FORWARD

Investment Advisors

Forward Focus

October 2024

Quarterly Market Review

After declining in the 2nd quarter, all major averages posted positive returns in the 3rd. The Magnificent 7 (Apple, Amazon, Meta, Google, Microsoft, Nvidia, & Tesla) finally underperformed the rest of the S&P 500 in the 3rd quarter. The Magnificent 7 had outperformed the broader market each quarter since the 4th quarter of 2022. This relative underperformance signals a rotation from the high flying, growth-oriented tech sector to more undervalued areas of the market like value and defensive sectors.

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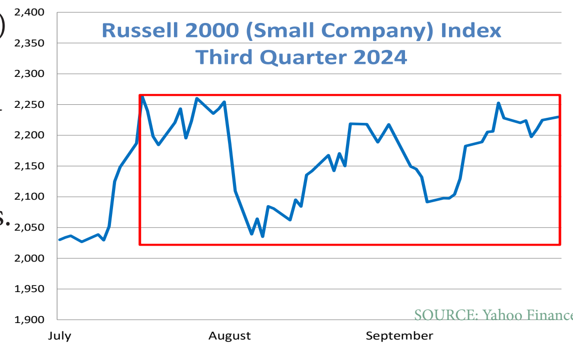
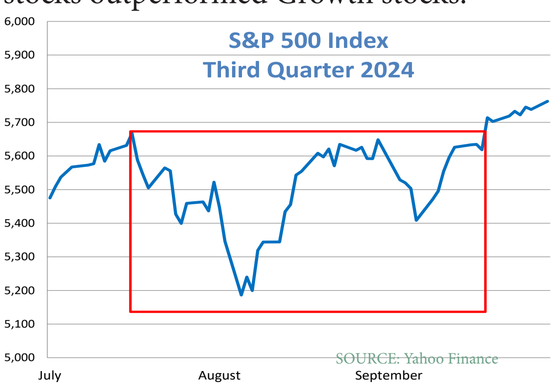
The Russell 2000 Index (small cap stocks) was negative year-to-date until August. Lower interest rates, falling inflation, and signs of a soft landing, led to choppy (see chart on right), yet positive gains. All the gains in the Russell 2000 have occurred within just the past 7 weeks.



At the end of the third quarter, WTI crude oil settled at $68.17/bbl, Gold was $2,636.10/oz and the 10 Year Treasury yield was 3.80%.

The best performing S&P 500 sectors were Utilities, Real Estate, and Industrials, while the worst performing sectors were Energy, Communication Services, and Technology. Small cap outperformed Large cap and Value stocks outperformed Growth stocks.



The S&P 500 index posted gains in Q3, but the chart on the left shows that the ride was anything but smooth. The index spent the vast majority of July, August and September bouncing around wildly. The S&P 500 has been dominated by just 10 stocks for years, but **Forward** is seeing signs that the other 490 stocks are showing signs of life. This broadening of the rally is a welcome sign.

The fourth quarter is typically the strongest and best quarter of the year, however, October is usually full of surprises and after the positive performance we saw in September, we are do for a breather.

During the quarter: Paris hosted the summer Olympics, President Biden dropped out of the 2024 race, there were two assassination attempts on former President Trump, the Dow Jones dropped more that 1,000 points on August 5th, the Japanese Nikkei stock market fell 12.4% in one session as the Yen carry trade unwinds, two presidential debates occurred, VP Harris became the Democrat nominee, U.S. National Debt surpasses $35 Trillion, Ukraine war continues, U.S. Bureau of Labor Statistics (BLS) stated 818,000 fewer jobs were created last year than previously reported, the yield curve uninverted, the Federal Reserve cut rates by 50 basis points, Hurricane Helene brought historic flooding and devastation to the south east, the November Presidential election polling remained close, Chinese stock market rockets higher after China announced massive stimulus, Iran fires missiles into Israel, 45,000 U.S. port workers went on strike at midnight on September 30th. Whew! Despite all of that (and that was A LOT), markets clawed higher as global central banks indicate more rate cuts and governments around the world promise more deficit spending, despite markets at all-time highs and low unemployment.

