

STUDENT OF THE MARKET



**Market**

**Outlook**

**Q4 2024**

# Market Outlook

Today's market moves.

## What to know about markets right now

**1**

MARKETS

**U.S. stocks  
continue to  
lead the way**

**2**

THE FED

**The Fed  
started cutting  
interest rates**

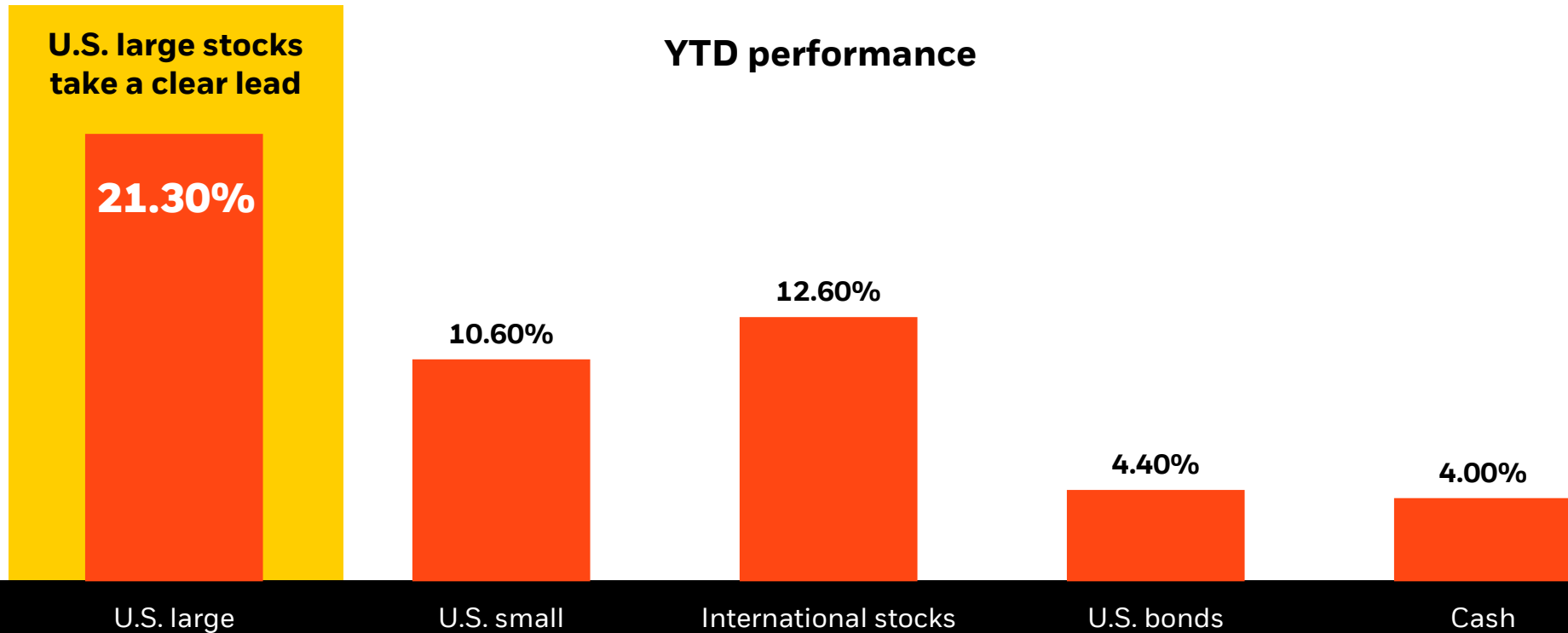
**3**

ECONOMY

**We see a low  
likelihood of  
recession**

**What it means for portfolios**

# Markets so far: U.S. stocks continue to lead the way



## Did you know?

Market volatility has been surprisingly low this year: the S&P 500 has only moved by +/-2% on **four days** YTD (through Sept. 30<sup>th</sup>).

