials Index With Relative Price To S&P 500



Information Technology: Time To Buy

Information Technology broke out of its price base in 2017 and has completed two rally phases. It broke out of its relative price base only last year, indicating this is the leadership sector in the market. The sector has been correcting, which we believe provides a buying opportunity within the sector. Semiconductors have been the strongest industry group, and we expect this to continue.

S&P 500 Information Technology Index With Relative Price To S&P 500



Materials: Gold Glitters…And Copper Too

The Material sector is at new highs but has been weak relative to the market. Gold and Gold Mining stocks are the most attractive industry group. With China's recent stimulus package, this sector has been in focus. Copper has also bottomed, making copper stocks attractive as well.

S&P 500 Materials Index With Relative Price To S&P 500

Gold Mining Digs Its Way Up

Gold Mining stocks are improving in the wake of rising demand for gold by central banks. They've broken a long-term downtrend that began in 2012 and may be forming a relative price bottom, too. This is a favored area of the market.

NYSE ARCA Gold Bugs Index With Relative Price To S&P 500

Commodities In Downtrend

Commodities in general, as represented by the CRB index, have failed to hold their rally, which ran from 2020 to 2022, and have since been pulling back. Despite the strength in gold, the strength of the rest of the commodity complex is not as substantial, and a likely cause is the weakness in China. But now that China is stimulating on a significant level, we may see commodities improve. Oil dominates this area and so far, this commodity has been weak.

CRB Reuters/Jefferies Commody Index Is Declining

Gold: Major Bull Trend

The price of gold has risen sharply, led by central bank purchases over the past few years. Investor demand for gold is also strong. Expect gold to go significantly higher.

Gold Prices Are Rising

WTI Crude Oil: Prices Subject To Middle East Turmoil

West Texas light crude oil prices are weak. Global supply is more than demand can use, which is driving prices lower. Should supply be disrupted as the Middle East tensions rise, oil prices could rise sharply. But without a disruption, we expect oil prices to remain low as the U.S. has record production, the Saudi's have spare capacity and OPEC+ is expected to increase production in December.

WTI Crude Oil Is Weak

Real Estate Looking Up

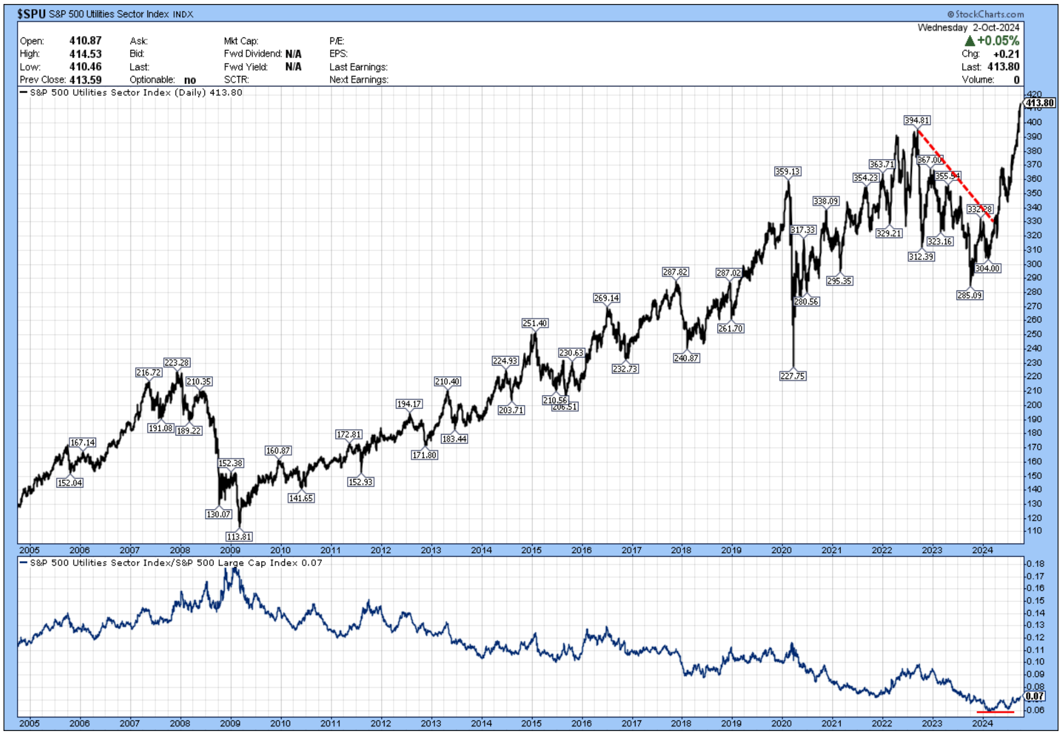
The Real Estate sector has been improving as interest rates have been falling. Expect this sector to continue to improve with lower interest rates.

