LaFleur & Godfrey
PRIVATE WEALTH MANAGEMENT

Fall 2024 Quarterly Commentary

Dan VanTimmeren Aaron Ritsema
John Koczara Sahana Madhanagopal

The Fed to the Rescue?

Economic Perspective:

The much-anticipated Fed interest rate cut finally happened! At its September 18th meeting, the Federal Open Market Committee lowered the federal funds rate by 50 basis points as expected. It was the Fed's first interest rate cut in over four years – suggesting the current economic slowdown we are experiencing required action and a change in monetary policy. The economic boost will certainly be dependent on the magnitude and frequency of future rate cuts. Fed Chair Jerome Powell suggested more cuts are on the way but the committee will remain data dependent & decide the future rate path on a meeting-by-meeting basis. Our investment committee favors this approach as Powell has been quite vocal about not repeating the mistakes of the past (persistent inflation throughout the 1970s). We are encouraged that lower, more appropriate interest rate levels in 2024/25 will be welcomed by American consumers and businesses & that economic activity will in turn pick up.

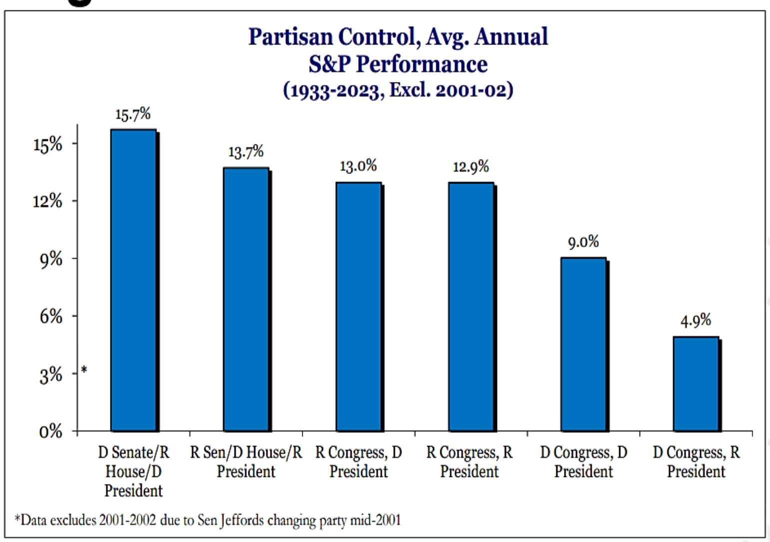
However, as usual, there is always something to worry about when it comes to the economy. Recently, the International Longshoremen's Association (ILA) went on strike – hoping to secure better wages, benefits and protections from automation. An extended shutdown of the Eastern and Gulf Coast cargo ports would broadly negatively impact our economy. The ports account for almost two-thirds of containers exported abroad. Imports, and more importantly supply chains, would grind to a halt. Several trade experts have estimated the economic impact could be as much as $5 billion per day! We are hopeful a timely agreement can be reached (similar to the six-year West Coast longshoremen deal reached last year) and that the economic pain will be minimized. With election season upon us, we are quite certain the current administration would agree with us. The last thing it wants is a prolonged strike and for global supply chains to be disrupted again – resulting in a pick up in inflation just after the Fed cut rates!!!

Market Perspective:

It's been a strong year in the financial markets – bond prices are up (with rates down) and stocks have posted very solid returns. In some ways, current market levels already factor in better-than-expected corporate profits, a 'soft-ish' economic landing and an accommodative Fed. On the other hand, the market may be ignoring a hornet's nest of geopolitical risks, well above-average valuations for top performers, subpar manufacturing activity and a very selective U.S. consumer. Why is it that the market's glass seems half-full while the economy's glass seems half-empty? Well, for one, we believe the market is the ultimate forward-looking mechanism. It has already begun to price in the favorable economic impact to our economy next year as a result of last month's (and expected future) rate cuts. Simply put, current market levels near all-time highs reflect a vote of confidence by the stock market in Fed Chair Powell's ability to engineer a soft economic landing. In addition, valuations (outside of the top ten S&P 500 companies) look quite reasonable to us. As a result, our investment team sees a vast opportunity set outside the top ten. We remain focused on all-weather companies in leading industries that will continue to benefit from the ongoing rotation in market leadership. We have recently taken advantage of the higher market levels to broaden the number of names in select equity portfolios. The market seems to agree. Over the last year, 85% of the companies in the S&P 500 Index are positive – well above the twenty-year average where two-thirds typically post positive returns and one-third post negative returns. We expect market breadth to remain strong.

Looking Ahead: With the presidential election just weeks away and too close to call, we thought we would share one of our favorite historical stock market election outcome charts (see below) from research provider Strategas. The data goes all the way back to 1933. In a nutshell, the chart shows favorable average annual stock market returns regardless of election outcome! With that said, some of the best returns happen when there is some gridlock in Washington D.C. – especially in Congress. We believe this would be the preferred election outcome for the markets. The L&G investment team has long believed that buying the best American companies at a discount to their intrinsic values gives us the best opportunity to succeed in the long run. We have done a really good job in the past ignoring election 'noise' – instead focusing on changes in Fed monetary policy & individual company fundamentals. This top-down approach has served our clients well. This election season shall soon pass. We remain optimistic for the future.

US Stocks Have Managed To Increase Regardless of Political Outcomes



Sources: Strategas, S&P