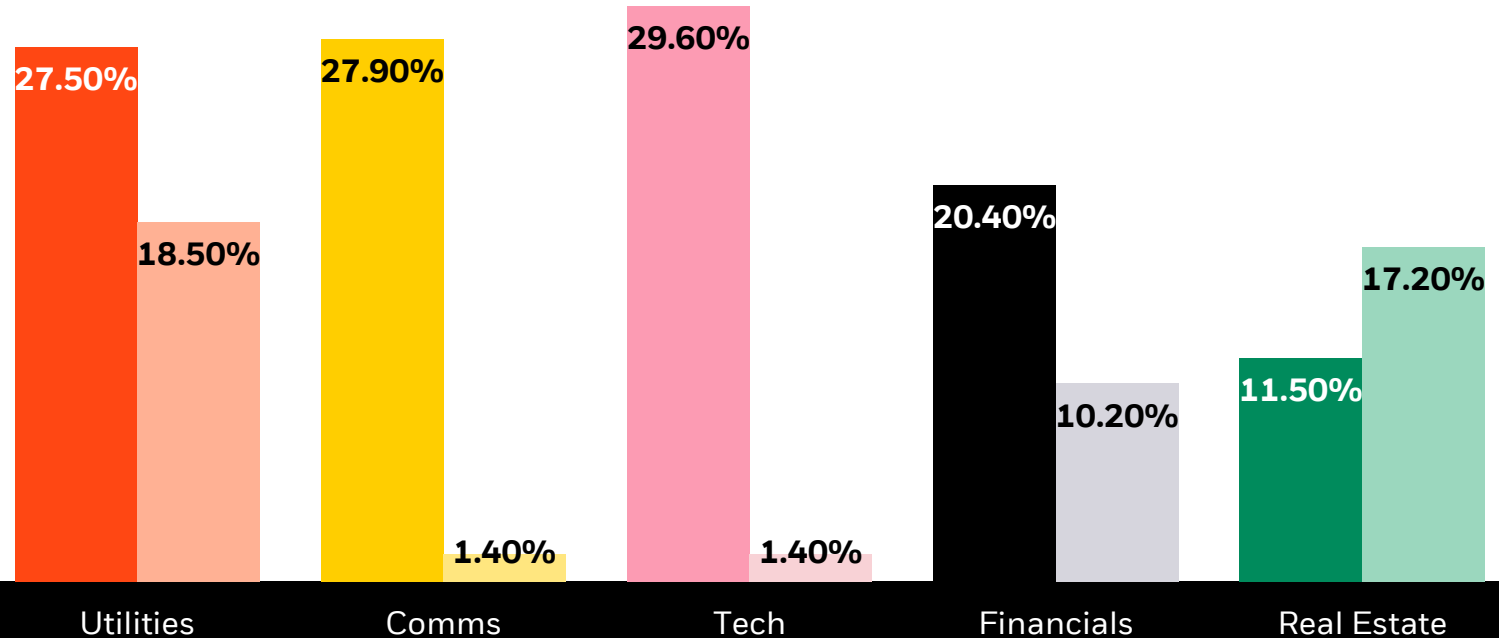
# Performance has been broadening out

Sector performance has broadened out beyond technology and AI-related stocks, with utilities and real estate stocks delivering the top sector performance in Q3.

**Defensive stocks had a strong Q3, making up ground vs. tech stocks**

S&P 500 sector YTD and Q3 performance as of 9/30/24

■ YTD performance  
■ Q3 performance



## Did you know?

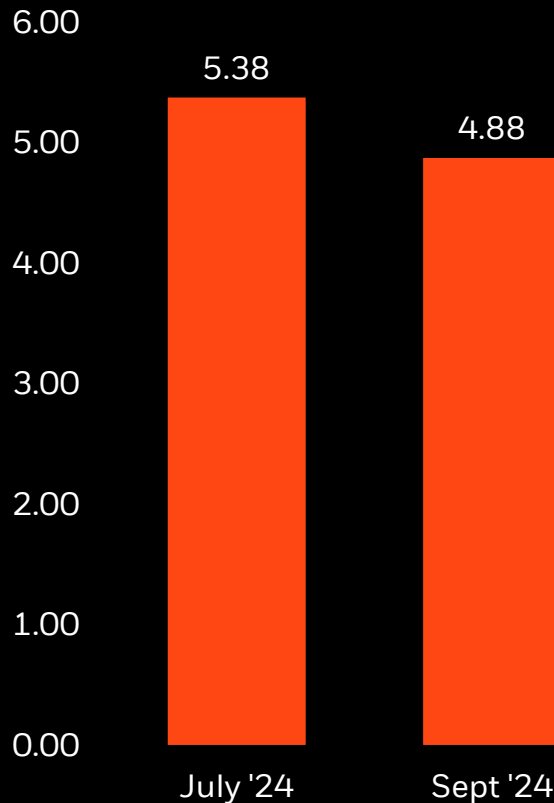
Nvidia continues to be one of the top performers YTD, appreciating 145% through Sept 30th... but even NVDA pulled back 1.7% in Q3.

Source: Bloomberg as of 9/30/24. "Tech" represented by the S&P 500 Information Technology sector index, "Financials" represented by the S&P 500 Financials sector index, "Comms" represented by the S&P 500 Communication Services sector index, "Real Estate" represented by the S&P 500 Real Estate sector index and "Utilities" represented by the S&P 500 Utilities sector index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

# The Federal Reserve has started cutting interest rates

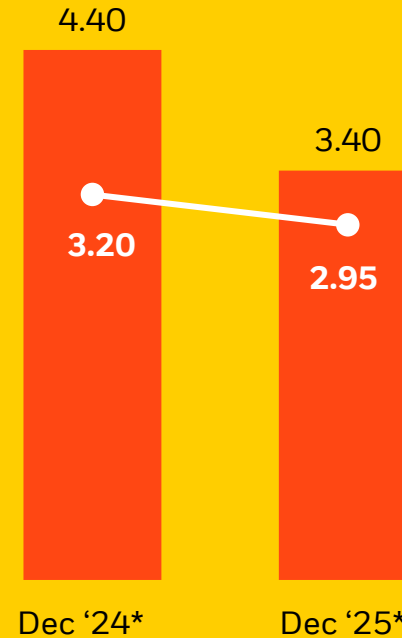
**The Fed cut rates by 0.50%, and suggested another 1.5% in cuts could come soon**