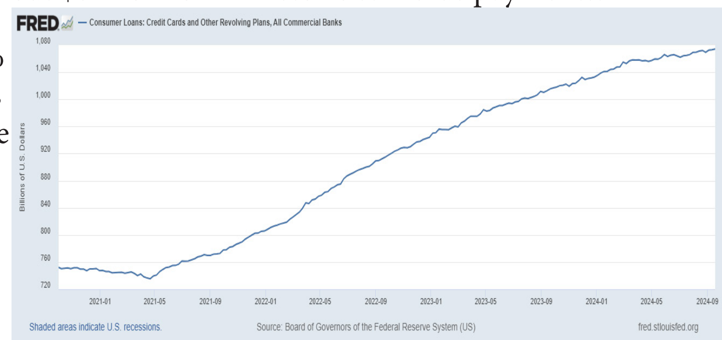
Third Quarter 2024

Dow Jones Industrial Average 8.7% ● S&P 500 5.9% ● MSCI EAFE (International) 7.2%

Russell 2000 (Small Cap) 9.2% ● MSCI EMI (Emerging) 7.5% ● Barclays Capital Aggregate Bond 5.2%

Debt Levels Rising: Paying off Debt

Total Household debt hit $17.80 trillion in the second quarter of 2024, according to the latest report from the Federal Reserve Bank of New York. In just the past 3 years, Americans have increased household debt by $2.85 trillion, all while unemployment was near 50 year lows, wage growth was exceeding inflation, the stock market was near record highs, and the U.S. government handed out $814 billion in historic stimulus payments.



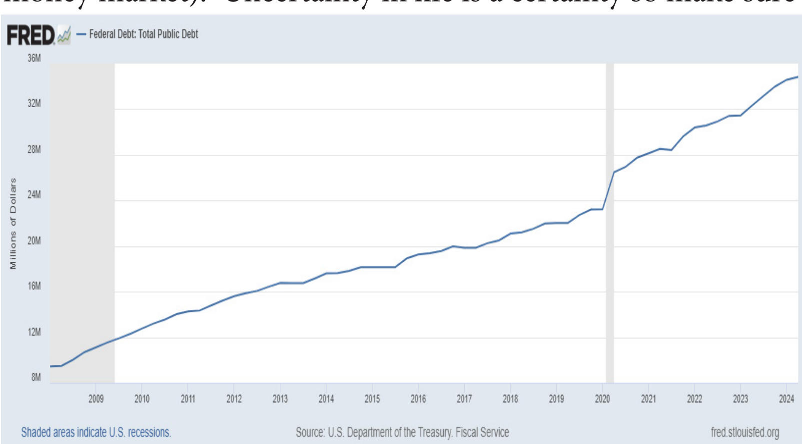
Digging into the numbers: Credit card balances are 55% higher than they were 4 years ago! Credit card balances are now $1.14 trillion (see chart on the right). Mortgage balances stand at $12.52 trillion, outstanding student loan balances are now $1.59 trillion and auto loan balances are currently $1.63 trillion.

Delinquencies (those with balances at least 30 days past due) climbed higher as well. Credit card and auto loan balances that entered delinquency were 9.1% and 8.0%, respectively. Consumers credit reports showed that 136,000 consumers had bankruptcy notations, 47,000 listed new foreclosure notations, and roughly 5% of credit reports listed a 3rd party account collection, per the Federal Reserve Bank of New York report.

These numbers are staggering. The reason I bring it up is to highlight that **this is occurring when the economy is strong and we are not in a recession.** What will happen during the next downturn? It is not good news.

My plea to everyone is to use this time to pay down (and pay off) debt. Make a budget, stick to it, even stop investing completely for a short period of time if you have to, but aggressively pay down debt. I know it is easier said than done, but your financial focus should be to get rid of credit cards, auto loans, student loans, and eventually your mortgage. If you need help devising a plan, let me know. Send me an email or call to schedule a meeting. I would be glad to help.

If you are already out of debt (besides a mortgage), then make sure you have an emergency fund (3-6 months of monthly expenses). An emergency fund should be liquid and easily accessible (checking/savings account or a money market). Uncertainty in life is a certainty so make sure you have money saved for the unexpected.



The consumer debt levels in our country are at record levels and the **NATIONAL debt is at a record $35.32 trillion**. (see chart on left). Just the interest payment alone this year will be $892 billion, according to the Peterson Foundation.

The U.S. Government continues to borrow at an alarming rate. Last year the government deficit (amount they spent over what they had) was $1.7 trillion. This year's deficit is estimated to be $1.86 trillion. Whether we look at the Total Consumer Household Debt or the National Government Debt, both are unsustainable.

It might seem odd for me to devote an entire page to consumer and government debt. Shouldn't I be talking about investing and saving? Yes, however, debt (whether yours or some else's) has an impact on the economy. The reason I wrote about this is simple. The economy and stock markets continue to hum along, but is more and more supported and fueled by unproductive debt. This debt fueled phase can continue on, but there are limits. Bottom line: Debt impedes your financial future. As you seek to save and invest, focus first on eliminating debt.