

Quarterly Economic Commentary

October 2024

Market Returns

| | 12/31/2023 | 09/30/2024 | % Gain/Loss |
|---------|------------|------------|-------------|
| Dow | 37,690 | 42,330 | 12.31%* |
| S&P 500 | 4,770 | 5,762 | 20.80%* |
| NASDAQ | 15,011 | 18,189 | 21.17%* |

**Total Return Including Dividends*

By Jim Watts, KS Trust Senior Portfolio Manager

The third quarter did see a broadening out for the equity markets. So far this year, Utilities have led the way up 30.1%, Technology is up 29.6%, and Communications Services are up 27.8%. The three worst sectors are Energy, up 7.5%; Real Estate, up 13.3%; and Health Care, up 13.7%. So, all sectors are positive for 2024.

As expected, the Federal Open Market Committee (FOMC) dropped rates at the September meeting. What was unexpected was a drop of 0.50%. As such, fixed income has rallied this year, mainly in the third quarter, and is positive for 2024. The 10-year Treasury is up 3.9%, US Bonds are up 4.7%, and municipalities are up 2.2%. The yield on the 10-year Treasury currently sits at 4.03%, with the two-year Treasury yield at 3.99%. The spread is now positive, but has narrowed the past few days on concerns that the economy is stronger than anticipated.

We are less than one month away from the election. There is much speculation on who will win and how the balance of power will be allocated. The markets are like political gridlock, which is where we currently stand. The markets are assuming that there will be little reallocation of the power balance after the election. As such, a Red or Blue wave is not currently anticipated. Should we maintain a “balance of power,” I believe the markets and economy should continue improving and providing a healthy investment environment.

My expectation is for a strong fourth quarter, based on current analysis. The FOMC has started the easing process. They are widely expected to cut rates again this year and probably at least four times next year. Experts anticipate that rates will be below four percent by the end of 2025. I expect and am already seeing some reports that with lower mortgage rates, home buyers are returning to the market, and even now, we are seeing mortgage re-financing starting to pick up. This will support the markets and the overall economy for 2025. My concern is that we will see modest inflation return and keep the FOMC walking the tight rope.

Geopolitical concerns should always be considered when evaluating the outlook on the economy and the world. Right now, they are more convoluted and precarious than they have been in quite some time. There is no doubt that we are on the precipice of

World War III. Israel and Iran are slowly moving towards a showdown that has historic ramifications. Russia and Ukraine are still locked in a tug-of-war with no end in sight. China is “pushing the envelope” with unprovoked advances towards Taiwan. Finally, who knows what Kim Jong-un is planning? He likes to be in the spotlight but is being overshadowed by so many other situations. The world is in a very dangerous place right now. Our military resources are stretched very thin and very spread out. These situations are concerning, and any of them can potentially turn the stock market negative.

Oil prices have decreased over the past month or so for no reason. This has brought gas prices down in most states to below \$3.00 per gallon. As I just pointed out, the Middle East is a powder keg, more so now than it has been in decades. Demand has not decreased, and supply has not increased; it is a political game to make everyone feel better about re-electing the ones in office. This is not making a judgment for Democrats or Republicans. Neither side is calling it what it really is: an election stunt. Just watch after the election, though; prices will go back up due to the chaos in the Middle East.

The devastation from Hurricane Helene is on everyone’s minds. It has touched many communities and millions of people from the Panhandle of FL to GA, to NC, TN, and VA. I think we all have family, friends or know someone whom this event has personally impacted. While the Government has been very slow to react, the outpouring of support from surrounding communities, businesses, and organizations has been phenomenal. This is where you see the “good” in people really shine. As most of you may know, Roger lives west of Asheville, just outside Canton. He and his family have witnessed the recovery efforts, and they have assisted with recovery efforts. The impact of this storm is likely to be one of the costliest ever. As of today, there appears to be another major hurricane building in the Gulf, headed for mid-Florida later this week. Let’s hope that it dissipates, significantly weakens, or turns south.

At the mid-year point, here are my 10 expectations for 2024.

- 1) Interest rates will trend lower, but the Fed will be reluctant to lower rates until at least the second half of the year;

- 2) Bonds will perform better in 2024 than in 2023;
- 3) Oil prices will remain in the \$75 - \$95 range;
- 4) 2024 will continue to be very precarious geopolitically with no resolution in Israel or Ukraine;
- 5) China will make a proposed annexation of Taiwan;
- 6) Iran and N. Korea will continue to push the envelope militarily;
- 7) The US stock market will end the year with a high, single-digit or low, double-digit return;
- 8) The US will not go into a recession;
- 9) Gridlock will continue in domestic politics, but there will be no government shutdown;
- 10) And I will not make any predictions for the 2024 Presidential election!



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