FOMC projections as of Sept 2024<sup>1</sup>



**Markets suggest that cash rates could fall by even more than the Fed is projecting**

Implied Fed Funds futures rate<sup>2</sup>



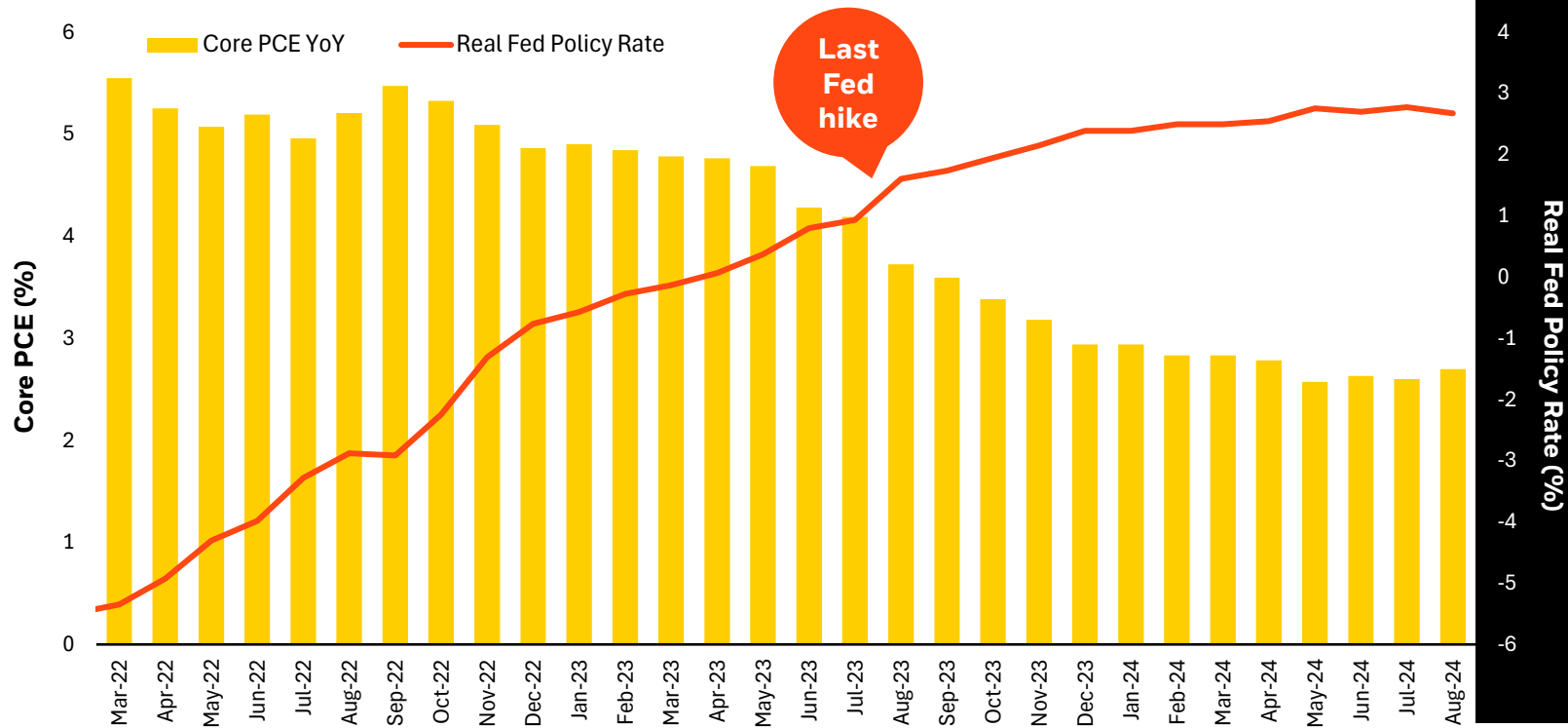
<sup>1</sup> Source: U.S. Federal Reserve as of 9/30/24. Includes actual policy rates (July & Sept) and median Fed projections for Dec 2024 and 2025. <sup>2</sup> Source: Bloomberg, as of 9/30/24. Includes Fed Funds futures for Dec 2024 and 2025.

## THE FED STARTED CUTTING RATES

# “Good news” cuts

The Fed kicked off its easing cycle with a 0.50% cut, noting that the economy was in good shape and they intended to keep it that way. With inflation falling, the Fed is aiming to recalibrate to a more neutral rate.

**The last Fed rate hike was in July 2023, but the real Fed policy rate has risen as inflation has fallen**



### Real Fed Policy Rate:

The real policy rate is calculated by subtracting inflation from the nominal rate. Thus, when inflation falls, the real policy rate rises.

