Stock Market Recap – October 2024

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Month in Review

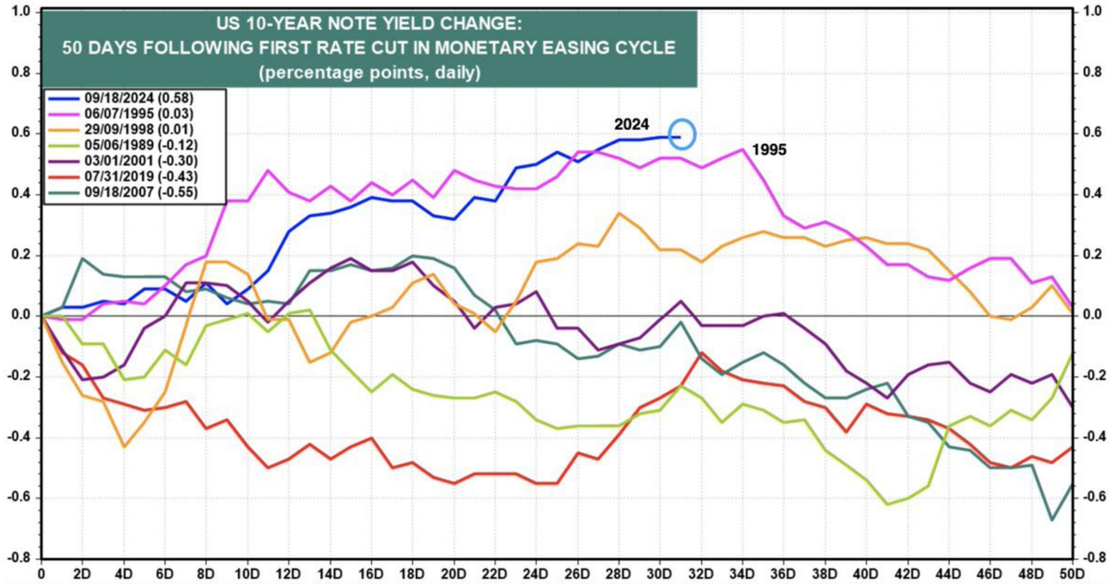
- October was a challenging month for stock and bond markets as bond yields rose sharply during the month. All major markets finished the month lower, with international equities and interest rate sensitive equities falling the most.
- The S&P 500 finished October down slightly at -0.91% (S&P 500 TR Index), marking the first time in five months that the index has declined.
- The yield of the 10-year US Treasury rose to +4.28% in October (+0.54% increase for the month), which weighed on bond market returns: the Bloomberg Barclays US Aggregate Bond Index fell -2.48% in October.

Why are Bond Yields Rising After the Fed Rate Cut?

The Federal Reserve began its interest rate cutting cycle in September, reducing the Federal Funds target rate by 0.50%. Historically, the start of an interest rate reduction policy has been associated with a decline in bond yields. Why is this? Typically, the Federal Reserve reduces interest rates to help support a slowing economy, whether its slowing due to changes in the business cycle, or an external event.

This year has been an exception, compared to the seven easing cycles since 1989 (before 1989 Federal Reserve did not officially target interest rate changes). Since the September 18th rate cut, the 10-year Treasury yield has increased nearly 0.60%, the largest increase at this stage compared to the previous seven cycles. It is worth noting that 50-days after the first rate cut, during the previous seven cycles, the 10-year yield was either the same, or lower, than the start.

What could be driving bond yields higher during the present cycle? It is likely the fact that inflation is declining, while the economy and jobs markets are still growing (at a slowing rate), similar to the 1995 soft landing outcome. Alternatively, it could be a sign that investors are concerned about the lack of any clear plan to address the US government's fiscal situation. Measuring outstanding debt relative to annual economic growth, the United States has a debt-to-GDP ratio of 123%- meaning more debt outstanding than the rate of economic growth in a given year.



Sources: Yardeni Research, LSEG Datastream

What's on Deck for November?

- US Election Day is on November 5th, which will be a closely followed affair.
- Earnings season is well underway for the Third Quarter of 2024. Consensus estimates for year/year earnings growth for the S&P 500 was +4.3% for the quarter.