CLEVELAND HAUSWIRTH INVESTMENT MANAGEMENT

INVESTMENT UPDATE

2024 --- 3rd Quarter

FIRST INTEREST RATE CUT BY THE FED

Despite a variety of events in the news causing some volatility, 3rd quarter investment returns moved steadily upward. The U.S. stock market experienced a sudden sell-off at the beginning of August. It was short-lived and widely considered an overreaction. After recovering 8.5%, the S&P 500 Index had just about fully recovered by the end of August, and subsequently powered to new highs after the Federal Reserve delivered a jumbo 50 basis point interest rate cut (0.50%).

For the quarter, the S&P 500 Index was up +5.89%. The U.S. bond market did much better than last quarter gaining +5.20% as measured by the Bloomberg U.S. Aggregate Bond Index. The Dow Jones Industrial Average (DJIA) was up +8.72%. Rates of return for the quarter in individual accounts were generally in the mid-single digits or better, with year-to-date returns in the mid to high teens. This bodes well for another successful investing year.

What were some of the quarter's noteworthy highlights?

- In July, Vice President Harris replaced President Biden in the presidential race.
- The economy continued to show signs of normalizing to a pace of growth around 2%.
- Recent data showed continued signs that inflation is on a sustainable path back to 2%. Although components like rent and insurance could be "sticky", the broader trend of easing prices remains.
- The labor market still looked healthy and on solid ground.
- Election fatigue began to set in, but the Paris Olympics provided a very nice distraction.
- In September, the Federal Reserve kicked off its interest rate cutting cycle by reducing the Fed funds rate by 0.50% and indicated gradual rate reductions are expected through 2025.
- The S&P 500 Index gained for the fourth straight quarter. The good news is we are finally experiencing an "everything market" where growth is happening for many companies and their stocks, as opposed to being concentrated in only a few.

A word about inflation.

It may be one of the most familiar words in economics and has been top of mind. Inflation is defined as the rate of increase in prices of goods and services over a given period of time. It represents how much more expensive the goods or services have become over that period.

We have reported inflation is coming back down to more normal levels. This is a good thing and just what the policy makers are working on. A common misunderstanding though is that it means "prices" are coming down. What it actually means is that the rate at which prices are going up is slowing and coming down.

How did we get into this cycle of rising prices? A natural disaster is one reason, and we experienced a global Pandemic which caused a major disruption to supply and demand for goods and services. That was the driver of price increases. It feels like we have been dealing with this for too long but unfortunately the recovery process is slow, it doesn't turn on a dime. We are moving in the right direction and are close to being back in balance. Normalization of prices should follow in time.

Final thought. Much attention will be directed to the upcoming presidential election. We recommend that you don't allow election predictions and outcomes to influence investment decisions. Expect a few bumps and stick to your long-term strategy.

Please feel free to call Nan or Ann at 414-431-6491 with your concerns.

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