The Real Deal on Interest Rates & Market Trends
Matt's Minutes October 2024 "Closed Captions"
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Hi everyone, Matt Curfman here from Richmond Brothers for a third quarter edition of Matt's Minutes. I'm recording this on Saturday, October 5th along with my little buddy Oliver. There's been lots of requests to keep him on video, so I will happily do that. He will probably misbehave, and you can see some of his toys on the ground over my shoulder, but he loves economic updates, don't you, buddy? All right. So, a couple of things. I want to talk about inflation. I want to talk about the Federal Reserve and short-term rates. I want to talk about the term, "soft landing". I also want to talk about unemployment, corporate growth, geopolitical tensions, and elections coming up.

So, the Federal Reserve has finally lowered rates in the month of September. This is the first of, probably many rate decreases over the coming one to two years. They did elect to lower the short-term rate a half percentage point. So, what does that mean? It means that mortgage rates will get cheaper and also you won't be able to earn as much on money markets, CDs, savings in the bank. It wasn't a huge dramatic decline, but it will slowly escalate down over time. So, it will hurt savers and it will benefit borrowers as rates come down.

So, the question about soft landing, can the Fed lower rates and not tip the economy into recession? It is widely believed at this point that the economy is strong enough, that inflation has cooled enough, that the economy can support a soft landing, meaning the Federal Reserve lowering rates should not tip us into recession. That said, I know that inflation is still here with food and especially fuel prices and there are geopolitical tensions out there. In the Middle East and Israel and still Russia and Ukraine, and not to be insensitive about that, but relative to the economy, it seems that the markets, turned their head with respect to that stuff.

Elections are coming up in the next month. There will continue to be a lot of noise, possibly volatility around that. What's really interesting is in the first week of August, markets had a big dip and then they clawed their way back up. First week in September, another big dip and then they clawed their way back up. And so through all of that, corporate earnings are still pretty strong.

Unemployment was just announced at 4.1%, which is still pretty low. And we would say that that means the economy is largely at full employment. Now, what that high level tells us is if you want to work, there is work available. I'm not saying there's work in every field in every sector, but if you want to work at 4.1% unemployment, there is work available.

So with that, just a couple other pieces here. Here's a chart I wanted to go over, just to kind of go over the third quarter and just give you some math on. So here what I did is July 1st through September 30th, I graphed the S&P, Dow and NASDAQ. Bloomberg in green as the U.S. aggregate measures corporate bonds, and then pink S&P equal weight, which is a little more leaning in on Smoother Ride and Beacon holdings. What I really wanted to show you is the first week in August that I referred to, markets took a big dip, and they tried to claw their way back up. First week in September, another big dip, clawed their way back up. Still a positive trend, but not certainly comfortable when you're looking at that on a daily basis.

One thing worth noting is technology here in blue over the quarter was 1.73% where the S&P equal weight was around 9%. And like I said, that ties into Beacon. So, with that, I wanted to give you a little bit of a frame of reference. We've had a lot of good feedback and a lot of great questions, so I thought it was time to just do a quick educational update.

So, 11 sectors of the market. And so, what that is is the S&P 500. Examples would be technology, energy, utilities, healthcare, to name a few of them. What we do is we throw them all into the pie and then we cut 11 equal slices. So, we own each of them equally. And there's 2.0 and 3.0 strategies. 2. 0. - think of we're going to all go to the swimming pool and the swimming pool is the stock market. 2.0 just gets into the market when it's ready, it gets out when it's ready. It doesn't hang on the edge, it's either all in, everything in or everything out. So, through that market volatility I just mentioned, in both August and September, the downside safety net, the guardrails didn't get triggered. And so that meant the market didn't drop more than 10%, so it stayed fully swimming, which has been very positive.

3. 0. Same 11 slices of the market but think of each individual slice is like an individual body part, and each individual body part can move independent of one another. So, through that volatility, 10 of the 11 slices or body parts stayed swimming in the pool, stayed invested. Only one of the 11 around September 12th got defensive and got out of the pool, and that was energy. So, basically 10, 11 stayed fully invested. And then we do have a heavier weighting option in technology using the Fidelity 500 and then QQQ. So here is exactly what the breakout of the S& P looks like at any given point in time. And I used whole numbers here, not exact percentages, but you can see there's a larger slice in technology, healthcare, financials. So, the point is, it's not equal. So why do we want this in our Smoother Ride strategies? We want to have a little more leanings and weightings in technology because of AI.

So, I wanted you to basically see that and have some perspective of what we're seeing. We've had great feedback. If you have questions and you're interested in learning more about Beacon or Smoother Ride, it's just a strategy overlaid on the Fidelity account. That's all it is. We're not locked in. We have complete flexibility, but it is doing well this year and we're really happy about that. And we also really like, with uncertainty around elections and all the noise that will probably come with that, we really like having guardrails or safety nets, and that's what these can offer.

So, if you have questions, please reach out to questions@richmondbrothers.com. We will continue to help you monitor on one-on-one meetings, calls, and Zooms, and we appreciate you being part of our Richmond Brothers family. Thank you so much for tuning in, and we'll be back in touch shortly.

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