S&P 500 Real Estate With Relative To S&P 500

Utilities Power To Record Highs

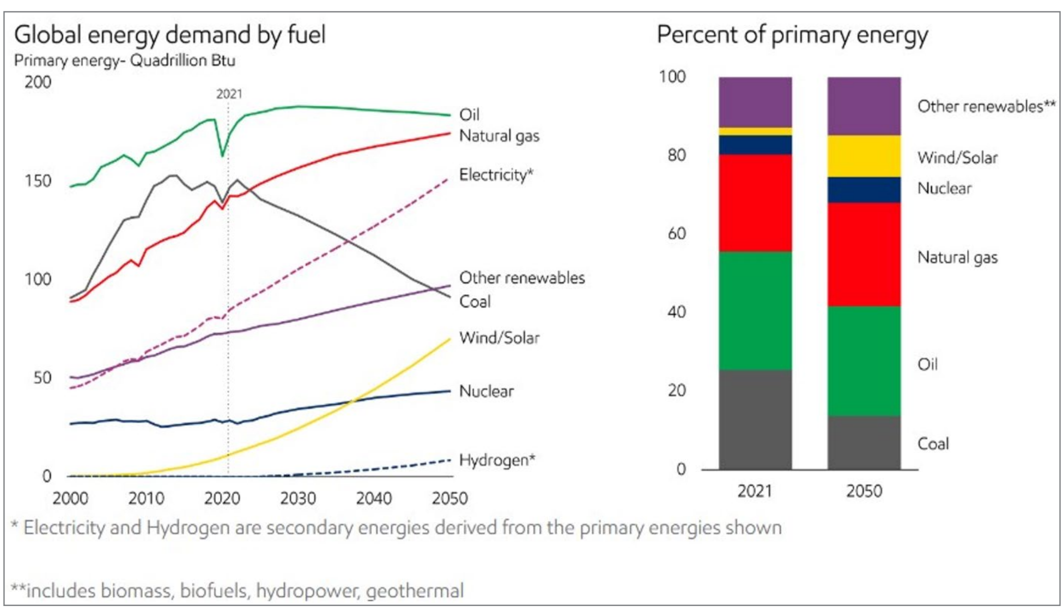
Because utilities are interest rate sensitive stocks, they are improving based upon two key factors: declining interest rates, and a new easing cycle begun by the Federal Reserve. For the first time in a century, Utilities could actually perform as growth stocks as demand for electricity expands rapidly due to artificial intelligence, electric vehicles, and blockchain.

S&P 500 Utilities Index With Relative Price To S&P 500



The Mix Of Global Energy Demand Has Shifted Dramatically Over The Past Two Decades

Global Energy Demand



Source: Exxon Mobil Annual Report 2024

Growth Over Value

We prefer growth stocks over value stocks for the longer run. Growth stocks relative to value stocks have broken out of a 20-year base. There appears to be ample support to contain any retrenchments in performance. We believe we are in a super mega cycle for growth.

iShares Growth ETF Versus iShares Value ETF

Small Cap Is Small

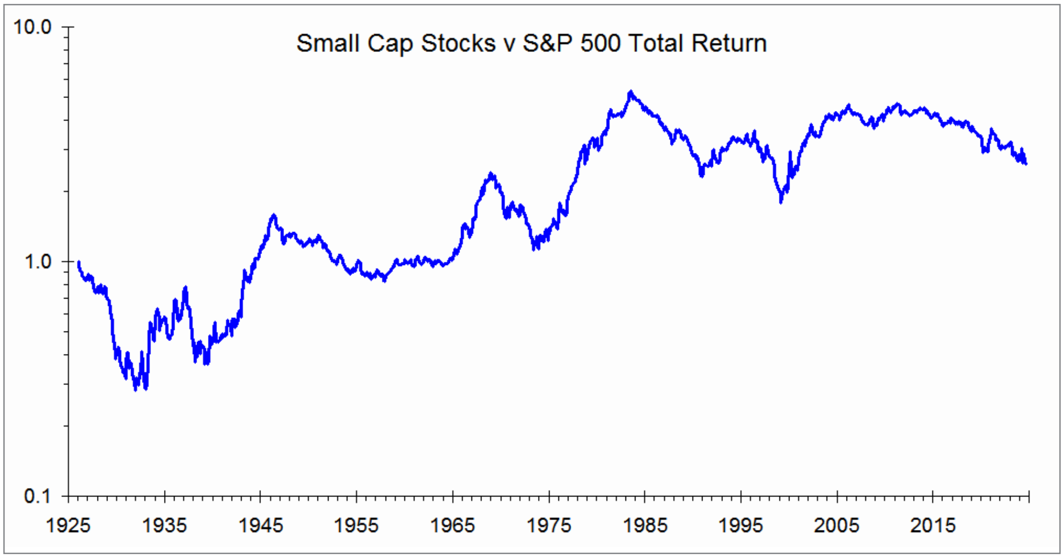
We think small cap stocks are likely to continue to underperform the market going forward. A large portion of the companies in this index (40%) do not have earnings.

