November 2024

MARKET UPDATE

October ended the month on a sour note for the S&P 500 relatively, losing over 1% early in the month before staging a recovery and being positive throughout most of the month and setting a new all-time high. The last day of the month saw a substantial pullback and put the index into the red, finishing the month down 0.92%. The most recent monthly loss ended a streak of five months of gains, the longest stretch since 2021. Recent losses stem from disappointing earnings guidance, slower forecasted growth, and weaker anticipated sales from major technology companies like Microsoft, Meta, Nvidia and Apple.

The latest economic data also has the market reevaluating (again) the future path forward for the Federal Reserve. The expected aggressiveness of rate cuts in the coming months has been pared back a bit, pushing bond yields higher and prices lower. Over the month the Bloomberg US Aggregate Bond Index fell nearly 2.5%, spending most of the month in the red. Throughout October, Treasuries saw their largest monthly losses in the past two years in response to pared down bets that the Federal Reserve will be aggressive amidst the current economic environment. The 10-year Treasury yield began the month at 3.798% and rose all the way to 4.282% by month end. Meanwhile the belly of the curve felt the worst of the pain, where the 5-year yield rose 60 basis points, with the 3- and 7-year close behind, up 58 and 57 basis points, respectively.

The market will likely maintain the laser focus on economic data and how it may impact the Federal Reserve’s moves over the coming months. At the end of October, Fed Futures are implying there is a near 95% chance that the Fed will cut rates by another 25 basis points in their early November meeting. Data continues to point to a slowdown in the jobs market, though the October jobs report may overstate it with the impact of strikes and significant impacts from successive hurricanes.

ADVISORS’ PERSPECTIVE

As we move into November 2024, the global economic landscape remains dynamic, marked by mixed signals across different sectors. In the United States, earnings reports for the third quarter have been somewhat encouraging, with corporate profits showing resilience despite persistent economic headwinds. So far, over two thirds of the S&P 500 constituents have reported their third quarter earnings with sales and earnings beating analyst estimates by 1.47% and 7.06%, respectively. Just over 75% of companies have beat analyst estimates, which is broadly in-line with longer-term averages, but a bit below prior quarters. Communications has had the highest earnings surprise of 13.79% with over half of the sector reported and the only sectors that have fallen short of estimates are materials (-2.07%) and real estate (-0.74%).

The third-quarter GDP growth data, which was released in late October, revealed a weaker-than-expected expansion, growing at an annualized rate of 2.8%, which is slightly below economist’s expected 2.9% annualized growth rate. According to a recent study by the Federal Reserve, consumer spending has been increasingly driven by high-income households, which have been less impacted by rising interest rates and inflation than their lower-income counterparts. The gap between spending growth of high- and low-income households has grown over the last two and a half years and appeared to accelerate across 2023. Inflation has borne the biggest burden among lower income households and if spending growth continues to be more concentrated than before, it could pose risks to the economy that may be hidden by continued strong headline numbers.

Hiring in the US grew at its slowest pace since 2020, with only 12,000 jobs added in October and downward revisions to previous reports, though successive hurricanes and strikes likely had a significant impact on the report. The unemployment rate ticked up slightly, from 4.05% to 4.14%, while hourly earnings remained steady. This softening labor market supports a likely 25-basis-point rate cut at the Federal Reserve’s Nov. 6-7 meeting. Together, hurricanes and strikes have added volatility to the labor market, but they do not appear to have fundamentally altered the broader cooling trend. While the disruptions are temporary, they reflect the broader structural changes taking place in the economy, including a shift towards more cautious hiring by businesses, as well as growing labor activism. As the recovery from these disruptions progresses, the cooling trend in the labor market is likely to remain in place, with slower job growth and more restrained wage increases continuing to define the overall labor market landscape.

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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