October 2024

MARKET UPDATE

Just like August, September began the month with a period of volatility in equities, but as the month progressed, the major indices were able to recover and post some notable gains. The S&P 500 experienced a drawdown of 2.5% through the first few days of the month, but steadily climbed its way back out of the red and finished the month up 2.14%, setting a new all-time high and posting a year-to-date gain through the end of September of over 22%. With a third quarter rally of more than $2.5 trillion gained, the S&P 500 marked its fourth consecutive quarter of gains and has seen its longest winning stretch since the second quarter of 2021.

The Bloomberg US Aggregate Bond Index had a much smoother ride, spending no time in the red with yields falling across the yield curve and pushing bond prices up. All said and done, the index posted modest gains for September, up 1.34%. With the moves in the yield curve, the short end experienced much larger drops in yield than the long end. Up until the 1-year tenor, the short end of the curve experienced at least 40 basis point declines in yield, with the 3-month losing nearly 50 basis points.

After much anticipation, the Federal Reserve decreased its target rate by 50 basis points instead of 25 basis points that was anticipated just a few weeks prior to the meeting, with it being the first rate cut in more than four years. From the July meeting until the recent September meeting, the probability of a 50-basis point rate cut was relatively volatile, where it was just 14% a week before the meeting, then 50% several days before. After the decision, Federal Reserve Chairman Jerome Powell cautioned against the assumption that the same pace of cuts would continue going forward, noting that the Fed would evolve their outlook based on the data while acknowledging that inflation “remains somewhat elevated”. The market is likely to remain focused on the Fed for at least the rest of the year and surprises in upcoming data release could still move markets.

ADVISORS’ PERSPECTIVE

As we navigate through October 2024, financial markets are responding to a blend of signals from both the global economy and domestic developments. Despite ongoing challenges—such as geopolitical tensions, rising interest rates, and inflation uncertainty—there are reasons for cautious optimism as we approach year-end.

Third-quarter corporate earnings are starting to come in, revealing resilience among many companies despite the tough environment. Notably, the technology, consumer goods, and financial sectors have shown strength, with earnings surpassing expectations in several areas. Year-to-date, the S&P 500 has experienced earnings growth of approximately 3-4%, which, while modest, is encouraging given the headwinds of higher borrowing costs and inflation. Stronger-than-anticipated earnings from key sectors suggest that many companies have effectively navigated inflationary pressures and adapted to a higher interest rate landscape. Looking ahead, analysts predict a robust fourth quarter and holiday season, along with solid growth rates for the second and third quarters. Companies with strong pricing power and operational efficiency are likely to be better equipped to handle ongoing challenges.

Volatility remains a prominent theme in the markets. The CBOE Volatility Index (VIX) remains elevated compared to pre-pandemic levels, reflecting investor anxiety stemming from geopolitical risks, inflation concerns, and uncertainty surrounding the Federal Reserve’s future actions. In 2024, we’ve seen three notable periods of volatility—in April, from July to August, and at the beginning of September. However, these fluctuations were swiftly reversed, and none pushed the S&P 500 into correction territory (defined as a decline greater than 10%). Still, equity markets have achieved gains for the year, with the S&P 500 up around 22% year-to-date. Investors continue to seek opportunities, particularly in technology, where AI-driven innovations have sparked significant interest. Although volatility is expected to persist as we approach 2025—especially given ongoing geopolitical risks—diversification across sectors has helped investors manage downside risk.

Despite the volatility experienced in August and September, anxiety surrounding weakening job data has largely subsided. While implied volatility remains somewhat elevated, balance sheet risks have remained low throughout recent periods of market turbulence. The Federal Reserve’s aggressive rate reductions may have alleviated some market jitters, but attention on the Fed is likely to continue for the remainder of the year. Any surprises in inflation data or employment reports could still unsettle markets in the short term.

The ongoing conflict in the Middle East adds further complexity to the economic landscape. Concerns over potential supply disruptions and rising energy prices, particularly in oil-producing regions, have heightened market volatility. Oil markets have been turbulent, and any significant production disruptions could reignite inflation just as it seemed to be easing. While energy supply chains have proven relatively resilient thus far, a prolonged conflict could have broader economic repercussions, pushing inflation back up and increasing market volatility.

Despite these challenges, the overall outlook for the final months of 2024 remains cautiously optimistic. With inflation showing signs of cooling and corporate earnings holding up better than expected, there are reasons for hope. We continue to employ a quantitative investing approach, which is especially critical during uncertain times. By relying on data rather than emotions, we can make informed decisions. Our partnership with Helios is rooted in facts and data, and we conduct recalculations on a bi-weekly basis to ensure our models adapt appropriately to evolving market conditions.

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