Rydex Russell 2000 ETF With Relative Price To S&P 500

Small Cap Underperformance Is Longer Term

Small capitalization stocks historically outperformed the broader market for decades, but this seems to have changed in the past 20 years.

Morgan Stanley Small Cap Total Return Index Versus S&P 500 Total Return



Source: Morgan Stanley, Bloomberg, Sanctuary Wealth, September 2024

Small Cap Earnings Are Wanting

Earnings growth, the fundamental driver of stock prices, is weak in smaller capitalization issues.

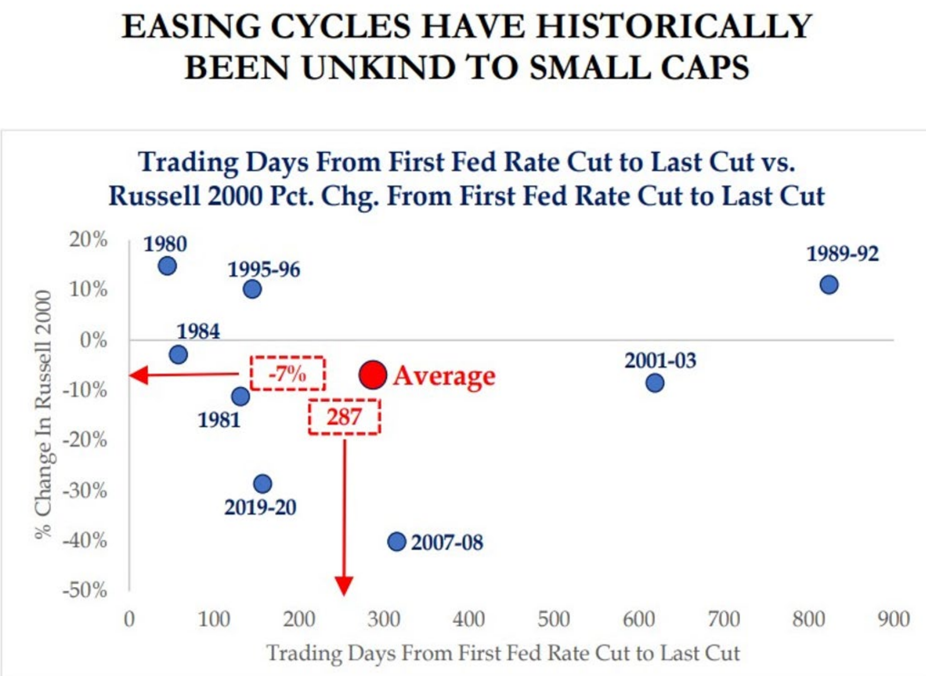
Small Cap Missing EPS

Percent Of Non-Earning Companies			
	Current Reading	Long-Term Average	Highest Reading Since 1990
Russell 1000 Growth	13.0%	11.2%	33.5%
Russell 1000	15.5%	11.9%	28.4%
Russell 1000 Value	15.2%	12.8%	37.0%
Russell 2000 Growth	46.4%	30.3%	54.8%
Russell 2000	43.5%	28.2%	48.6%
Russell 2000 Value	42.2%	25.8%	46.2%

