WestStar
Wealth Management

Wealth Watch

2024: Third Quarter Review & Fourth Quarter Outlook

As we assess the state of the markets and economy amid the intensifying presidential election season, we are reminded of an exchange between two characters in Lewis Carroll's Victorian-era literary masterpiece *Alice's Adventures in Wonderland* paraphrased as follows: Upon arriving at a fork in the road Alice asks the Cheshire Cat, "which road do I take?" He in turn inquires, "where do you want to go?" When Alice responds, "I don't know," he astutely answers, "then it doesn't matter." How does this interaction apply to investors?

Adventures in Wonderland

The Cheshire Cat's clever comeback is also practical—indifference to the ends likewise renders the same to the means of attainment. As Americans embark on selecting their next president, they must ponder how the vision of each candidate might impact multiple facets of their lives. In this edition of the Wealth Watch we will focus on the financial and economic aspects.

Our near-term thesis since February 2023 has been and remains that bonds would outperform cash and stocks would outperform bonds—an assessment that continues to prove correct. Year-to-date Large Cap Stocks remained the best performing category, though the continued strong economy and, in particular, the Fed's 0.50% rate cut in September did lead to some interesting developments in the third quarter. Gold jumped to a record high—the yellow metal's best start to a year since 1986—while commodities plummeted as a result of oil's 15% plunge. Emerging Markets stocks actually outpaced the S&P 500 in the quarter following China's economic stimulus announcement and the ensuing 21% rally in its stock market.

What can we expect as we close out 2024 and enter 2025 under a new Administration? We will explore the possibilities on the pages that follow.

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What You Need To Know:

- Stocks continued to outperform other major asset classes
- The economy is strong, with inflation nearing the Fed's 2% target and unemployment near 4%
- The Fed will likely cut rates by 0.25% in both November and December
- The stock market has historically had solid performance under most combinations of governmental political party leadership
- History suggests that a post-election stock market rally may extend into 2025
- Near-term volatility is to be expected, but remaining focused on long-term goals and objectives is most important

Asset Class Index Performance* Year-to-Date as of September 30, 2024

US Large Cap Stocks
22.08%

International Emerging Market Stocks
16.86%

International Developed Market Stocks
12.99%

Real Estate
12.64%

US Small Cap Stocks
11.17%

High Yield Bonds
8.01%

Alternative Investments
6.33%

Commodities
5.86%

US Investment-Grade Bonds
4.45%

Money Market (Cash)
3.97%

International Bonds
2.81%

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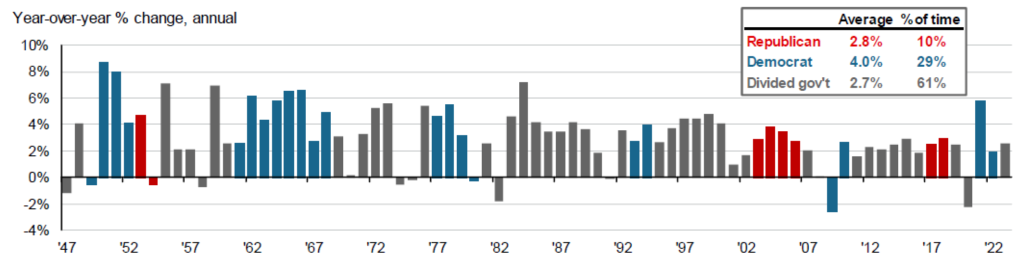
The Economy: Current Environment & Political History

The US economy is currently growing at a real rate of 3%--a solid number and above the long-term trend. Furthermore, our recession watch report, which we've cited in past editions of the Wealth Watch, reflects no evidence of a potential recession in the near term. Meanwhile, headline CPI inflation dropped to 2.4% in September—the lowest level since 2021—and the unemployment rate remains low at 4.1%. Accordingly, the Fed is likely to continue their rate-cutting path with two more 0.25% cuts this year. Overall, an objective assessment indicates the state of the economy is strong.

That said, the chart below suggests the economy can and historically has done well under various governmental political party combinations. The implication as it relates to the forthcoming election is that, regardless of who wins the presidency or which party takes the House and Senate, a strong economy is not only possible but likely given current conditions.

Real Gross Domestic Product



Source: JPMorgan Asset Management

Political Party & Market Performance

Strength in the stock market is also possible regardless of the party of the president, congress, or combination thereof. The table at right reflects the history of the Dow Jones Industrial Average stock market index under various scenarios of presidential and congressional parties going back to the early 1900's. Historically the market has experienced stronger performance under a Democratic president, though it has also excelled under a Republican congress. Most apropos to this discussion is the political party combination of president and congress. The strongest market performance historically has occurred under a Democratic president and split congress, though we note that combination has only occurred 5% of the time and is therefore a very small sample size. While the weakest historical performance has been under a Republican president/split congress scenario, we note that the market has performed similarly under single-party control of both branches of government.

