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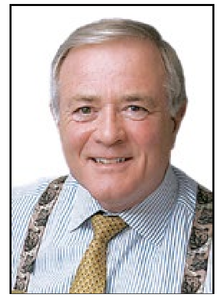
THE DAILY JOURNAL OF COMMERCE, PORTLAND, OREGON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Sorting Signal From Noise: A Turbulent October

Published November 8, 2024

October 2024 delivered a complex blend of economic signals that tested market resilience. The S&P 500's decline of roughly 1.0% for the month masked significant underlying crosscurrents, as investors processed natural disasters, labor disruptions, and pre-election uncertainty amid shifting monetary policy expectations.

The headline grabber was October's surprisingly weak jobs report, showing only 12,000 positions added - a dramatic drop from September's revised 223,000 gain. This apparent weakness was most likely due to temporary disruptions from Hurricanes Helene and Milton, along with the Boeing machinists' strike affecting 33,000 workers directly and thousands more through supply chain impacts. Stripping out these transitory effects suggests underlying job growth remained in the healthy 100,000-150,000 monthly range. The unemployment rate held steady at 4.1%, while wage growth ticked up to 4.0% year-over-year, indicating continued labor market resilience beneath the headline volatility.

The economy's fundamental strength was further evidenced by third-quarter GDP growth of 2.8%, powered by robust consumer spending and government expenditure. While this marked a slight moderation from Q2's 3.0% pace, it reinforced America's remarkable economic outperformance. Since early 2020, U.S. real economic growth has reached 10%, tripling the average of other G7 nations. This divergence reflects not only increased fiscal stimulus spending, outpacing that of other developed countries, but also deep-seated advantages in productivity and innovation - the average American worker now generates approximately $171,000 in annual economic output, far exceeding the $120,000 in the eurozone, $118,000 in Britain, and $96,000 in Japan, as reported in The Economist.

Inflation continued its uneven decline, with September's CPI registering a 2.4% annual increase, down from 2.5% in August but above expectations of 2.3%. Core inflation proved especially stubborn at 3.3%, reflecting persistent price pressures in services and housing. This "janky" inflation data, as Atlanta Fed President Raphael Bostic memorably described it, complicated the Federal Reserve's path forward. Markets have largely priced in a quarter-point cut at the Fed's November meeting, following September's bold half-point reduction, but expectations for the pace of future cuts have moderated.

Consumer sentiment painted a complex picture. Despite cooling inflation and robust wage growth, many Americans remained frustrated by price levels that, while rising more slowly, still significantly exceed pre-pandemic norms. This disconnect between improving economic data and persistent consumer discontent shaped both market sentiment and political discourse ahead of November's presidential election.

The Treasury market underwent a notable shift, as yields retraced roughly half of their May-to-September decline. The 10-year Treasury yield's move reflected both stronger-than-expected economic data and growing recognition that the economy may not require the aggressive rate cuts previously anticipated. Overhanging the bond market is the growing National Debt to GDP ratio of 123%, which continues to increase at a rapid rate due to tax cuts, stimulus spending, interest on the debt and increased government spending on an aging population. For reference, this places the U.S. behind Greece with a Debt to GDP ratio of 162% and Italy of 137%, but ahead of France,110%, Spain,108% and Belgium,105%. And more than 8 times the level of Russia at 14.6%. On the other hand, both China and Japan's Debt to GDP ratios are over 250%. Half of Japan's annual tax revenues are spent on servicing its debt.

Russia's low debt, massive energy reserves and compliant population means Russia can continue to indefinitely fund its war economy and aggression into western Europe, the U.S.'s largest trading partner. Additionally, if increased tensions with China result in their buying less U.S. debt (the largest holders of U.S. debt are Japan, China, the UK, Luxembourg and the Cayman Islands), the U.S. Treasury may have to pay increasingly higher rates to sell its debt to fund budget deficits. This would result in declining values in bond portfolios held by banks, insurance companies, pension funds and individuals and could even precipitate bank failures. Fixed income investors take note. Less capital would be available for investment, which would slow economic growth. Too much public spending tends to squeeze out private investment because of higher interest costs and banks having less ability to lend.

Looking ahead, several key themes bear watching. First, the Federal Reserve must balance recent progress on inflation against still-elevated core readings as it calibrates the pace of future rate cuts. Second, the recent election outcome introduces policy uncertainty, particularly around trade and immigration proposals that could affect inflation and growth dynamics. Third, geopolitical tensions require continued monitoring for their potential impact on prices and economic activity. Expected initiatives from the new administration regarding the U.S. imposing massive tariffs and moving production of sensitive technology from China and Taiwan is going to provide ongoing upward pressure on costs for U.S. companies and consumers.

Despite challenging global issues, America's economic leadership position remains formidable, built on unmatched productivity and innovation capabilities. This advantage manifests across the economy - from the nation's 3.5% GDP investment in research and development to its dominant position in artificial intelligence investment, where it accounts for more than half of global private-sector commitments. The rising economic tide has lifted all states, with average wages in America's lowest-income states now exceeding those in many other advanced economies.

The market's two-year bull run from October 2022's lows has delivered a 64% return, yet by historical standards remains moderate in both duration and magnitude. While headlines may focus on temporary disruptions or political turmoil, America's economic fundamentals continue to strengthen. The combination of moderating inflation, resilient growth, and unmatched innovation capabilities suggests the expansion has further to run. Politics, natural disasters and labor disputes may temporarily cloud the data, but they shouldn't obscure the broader picture of an economy continuing to outperform global peers and maintaining its innovative edge. All positive indicators for holding a well diversified stock portfolio of growing U.S. companies.

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