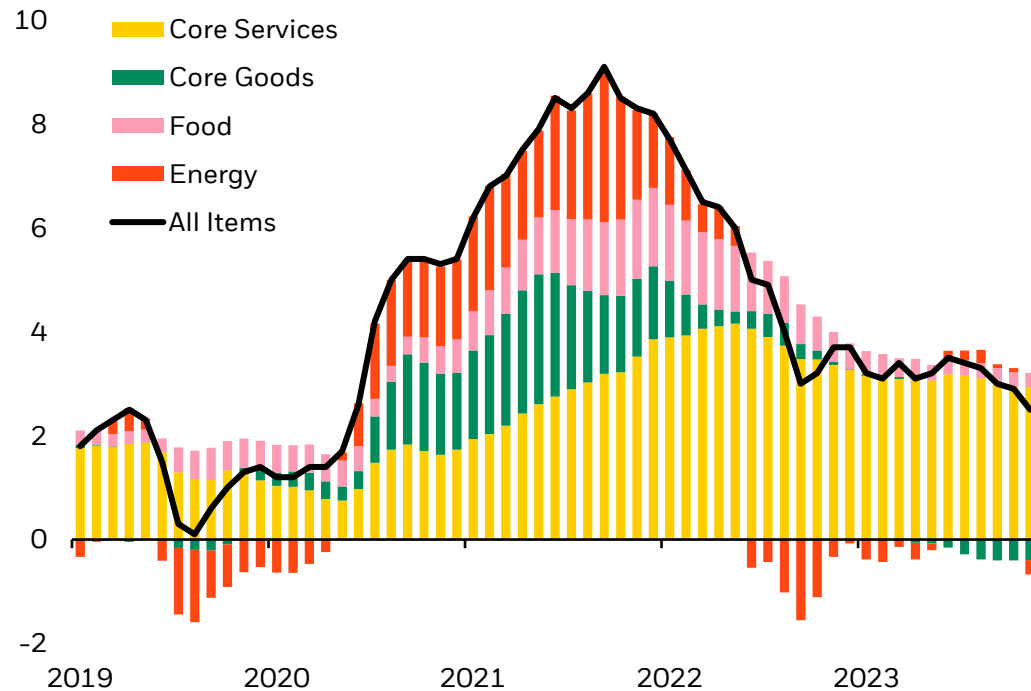
## THE FED STARTED CUTTING RATES

# Labor market in focus as inflation declines

As inflation declines towards target, the Fed is shifting more of its focus to the labor market. Both metrics will continue to be key inputs in the Fed's decision-making process as they consider future rate policy changes.

## Inflation has steadily declined from 2022 highs

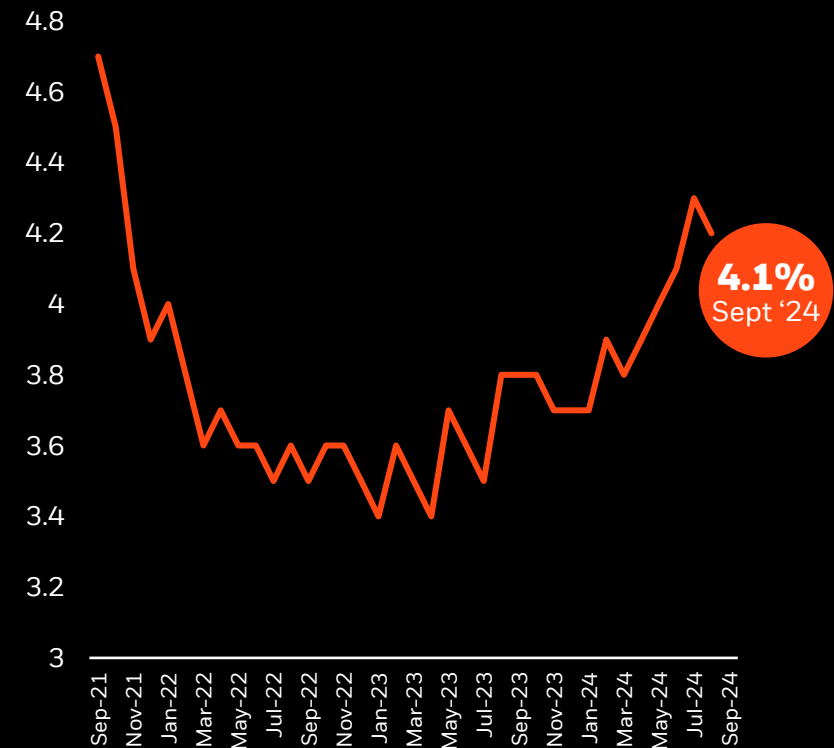
Contributions to US CPI YoY (%)



Source: Bloomberg, Bureau of Labor Statistics, as of 10/4/2024.

