Weekly Market Insights

October 28, 2024

A Leader Who Doesn't Know It!

Financial Markets

U.S. equity markets snapped a six-week winning streak, finishing the week lower. Certainly, earnings season angst contributed to the weakness, but for the first time in a while, investors were concerned about rising interest rates and the possibility of a less accommodative Fed. There are several reasons for these concerns; some are more legitimate than others. We have seen economic indicators pick up a bit, which has led some analysts to believe the Fed may be less aggressive with rate cuts than previously thought. Additionally, the nearing presidential election carries much uncertainty, and the prospect of a Trump victory has stirred concerns of an inflationary punch. These inflationary pressures would be driven primarily by the mix of tariffs and tax cuts expected from a Trump presidency. This heightened uncertainty and associated volatility will probably last through the election.

	Total Return (%)		
Index	**Prior Week**	**Year-to-Date**	**1-Year**
S&P 500	-0.96	23.14	40.75
S&P 500 Equal Weighted	-2.04	14.47	33.86
Dow Jones Industrial Average	-2.68	13.45	30.00
NASDAQ Composite	0.16	24.06	45.53

Economics

It is difficult to fathom how so many citizens of a country that is the economic envy of the world can be so discouraged! Two of the most important economic metrics that affect the well-being of the general population are job creation and income growth. Both are doing quite well. The economic factor people have been most worried about, inflation, is coming under control. U.S. consumers are spending as if they are content and optimistic—a stark contrast from how many say they feel. These spending patterns are usually a sign that consumers are becoming more financially secure. There appears to be a disparity between emotions and behavior.

Outside of the United States, reality is quite different. Germany, heretofore Europe's industrial base and economic engine, is having a tough time reigniting its economy which is holding all of Europe back. Although Christine Lagarde, President of the European Central Bank (ECB), does not feel a recession is in the cards, it has been a difficult task getting the Euro economy to pick up the pace.

China, of course, is the biggest evolving economic story. For some time now, we, and everyone else, have been writing about China's economic woes. China's finance ministry has been instituting extensive financial programs which have yet to make much of a difference. What we find remarkably interesting is how things may be changing. This is not a prediction but deserves some attention. First, there appears to be a slight softening to China among international economic organizations relative to trade. This concern stems from the talk of subsidies, tariffs, and a hardening of attitudes towards transnational organizations that has been commonplace in this U.S. election season.

Also notable was last week's BRICS[1] meeting hosted by Putin. It was very well attended, with U.S. allies and high-level U.N. officials present. Of course, this may end up meaning very little, but the absence of the U.S. at an event such as this is notable given the United States has been the glue that holds most of these countries together. This is not a panic button or strong warning, just an alert.

For a while now, we have been providing regular updates on the Treasury yield curve. Going forward, we will spend some time on another important concept—credit spreads. We have often pointed out that one of the important things about free markets is that they reflect society's hopes and fears almost instantly.