Source: Strategas, July 2024

Small Cap Stocks Often Underperform When The Fed Begins Cutting Rates

Rate Cuts Are Bearish For Small Stocks

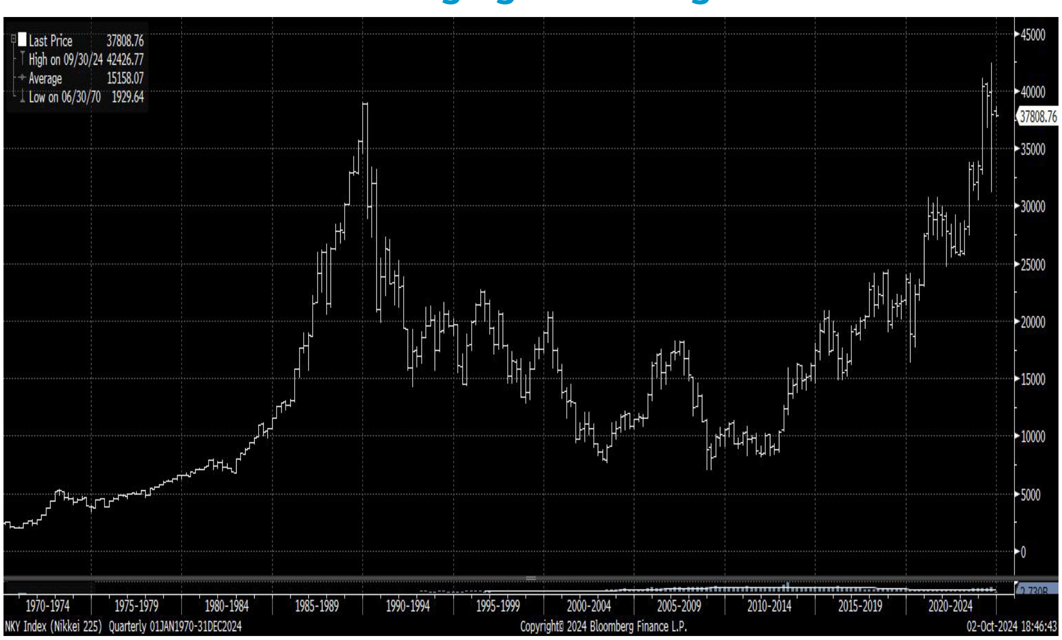


Source: Strategas, July 2024

Japan: New Secular Bull

Following a bear market that lasted nearly a quarter century, the Japanese market is once again performing well, having finally reached its old peaks of the late 1980s. We believe Japan has entered a new secular bull market. We remain buyers of this market.

Nikkei 225 Index – Challenging Record Highs



Japanese Yen ¥250?

After strengthening against the US dollar for four decades, the Japanese Yen now appears to be in a weakening cycle (rising is depreciating versus the US Dollar). We believe the risk over the coming years is for the Yen to depreciate to ¥250.

Japanese Yen Versus US Dollar

China Brings Out The Bazooka Stimulus Plan As Investors Underweight Or Short

With a continued weaker economy and consumer, the Chinese government came out with a bazooka stimulus plan to help stabilize the real estate market, equities and the consumer. The equity market has risen sharply up 20% to 30% year-to-date. The sharp increase happened because this announcement came when there was a major underweight in China in global portfolios and hedge funds were significantly short the market.

Shanghai Shenzhen CSI 300 Reversed Major Downtrend – Bull Trend Just Beginning

India Equity Market Strong

India's equity market has been strengthening. There are many reasons for this. First, manufacturing is moving from China, which is increasingly hostile militarily towards the West. India has a good education system with workers prepared to take on this mantle of manufacturing and development. India has also inherited from its colonial days Britain's legal system, providing a sounder basis for resolving disputes than in China, where pressure from Beijing can distort results. Finally, Indians use English on a widespread basis, another result of its colonial history, integrating it into the broader Western world.

iShares MSCI India ETF

Last Words

With the recent stimulus actions by China and easing by the Fed – plus continued spending by the Consumer – we see a powerful perfect storm that could keep risk assets rallying and the equity markets continuing to achieve new record highs. We expect the S&P 500 could hit 6000 by the end of the year.

The Port Strike was days not weeks, and this will likely have little to no major impact on the economy. This is a temporary resolution that will be revisited in the new year, but this risk factor is now removed from the markets. This is certainly a relief to investors.

Risks:

1. Geopolitical tensions in the Middle East have been escalating and the risk would be if crude oil prices have a sharp rise.
2. The Federal Reserve has embarked on pivoting away from tightening monetary policy to an easing policy for the first time in 18 months. Should the Fed indicate they are slowing or reversing course, it would most likely cause market volatility to spike.

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