## Unemployment rate picking up

US unemployment rate (%)



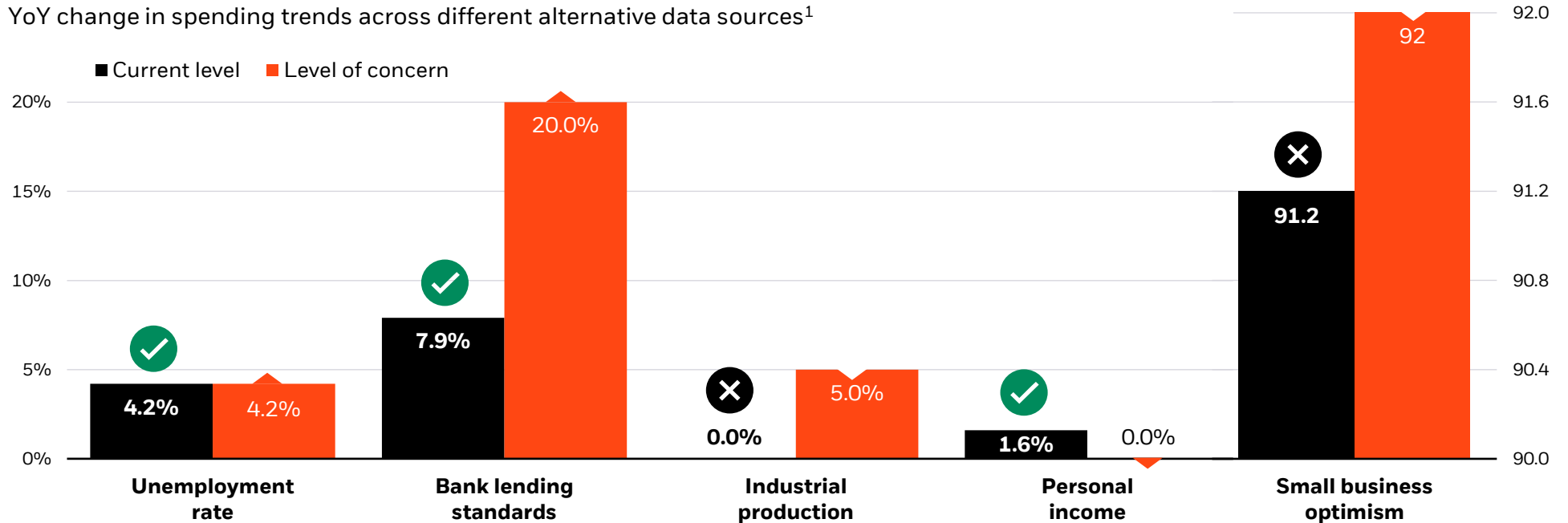
WE SEE A LOW LIKELIHOOD OF RECESSION

# Recession odds remain low

BlackRock's in-house models suggest a lower likelihood of recession relative to consensus estimates, driven by both macroeconomic indicators and alternative data.

## Most recession indicators still at healthy levels

YoY change in spending trends across different alternative data sources<sup>1</sup>



**Did you know?**

OpenTable restaurant bookings increased 3.1% year-over-year.<sup>2</sup>

Sources: 1: BlackRock, Bloomberg, Metrics, rationale, and levels of concern are determined by iShares Investment Strategy research and analytics. Level of concern is generally determined using historical recession levels, on average. For illustrative purposes only. As 9/24/2024. 2: Source: Bloomberg, BlackRock Systematic, as of 9/25/2024.



# What it means for portfolios

1

## Re-think your income

With Fed policy changes sending cash rates down, it may be a good time to re-deploy assets into investments with greater potential opportunity.

Consider **dividend-paying equities** and a **diversified bond** portfolio.

2

## Get your stock allocation right

We've seen stocks continue to appreciate despite political uncertainty, and are optimistic about prospects for long-term growth.

We believe it is important to **stay invested**, and prefer high quality names to weather potential volatility.

3

## Diversification remains critical

Make sure to build diversification into your portfolio, avoiding individual stock concentration.

