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Market Commentary 9/24/24

An Oxford Harriman & Company Market Commentary

The Fed cut interest rates by 0.50% at its Federal Open Market Committee meeting last week. The market expected a cut but was unsure by how much. The debate between a 0.25% and a 0.50% cut dominated headlines over the past week, but it was mostly noise and likely won't have a significant long-term impact. Now that the first cut is complete, the focus shifts to how much and how quickly the Fed will continue to cut rates.

Chairman Powell offered little guidance, describing the outsized rate cut as a recalibration. The Fed's Summary of Economic Projections provides more insight into its current thinking, particularly the median estimate of the longer-run Fed funds rate. This estimate serves as a proxy for the neutral rate, the theoretical interest rate that neither stimulates nor restricts the economy.

Officials previously estimated the neutral rate at 2.5%, but this year, the median estimate has risen from 2.5% in January to 2.9% in September. The Fed is signaling to investors that it believes the neutral rate is higher than it was before the pandemic. This has significant implications, as Chairman Powell has repeatedly expressed a desire to return to the neutral rate.

The markets will be focused on economic data for the next several quarters. We believe the economy's trajectory will determine how much and how fast the Fed continues to cut. A recession or sharp slowdown may lead to more frequent and deeper cuts, while a growing economy may lead to fewer cuts at a slower pace. Economic data will become more important in the coming months, and the market will likely overreact to each data point until a trend emerges. Within the next six months, the data should provide evidence that illustrates rate cuts are stimulating the economy, or the lag from monetary policy is slowing the economy.

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Typically, a rate cut is a positive for equities. Evercore ISI highlights data going back to the 1970s, which shows the S&P 500 posted an average gain of 4.4% in the 6 months following the first rate cut. However, there are several significant outliers found in this data: from -15% (1974), to 28.9% (1998).

As the 2024 presidential election approaches, Americans are preparing to vote in what polls forecast to be another tight race. Investors are contemplating how the election outcome may affect financial markets and whether they should change their investment strategy.

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While elected leaders can influence economic growth by enacting laws and regulations, data suggests* that who occupies the White House has little to no impact on investment performance. Fundamental factors like corporate earnings growth and valuations impact the stock market far more than political headlines.

Politicians make many promises during election years, but these often go unfulfilled because of the government's system of checks and balances. Additionally, as soon as one election is over, most politicians start focusing on the mid-term elections. We believe in short, candidates say what they want people to hear to get elected and immediately pivot to do what will mitigate their chance of losing the next election for themselves and their party.

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Moreover, the economic outcomes of policies are less predictable than officials think, with the economy more influenced by factors like job growth, interest rates, and inflation.

We studied some data on the S&P 500 Index starting with Dwight Eisenhower's presidency in 1953. If an investor only invested in the stock market when a Republican was President, an initial investment of $10,000 would have grown into $83k today, excluding dividends. Investing only when a Democrat was President would have returned $254k. While the gap may seem wide, if an investor ignored the president's political party and remained invested, the same $10,000 would have grown to over $2.1 million.

Political views can stir strong emotions but making investment choices based on those feelings can lead to poor portfolio decisions. It is better to focus on time-tested investment principles and avoid letting politics influence your long-term strategy. The U.S. economy's success, growth, and resiliency don't change with each new election, and neither should your investment strategy. We believe it's best to express political opinions at the ballot box, not in your portfolio.

Please reach out at any time to discuss,

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*Source: Standard & Poor's and WhiteHouse.gov

S&P 500 Index: The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

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