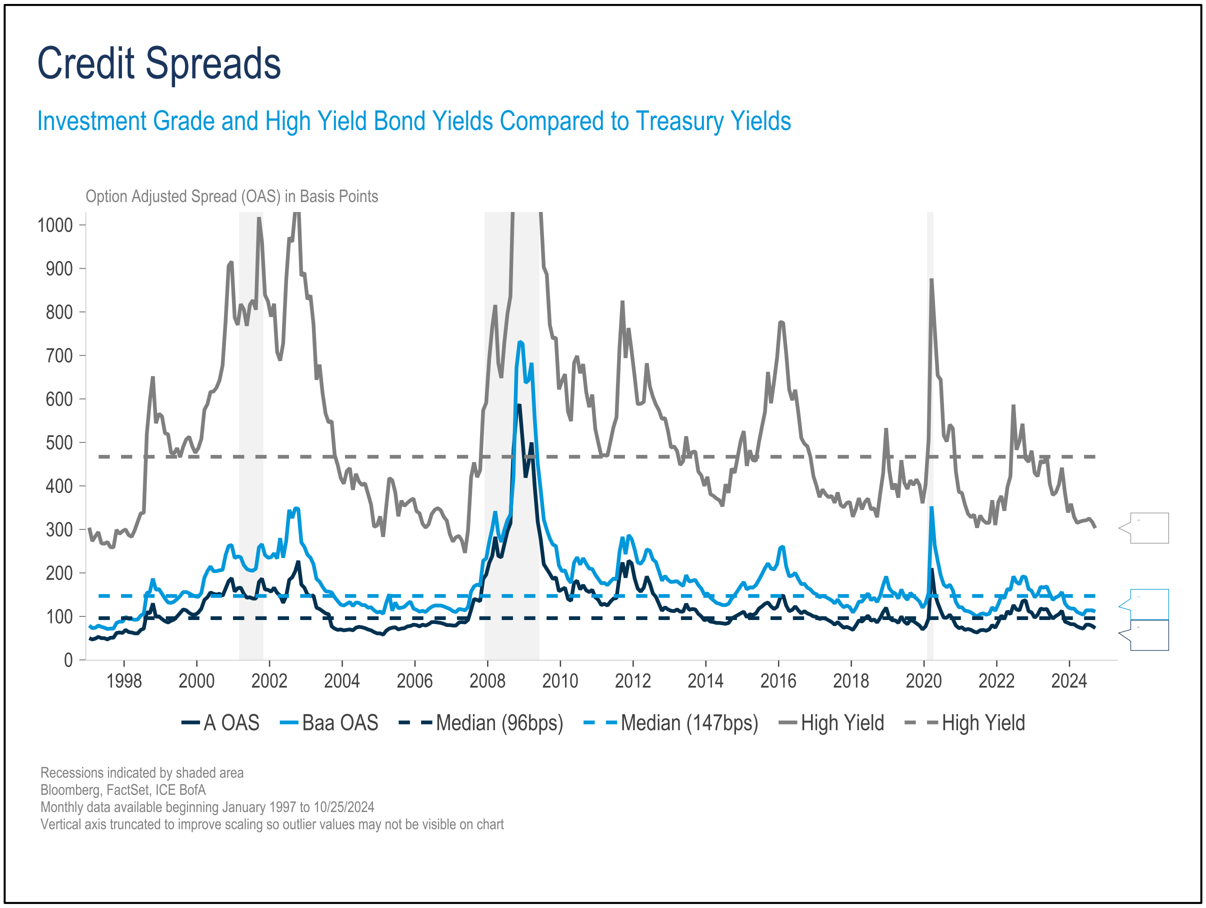
Credit Spreads

Bond default risk, or credit risk, is the uncertainty that a bond issuer cannot make full and timely payments on their debt. While U.S. Treasuries are assumed to have extremely low or no credit risk, debt issued by municipalities and corporations contains at least some risk of default. Credit risk varies widely among issuers, and this variability is measured by credit rating agencies such as Standard & Poor's, Moody's, and Fitch, with letter grades to reflect the credit quality of bond issues. Bonds rated BBB and above are considered "investment-grade," while those below are considered "high-yield" or "junk." Investment-grade bonds are issued by companies or governments deemed to have an adequate to strong ability to meet financial commitments. In contrast, issuers of high-yield bonds are in a weaker financial position, and, thus, have a higher risk of default.

Investors are compensated for taking on credit risk with higher yields—the higher the expected probability of loss, the higher the yield. This additional yield is referred to as the "credit spread" and is calculated by taking the difference in yield between a corporate or municipal bond and a comparable maturity Treasury. Credit spreads tend to fluctuate with changes in economic conditions, narrowing during periods of economic growth and widening during periods of economic weakness and/or recession. Likewise, narrowing spreads are generally consistent with periods of increased investor risk appetite.

As readers will notice on the chart below, spreads are very tight, reaching their lowest levels since the mid-2000s. While narrowing spreads are favorable in that they reflect growing confidence in the U.S. economy, the present situation is not without risk, and it's important for investors to avoid complacency and over-optimism.

[1]BRICS is an intergovernmental organization comprising Brazil, Russia, India, China, South Africa, Iran, Egypt, Ethiopia and the United Arab Emirates