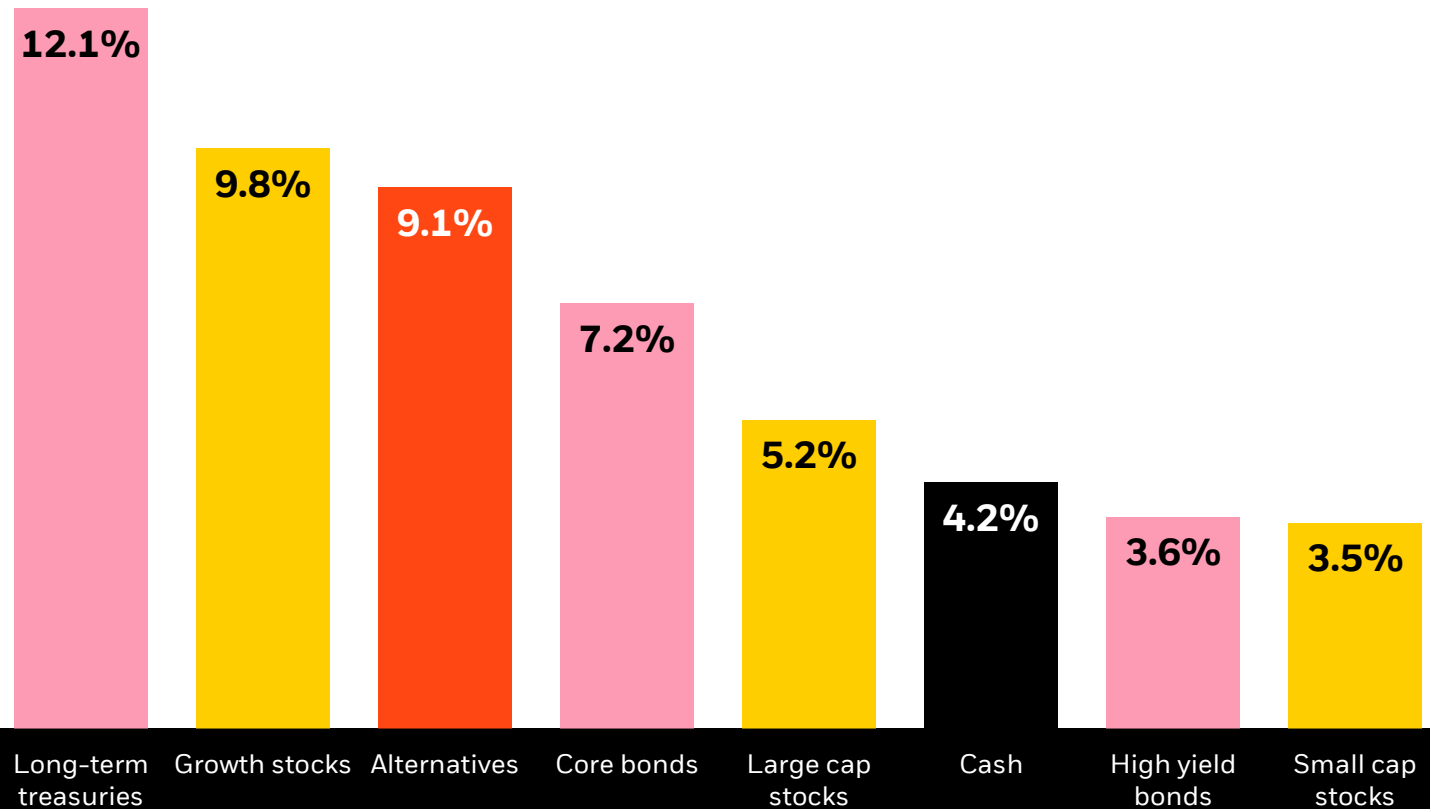
**Diversifying alternatives** have delivered uncorrelated returns, and **core bonds** may be able to help protect against big sell-offs.

# Most assets outperform cash when the Fed starts cutting interest rates

**Stocks, bonds and alternatives have historically done well when the Fed starts cutting**

12M performance following the first Fed cut<sup>1</sup>

- Equities
- Fixed Income
- Alternatives



Source: Morningstar as of 7/31/2024. <sup>1</sup> The first Fed cut refers to the first time the Federal Reserve cuts the federal funds rate after an interest rate hiking or pause cycle. This can begin to impact other types of interest rates across the public and private sectors. Long-term treasuries represented by the Bloomberg US Treasury 20+ Year Index, Growth stocks represented by the Russell 1000 Growth TR Index, Alternatives by the Credit Suisse Hedge Fund Index, Core bonds by the Bloomberg US Agg Bond Index, Large caps by the S&P 500 Index, Cash by the Money Market Taxable Fund average, High yield by the Bloomberg High Yield Corporate Index, and U.S. small cap stocks represented by the Russell 2000 TR index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Stay the course amid geopolitical volatility

Event*	Date	3 months before	1 month after	3 months after	1 year after	3 years after avg annual
Germany invades Poland	3/1/1939	-0.2%	-13.5%	-8.7%	-4.3%	-12.2%
Pearl harbor attack	12/7/1941	-9.8%	-4.1%	-4.1%	0.2%	11.6%
N. Korea invades S. Korea	6/25/1950	9.0%	-8.7%	1.6%	12.6%	8.0%
Cuban missile crisis	10/16/1962	-1.0%	4.7%	13.7%	26.4%	16.9%
Gulf of Tonkin incident	8/2/1964	3.8%	-1.2%	2.0%	2.5%	4.7%
Soviets invade Afghanistan	12/24/1979	-1.5%	2.1%	8.5%	39.6%	15.3%
Iraq invades Kuwait	8/2/1990	-8.0%	-8.9%	-12.8%	12.8%	11.5%
September 11 <sup>th</sup> attack	9/11/2001	-13.3%	-0.9%	8.0%	-15.5%	2.7%
Iraq war	3/20/2003	-0.7%	2.4%	14.3%	29.2%	16.4%
Russia annexes Crimea	2/20/2014	3.3%	1.9%	3.6%	17.1%	11.1%
Russia invades Ukraine	2/24/2022	-9.7%	-4.5%	0.2%	-3.4%	?
Hamas attacks Israel	10/7/2023	-1.9%	1.4%	9.5%	?	?

