



## 3<sup>RD</sup> QUARTER 2024 CLIENT LETTER

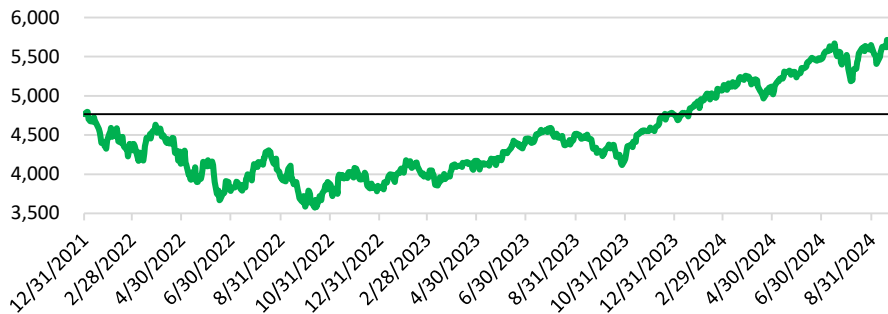
Today, the Federal Open Market Committee decided to reduce the degree of policy restraint by lowering our policy interest rate by ½ percentage point. This decision reflects our growing confidence that with an appropriate recalibration of our policy stance, strength in the labor market can be maintained in a context of moderate growth and inflation moving sustainably down to 2 percent.

Federal Reserve Chair, Jerome Powell  
09/18/2024 Press Conference Statement

\* \* \* \* \*

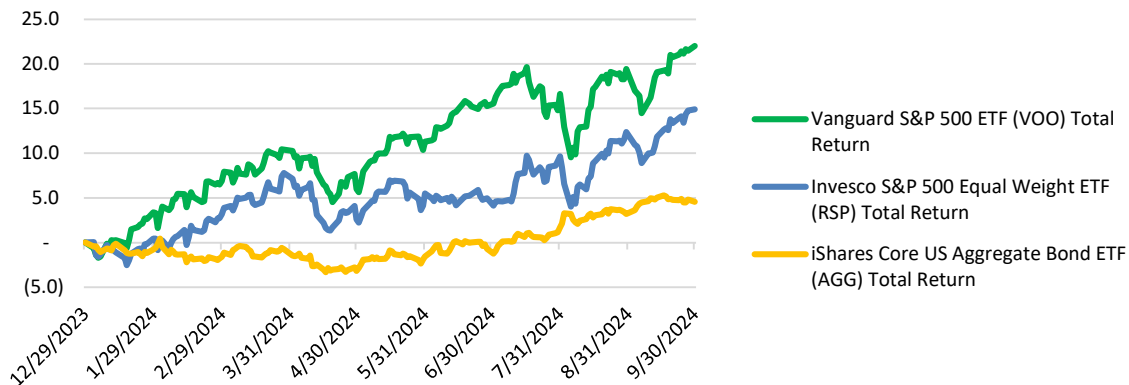
The bull market in U.S. stocks continues. As measured by the S&P 500, the stock market finished the 3<sup>rd</sup> quarter at an all-time high. That puts the index 20.14% above its previous bull market peak on January 3, 2022.

S&P 500 Index 12/31/2021-9/30/2024



Year-to-date, at the end of the 3<sup>rd</sup> quarter, the S&P 500 was up 22.04%, the “equal weight” S&P 500 was up 14.91% and the U.S. Aggregate Bond Market Index was up 4.55%.

