

FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW THIRD QUARTER 2024

What Happened:

It's a good time to be an investor. The S&P 500 Index registered more than 40 new highs in the first nine months of 2024. Virtually all categories of stocks have seen gains this year with large cap stocks leading the way, posting a YTD advance of 22%. International stocks had gains of about 13%, small caps were up 11% and bonds were higher by 4.4%. What's more, the market has fully recovered from the mid-summer 8.5% pullback and moved to new highs.

The Federal Reserve dropped interest rates by half a point in September and is expected to cut rates by another half point before year-end. The cutting of interest rates suggests that the Fed is comfortable with the current level of inflation and wants to prevent the economy from slowing and falling into recession. The consensus among financial analysts is for GDP growth of 2.7% in 2024 and 2.3% in 2025 which supports the Fed's expectation of a soft landing for the economy.

With interest rates and inflation moderating, we need to turn our attention to corporate earnings. There is good news on that front. Corporate earnings projections look very strong with growth of 8.9% expected for the full-year 2024 and 14.2% in 2025. This bodes well for a continuation of the market rally.

YTD Performance Through September 30, 2024:

S&P 500 Index (large stocks)	22.1%
Russell 2000 Index (small stocks)	11.2%
MSCI EAFE Index (international stocks)	13.0%
Bloomberg U.S. Aggregate Bond Index (bonds)	4.4%

Prognosis:

Artificial intelligence (AI) is all the rage and investors seem very enthusiastic about the implications for the market and humanity in general. We share in that enthusiasm, but we also realize that in the early stages of promising new technological advancements, investors often push up stock prices too far and too quickly. That is why we prefer to diversify our clients' portfolios by investing a portion of our accounts in overlooked stocks with more reasonable valuations such as value stocks, small-cap stocks and international stocks. The Magnificent Seven stocks are still wonderful companies, but their valuations have been stretched to the point where further price advancements may be slowed as compared to other areas of the market. We saw this exact dynamic play out in the third quarter and it is likely to continue into next year. Diversification is key in this market.

Many of our clients may recall that September and October are historically the two worst months for stock returns. This year, however, September saw positive returns giving us hope for a good October. In fact, focusing on election years going back to WWII, positive September stock returns gave way to positive October returns 80% of the time. That's not a guarantee that the rally continues, but it is comforting, nonetheless.

Wishing you all a happy fall. Enjoy the wonderful colors, cooler days and, of course, Halloween!

SCK