Sources: BlackRock; Morningstar as of 9/30/24. \*Returns shown for events prior to 1979 are represented by the S&P 500 PR Index, which shows principal returns only (excluding dividends), from 3/4/57 to 12/31/78 and the IA SBBI U.S. Lrg Stock Pr USD Index from 1/1/26 to 3/4/57. Returns for these periods would likely be higher if dividends were included. Returns for events in 1979 or later are represented by the S&P 500 TR Index, which shows total return (including dividends), from 1/1/79 to 9/30/24. The indices mentioned are unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Index performance is for illustrative purposes only. It is not possible to invest directly in an index. **Past performance does not guarantee or indicate future results.**

GET YOUR STOCK ALLOCATION RIGHT

# Stocks have continued higher regardless of party holding the presidency

## Growth of \$1k since 1926

Cumulative returns, 1/1/26 – 9/30/24

Democrats

Republicans

\$17,787,673  
9/30/24

The S&P 500 has only lost money in four election years:

- 1932 (Great Depression)
- 1940 (WWII)
- 2000 (Tech Bubble)
- 2008 (GFC)

1,787,673%

(cumulative return, dividends reinvested)

\$1,000  
1/1/26

1926 1933 1941 1949 1957 1965 1973 1980 1988 1996 2004 2012 2020

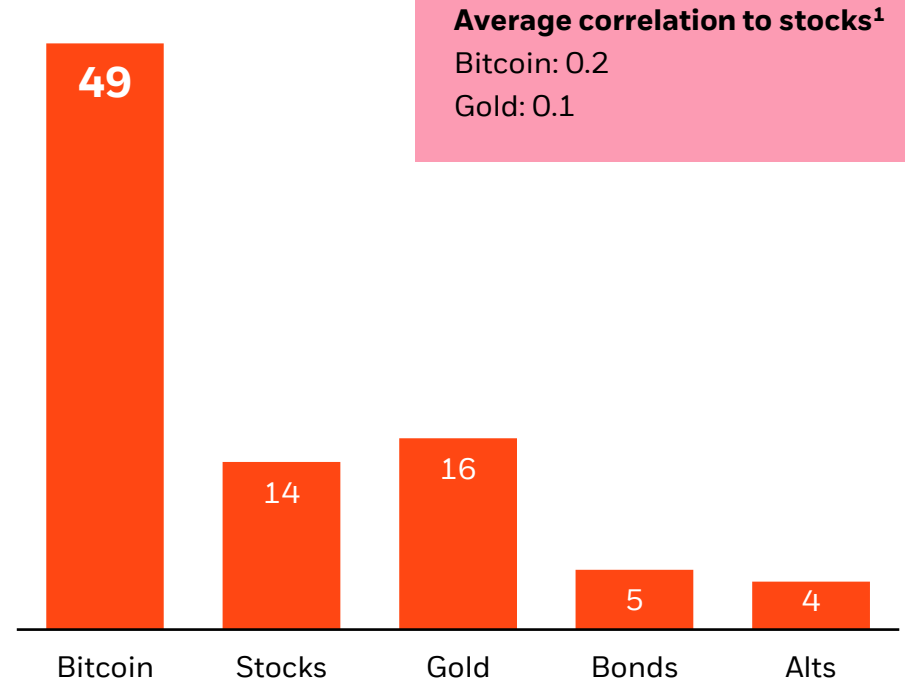
Morningstar as of 9/30/24. Stock market represented by the S&P 500 Index from 1/1/70 to 6/30/24 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Bitcoin: high returns have come with high risk

Bitcoin returns have been high<sup>1</sup>...



...but its volatility remains elevated relative to traditional asset classes<sup>2</sup>



Past performance does not guarantee future results. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. \* Start date reflects inception of CME bitcoin futures in the U.S. 1 Source: Bloomberg, Bitcoin/USD Cross (XBTUSD Currency), as of 9/30/24. 2 Source: Bloomberg, as of 9/30/24. Volatility measured as 100-day historical volatility.

