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M&R Capital Management 3Q2024 Market Review

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Stocks extended their gains in the third quarter, propelled by the higher likelihood of that rarity of economic events, the "soft landing". While the past is not encouraging in this regard, it does appear that there is a meaningful prospect that decelerating inflation will not be accompanied by a recession.

It has been two and a half years since spiking inflation set the Federal Reserve on a tightening cycle that has brought inflation down to the Fed's target range of 2-3%. The year over year increase in the PCE price index in August has slowed to 2.2%, from 2.7% in April. Prices for goods may actually have entered a period of deflation, as goods declined in price 0.2% month over month in August, and 0.9% year over year. We believe much of this decline can be attributed to economic weakness and price deflation in China, which has exerted a drag on the prices of goods worldwide.

Last week equities got a further boost by a policy reversal in China, where, as some pundits have said, the leadership has finally "gotten out the bazooka." Until now, policy changes to revive the flagging Chinese economy have been marginal and tentative. But in a stunning turnabout CCP Chairman Xi and Chinese policy makers have unveiled the most potent stimulus package since the Financial Crisis of 2008. While many observers doubt that the policies unveiled will jumpstart confidence in view of the deep recession in the Chinese property market, the People's Bank of China (PBC) and the Communist Party's Politburo have made clear that there are more measures to be revealed. The PBC has cut interest rates and reserve requirements for banks, as well as minimum down payments for mortgages.

In the U.S., the Fed deployed its own policy bazooka on September 18th, cutting interest rates ½ point, with the prospect of two further rate cuts in the 4th quarter. This caused a surge in stock prices in the second half of September, resulting in a gain for what is normally a difficult month for

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stocks. Perhaps more interesting than the solid overall advance in the stock market is the character of that advance. In the second quarter economically sensitive value and small capitalization stocks did not participate in the tech driven gains. But in the 3rd quarter that trend reversed as small cap and value stocks rose 8-9%, outpacing growth stocks' gain of 2.6%. Is it possible that these "old economy" stocks' recent strong performance is telling us that the economy will strengthen in the months ahead, and not lapse into a downturn? Sometimes it pays to remember that financial markets look to the future.

Kind Regards,

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