Total Return (price plus dividends) 12/31/2023-9/30/2024

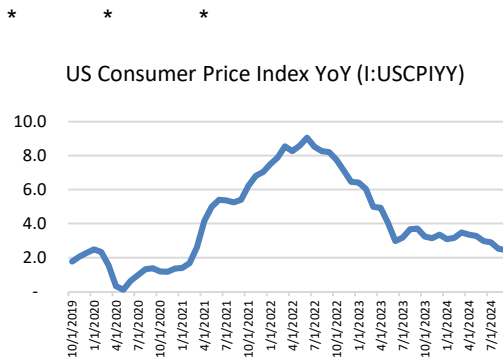


Notes on the stock market: The traditional “market capitalization weighted” S&P 500 index is most impacted by the movements of the highest valued businesses in the index (currently the value of the top ten stocks make up 33% of the index value). The equal weight S&P 500 index tracks the average movement of all 500 stocks in the index. In the first half of the year, the traditional S&P 500 handily outperformed the equal weight S&P 500, indicating that the large cap stocks did much better than the average stock. In the 3<sup>rd</sup> quarter, however, while the S&P 500 returned 5.87% the equal weight S&P 500 returned 9.48%, indicating that more stocks are now participating in the

bull market. While there are always exceptions to the rule, broader participation of stocks to the upside generally reflects a “healthier” or “more stable” market.

Notes on the bond market: In the first two quarters of this year, the U.S. Aggregate Bond Index had slightly negative returns (losing more in price than the dividends paid), but in the 3<sup>rd</sup> quarter it had a stellar 5.3% positive total return. Interestingly, immediately after the Fed lowered the overnight Fed funds interest rate on September 18<sup>th</sup>, the price of the Aggregate Bond index moved lower into the end of the 3<sup>rd</sup> quarter, meaning interest rates on longer dated bonds actually moved a bit higher. While it may sound counterintuitive, I view this move higher in rates as a positive sign that the bond market believes the U.S. will be avoiding a near-term recession and, accordingly, the Fed will not need to aggressively cut the Fed funds rate.

In the quote that opens this letter, Fed Chair Powell was finally able to announce a Fed funds interest rate cut. After raising the overnight Fed funds rate eleven times since March of 2022 by a total of 5.25% (from a 0%-0.25% range to a 5.25%-5.5% range), the Fed now believes that inflation has retreated sufficiently to allow it to begin to loosen its restrictive policy. Based on the Consumer Price Index (CPI) immediately before the pandemic, in the first quarter of 2020 inflation was running in the 2.3%-2.5% range. The initial lull in economic activity that came with the onset of the pandemic sent inflation lower into the 2<sup>nd</sup> quarter of 2020. Then, the combination of federal government (fiscal) stimulus, Federal Reserve (monetary) stimulus, supply chain issues and shifts in consumer demand helped propel the largest cycle of price hikes since the early 1980s, with inflation peaking at a 9.2% year-over-year increase in June of 2022. Since that time, inflation has been trending lower and came in at 2.4% in the recent September report.



I don't know if we could have avoided inflation in the aftermath of the pandemic. I think it is fair to say both the federal government and the Fed contributed to inflation through the amount and duration of stimulus that they pumped into the economy. To be fair, there were going to be costs no matter what the responses were and there were going to be unintended consequences no matter how well (or not well) the plans were crafted. On the inflation side, higher prices have most hurt those on a fixed income with little or no investments in homes or stocks. The cumulative impact of inflation continues to depress consumer sentiment (though apparently not consumer spending) even as average wages have now increased more than inflation since the start of the pandemic. In all, if the Fed can fully “normalize” interest rates while reaching its 2% inflation target and avoiding a recession, it would be a remarkable conclusion to one of the largest macro events we have faced in our lifetime.

We hope this letter finds you and your family well. We appreciate your business, and we continue to work hard to earn the trust that you have placed in us. Please let us know if you have a friend or a family member who could use our assistance.

John McCorvie, CFA

Advisory Services offered through Peak Asset Management, LLC, an SEC registered investment advisor. The opinions expressed and material provided are for general information, and they should not be considered a solicitation for the purchase or sale of any security. The information in this material is not intended as tax or legal advice. Please consult legal or tax professionals for specific information regarding your individual situation. This content is developed from sources believed to be providing accurate information and may have been developed and produced by a third party to provide information on a topic that may be of interest. This third party is not affiliated with Peak Asset Management. It is not our intention to state or imply in any manner that past results are an indication of future performance. Copyright © 2024 Peak Asset Management