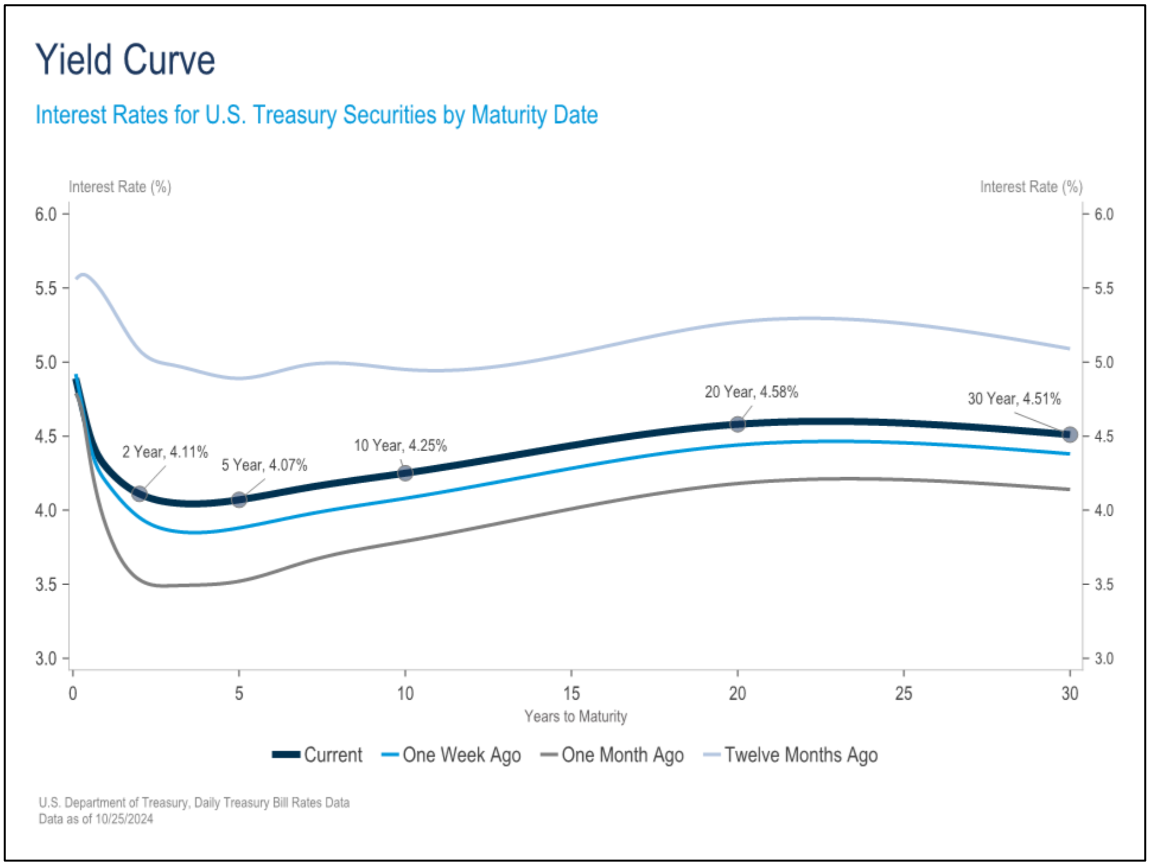


	Credit Ratings		
	S&P	Moody's	Fitch
Investment Grade	AAA	Aaa	AAA
	AA	Aa	AA
	A	A	A
	BBB	Baa	BBB
High Yield/ Junk	BB	Ba	BB
	B	B	B
	CCC	Caa	CCC
	CC	Ca	CC
	C	C	C
	D	D	D

Conclusion

With about one week to go, the election will undoubtedly dominate the stage. Most short-term active traders will be making adjustments for the big event in some way. As investors rather than traders, we don't recommend making any significant changes ahead of election day. We know we sound like a broken record, but the United States remains the most attractive economic environment.

Weekly Market Insights



Michael Olin Clark. Sr. Advisor
moclark@1919ic.com

Ryan Schutte, CFA, CFP®, VP, Sr. Investment Associate
rschutte@1919ic.com

Abigail McKenna, Portfolio Administrator
amckenna@1919ic.com

I. Front End Disclosure

The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. No part of this material may be reproduced in any form, or referred to in any other publication, without the express written permission of 1919 Investment Counsel, LLC ("1919"). This material contains statements of opinion and belief. Any views expressed herein are those of 1919 as of the date indicated, are based on information available to 1919 as of such date, and are subject to change, without notice, based on market and other conditions. There is no guarantee that the trends discussed herein will continue, or that forward-looking statements and forecasts will materialize.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all clients and each client should consider their ability to invest for the long term, especially during periods of downturn in the market. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

All investments carry a degree of risk and there is no guarantee that investment objectives will be achieved.

This material has not been reviewed or endorsed by regulatory agencies. Third party information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

There is no guarantee that employees named herein will remain employed by 1919 for the duration of any investment advisory services arrangement.

1919 Investment Counsel, LLC is a registered investment advisor with the U.S. Securities and Exchange Commission. 1919 Investment Counsel, LLC, a subsidiary of **Stifel Financial Corp.**, is a trademark in the United States. 1919 Investment Counsel, LLC, One South Street, Suite 2500, Baltimore, MD 21202. MM-00001409.

II. Investment Analysis

The information shown herein is for illustrative purposes. 1919 may consider additional factors not listed here or consider some, but not all, of the factors listed here as appropriate for the strategy's objectives.

There is no guarantee that desired objectives will be achieved. 1919 has a reasonable belief that any third party information used for investment analyses purposes is reliable but does not represent to the complete accuracy of such information by any third party.

III. Portfolio Composition

For illustrative purposes. There is no guarantee that the portfolio composition for the strategy discussed herein will be comparable to the portfolio shown here.