Dow Jones Industrial Average Performance
Daily Data: 03/04/1901 – 10/17/2024

President		Dow Return	% of Time
Democrat		7.90%	48
Republican		3.54%	52
Congress		**Dow Return**	**% of Time**
Democratic Congress		5.42%	52
Split Congress		1.92%	16
Republican Congress		7.82%	32
President	**Congress**	**Dow Return**	**% of Time**
Democrat	Republican	9.05%	10
Democrat	Split	12.05%	5
Democrat	Democratic	7.01%	34
Republican	Republican	7.30%	22
Republican	Split	-1.96%	11
Republican	Democratic	2.44%	18

Source: Ned Davis Research

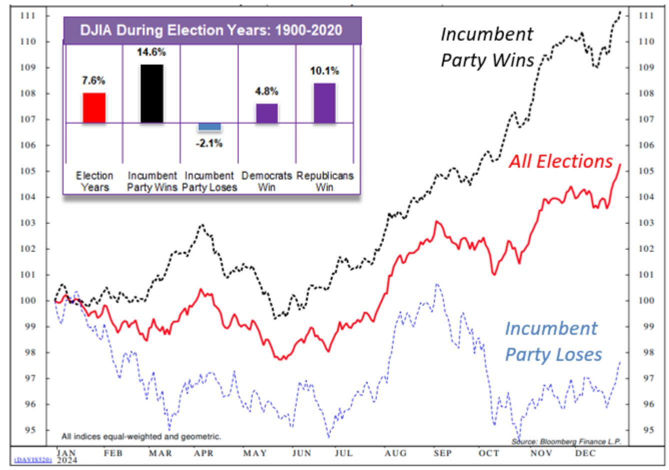
At the time of this writing, we do not know the outcome of the 2024 elections and resulting political party composition of government, but we can look to history to determine what typically happens during an election year and beyond.

*Large Cap: S&P 500 Index; Small Cap: Russell 2000 Index; Int'l Developed: MSCI EAFE Index; Int'l Emerging: MSCI Emerging Markets Index; US Inv-Grade Bonds: Bloomberg Aggregate Index; Int'l Bonds: Bloomberg Global Aggregate ex-USD Index; High Yield: Bloomberg US Corporate High Yield Index; Cash: BofA Merrill Lynch 3-Month US Treasury Index; Real Estate: FTSE EPRA/NAREIT Developed Index; Commodities: Bloomberg Commodity Index; Alternatives: Wilshire Liquid Alternatives Index

Election Year Market Performance: A Historical Perspective

By dividing each month of the year into two halves and examining the stock market's typical performance going back to the year 1950, we find that the second half of September tends to be the weakest period of the 24 in question. In presidential election years this weakness extends into the first half of October. Interestingly, the market begins to rebound in the second half of October, however, and rallies stronger than normal post-election. This is consistent with 2024's market action. Yet one must contemplate whether the outcome of the election itself typically has an impact.

DJIA Election Year Cycle: Incumbent Party Wins vs. Loses



Source: Ned Davis Research

The chart at right shows the typical market trajectory during election years from the years 1900 through 2020 based on the incumbent presidential party winning or losing. We find that the market tends to perform best when the incumbent party wins, though it does better when Republicans prevail. Conversely, the market tends to decline slightly when the incumbent party loses.

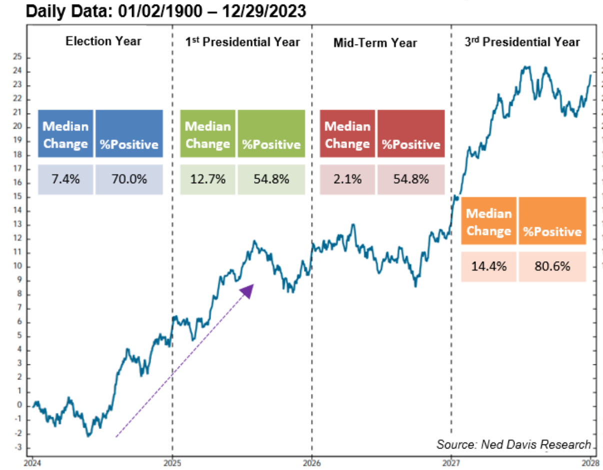
Polls indicate that the race for President is exceedingly tight, and the candidates are neck-and-neck. Research indicates that, among the 31 presidential elections since the year 1900, the incumbent party has won 65% of the time during periods of no recession. However, duly noted is the fact that the 2016 election was an instance when this did not hold true. Whichever candidate wins in November, the strong economy should propel continued stock market strength through year-end. But what might we expect in 2025?

Market Performance: Post-Election Year & Beyond

The blue line on the chart at right shows the average stock market performance in each of the four years of a presidential term going back to the year 1900. In analyzing the graph, we find several points of interest:

- 70% of election years are positive
- The substantial upward trend in the second half of the election year extends into the first half of the post-election year
- The post-election year is positive 55% of the time with a median return of nearly 13%
- The weakest year tends to be the mid-term year
- The strongest year tends to be the 3rd year of a presidential term

Dow Jones Industrials Four-Year Presidential Cycle
Daily Data: 01/02/1900 – 12/29/2023



We always caution that past performance is no guarantee of future results, but we also note that while history may not repeat itself it does often rhyme. Given the strength of the economy and with this historical politically-related market analysis in mind, we posit that 2025 may very well see a continuation of 2024's stock market rally.

WestStar's Strategy: Know Where You Want to Go

Referring back to the musings of the Cheshire Cat, in a hotly contested and stressful presidential election year we may sometimes feel like emulating him in the 2010 *Alice in Wonderland* film wherein he states, "I never get involved in politics." Yet the aforementioned conversation between him and Alice illustrates the importance of knowing where you want to go before deciding on the path to take. It is reaching the destination that is most important despite the travails one may encounter along the way. Accordingly, remaining focused on one's long-term investment goals is the most prudent way to ultimately achieve them. WestStar will help guide our clients along the way.

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Wealth Management

The Team You Can Trust.

As true fiduciaries, our focus isn't on selling products to our clients. Instead, we focus on providing personalized service and real financial solutions.

Our team of wealth management professionals has the valuable depth of expertise you need to navigate life's events.

From retirement planning and investment management to trust services and estate settlement, we can help you devise the most effective plan to meet your financial goals.

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