# Bringing it all together

**1**

**U.S. stocks  
continue to lead  
the way**

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**Get your stock  
allocation right.**

**2**

**The Fed has  
started cutting  
interest rates**

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**Re-think your  
income portfolios.**

**3**

**We see a low  
likelihood of  
recession**

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**Diversification  
remains critical.**

# Market Outlook: Q4 2024

Returns as of 9/30/24	Total Ret 1 Year	Total Ret 5 Years	Total Ret 10 Years
S&P 500 TR USD	24.56	15.05	12.86
Russell 2000 TR USD	10.06	6.94	7.00
MSCI EAFE NR USD	11.54	6.46	4.33
Bloomberg US Agg Bond TR USD	2.63	-0.23	1.35
Bloomberg US Treasury Bill 1-3 M TR USD	5.50	2.17	1.50
MSCI USA Sector Neutral Quality NR USD	27.66	14.56	12.49
MSCI EM NR USD	12.55	3.10	2.79
IA SBBI US Large Stock TR USD Ext	24.56	15.05	12.86
S&P 500 Sec/Commun Services TR USD	44.87	14.72	9.93
S&P 500 Sec/Cons Disc TR USD	13.08	10.54	12.24
S&P 500 Sec/Cons Staples TR USD	8.15	9.45	8.92
S&P 500 Sec/Energy TR USD	15.85	12.96	3.30
S&P 500 Sec/Financials TR USD	24.21	10.58	10.58
S&P 500 Sec/Health Care TR USD	11.68	11.53	11.07
S&P 500 Sec/Industrials TR USD	15.53	11.52	10.39
S&P 500 Sec/Information Technology TR USD	41.78	27.17	22.78
S&P 500 Sec/Materials TR USD	8.69	10.90	8.14
S&P 500 Sec/Real Estate TR USD	5.60	4.41	7.02
S&P 500 Sec/Utilities TR USD	7.82	6.11	8.04
IA SBBI US 30 Day TBill TR USD	5.44	2.04	1.40
Credit Suisse Managed Futures USD	9.69	7.58	4.90
Credit Suisse Global Macro USD	9.74	7.56	4.91
Credit Suisse Multi-Strategy USD	12.66	6.06	5.19
Credit Suisse Equity Market Neutral USD	10.97	4.15	2.24

# Index definitions

- The **S&P 500 TR Index** is an unmanaged index that is generally considered representative of the U.S. stock market on a total return basis. Included are the largest 500 stocks by market cap.
- The **IA SBBI IT US Large Stock TR Index** is an unmanaged index that is generally considered representative of the historical U.S. stock market on a price return basis prior to the inception of the **S&P 500 TR Index** in 1970.
- The **Russell 2000 TR Index** is an unmanaged index that is generally considered representative of the 2,000 largest stocks in the entire U.S. stock market on a total return basis.
- The **MSCI EAFE NR Index** is an unmanaged index that is generally considered representative of International (Ex-U.S. & Ex-Canada) Developed Market stocks on a net return basis.
- The **Bloomberg U.S. Agg Bond TR Index** is an unmanaged index that is generally considered representative of the U.S. bond market on a total return basis.
- The **Bloomberg U.S. Treasury Bill 1-3M TR Index** is an unmanaged index that is generally considered representative of the 1-3M U.S. Treasury market on a total return basis.
- The **MSCI USA Sector Neutral Quality NR Index** is an unmanaged index that is generally considered representative of U.S. stocks defined by the “quality” factor, on a net return basis, regardless of industry.
- The **Burgiss Private Equity Index as of 12/31/23** is an unmanaged index compiled by MSCI that tracks the performance of private investments focused on the Private Equity Market, as of the most recent update on 12/31/23.
- The **MSCI EM NR Index** is an unmanaged index that is generally considered representative of International Emerging Market stocks on a net return basis.
- The **IA SBBI US 30 Day TBill TR Index** is an unmanaged index that is generally considered representative of the historical U.S. 30-Day Treasury Bill market on a total return basis.
- The **S&P 500 Sec/Commun Services TR Index** is an unmanaged index that is generally considered representative of the Communication Services Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Cons Disc TR Index** is an unmanaged index that is generally considered representative of the Consumer Discretionary Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Cons Staples TR Index** is an unmanaged index that is generally considered representative of the Consumer Staples Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Energy TR Index** is an unmanaged index that is generally considered representative of the Energy Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Financials TR Index** is an unmanaged index that is generally considered representative of the Financials Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Health Care TR Index** is an unmanaged index that is generally considered representative of the Health Care Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Industrials TR Index** is an unmanaged index that is generally considered representative of the Industrials Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Information Technology TR Index** is an unmanaged index that is generally considered representative of the Information Technology Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Materials TR Index** is an unmanaged index that is generally considered representative of the Materials Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Real Estate TR Index** is an unmanaged index that is generally considered representative of the Real Estate Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Utilities TR Index** is an unmanaged index that is generally considered representative of the Utilities Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **Credit Suisse Managed Futures USD Index** is an unmanaged index that is generally considered representative of U.S. Dollar-denominated Managed Futures investment strategies on a total return basis.
- The **Credit Suisse Global Macro USD Index** is an unmanaged index that is generally considered representative of U.S. Dollar-denominated Global Macro investment strategies on a total return basis.
- The **Credit Suisse Multi-Strategy USD Index** is an unmanaged index that is generally considered representative of U.S. Dollar-denominated Multi-Strategy investment strategies on a total return basis.
- The **Credit Suisse Equity Market Neutral USD Index** is an unmanaged index that is generally considered representative of U.S. Dollar-denominated Equity Market Neutral investment strategies on a total return basis.

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# Market Outlook: Q4 2024

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