Schaper, Benz & Wise
INVESTMENT COUNSEL
Trusted Advisor for Generations

40 Jewelers Park Dr., Suite 200 | P.O. Box 628
Neenah, WI 54957-0628 | 920.727.1137

Economic & Market Summary
October 2024

As of Q2, real GDP has grown 3.1% over the last twelve months, above the pre-pandemic trend of about 2.4%. The massive fiscal stimulus implemented during the pandemic has contributed to this unsustainable level of growth. We expect growth will slow but remain positive. Even with an uptick in the unemployment rate and slowing job growth, the labor market remains supportive. Wage growth still exceeds inflation which bolsters purchasing power. Labor force participation amongst prime-age workers is at a 23-year high. Many consumers are in a strong financial position. Despite higher interest rates, household debt service payments as a percentage of disposable income are actually below pre-pandemic levels while net worth as a share of disposable income is higher. However, there are several headwinds which could slow growth. Consumers who own assets that have appreciated significantly, like stocks and houses, are doing well, but the cumulative effect of elevated inflation has hurt households that spend a significant portion of their income on life's necessities. Results from several consumer-oriented companies suggest that shoppers, burnt out on price increases, are cutting back. Credit card delinquencies have risen to a ten-year high suggesting many people struggle to pay bills.

After stalling earlier this year, inflation resumed its downward trend towards the Federal Reserve's 2% target. This, and slowing job growth, likely prompted the Fed to begin the monetary easing process with a large interest rate cut of 0.5%. While the size of the cut was notable, projections for future cuts were most interesting. Individual FOMC members now see the target interest rate coming down much more quickly next year than they did in June. Assuming inflation continues its downward trajectory, which we think it will, lower rates should help offset the economic headwinds mentioned earlier.

Unsurprisingly, the economy is a significant focus of the presidential election. Politics matter to investing insofar as they influence economic and tax policy, but stock markets rise under both Democratic and Republican administrations. However, both candidates advocate for policies that run counter to the free-market capitalism which makes the US so prosperous. We've seen proposals for higher taxes and tariffs as well as a larger, more aggressive role for the government in the economy. This rarely ends well. Incentives get misaligned, political groups or industries are inevitably favored, inefficiency and wasteful spending rise while growth and dynamism fall. Furthermore, the pandemic-era stimulus has left our country with an enormous budget deficit which neither party seems interested in addressing.

After a modest correction in August, the S&P 500 finished up 5% for the third quarter. Including dividends, the index is up 21% year-to-date. The S&P remains highly concentrated with six large technology firms making up 29% of the index. These large companies have driven the market to an expensive valuation in our view. The S&P forward PE ratio is around 21.5x, well-above the ten-year average of 18.0x. This year, we've noticed bigger-than-usual price drops when companies announce earnings that disappoint Wall Street. Rich valuations plus a low tolerance for earnings "misses" suggest that investor expectations are very high. Throw in a contentious presidential election and the uncertainty of a change in monetary policy, and we wouldn't be surprised to see a short-term market correction. We'd view such a move as a potential buying opportunity. So much of the investing world is emotional, impatient, and myopic. Patient and committed ownership of high-quality companies is still the best path to long-term wealth creation.

Mark J. Sprtel, CFA

If your financial situation has materially changed or you would like to discuss your accounts in detail, please contact your investment manager. To request our SEC Form ADV Part II, please contact Mark J. Sprtel, Chief Compliance Officer, at the address above.