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# Market Perspectives: When Things are Not What They Appear



## MARKET PERSPECTIVES: WHEN THINGS ARE NOT WHAT THEY APPEAR

*"If they told you wolverines would make good house pets, would you believe them?"*

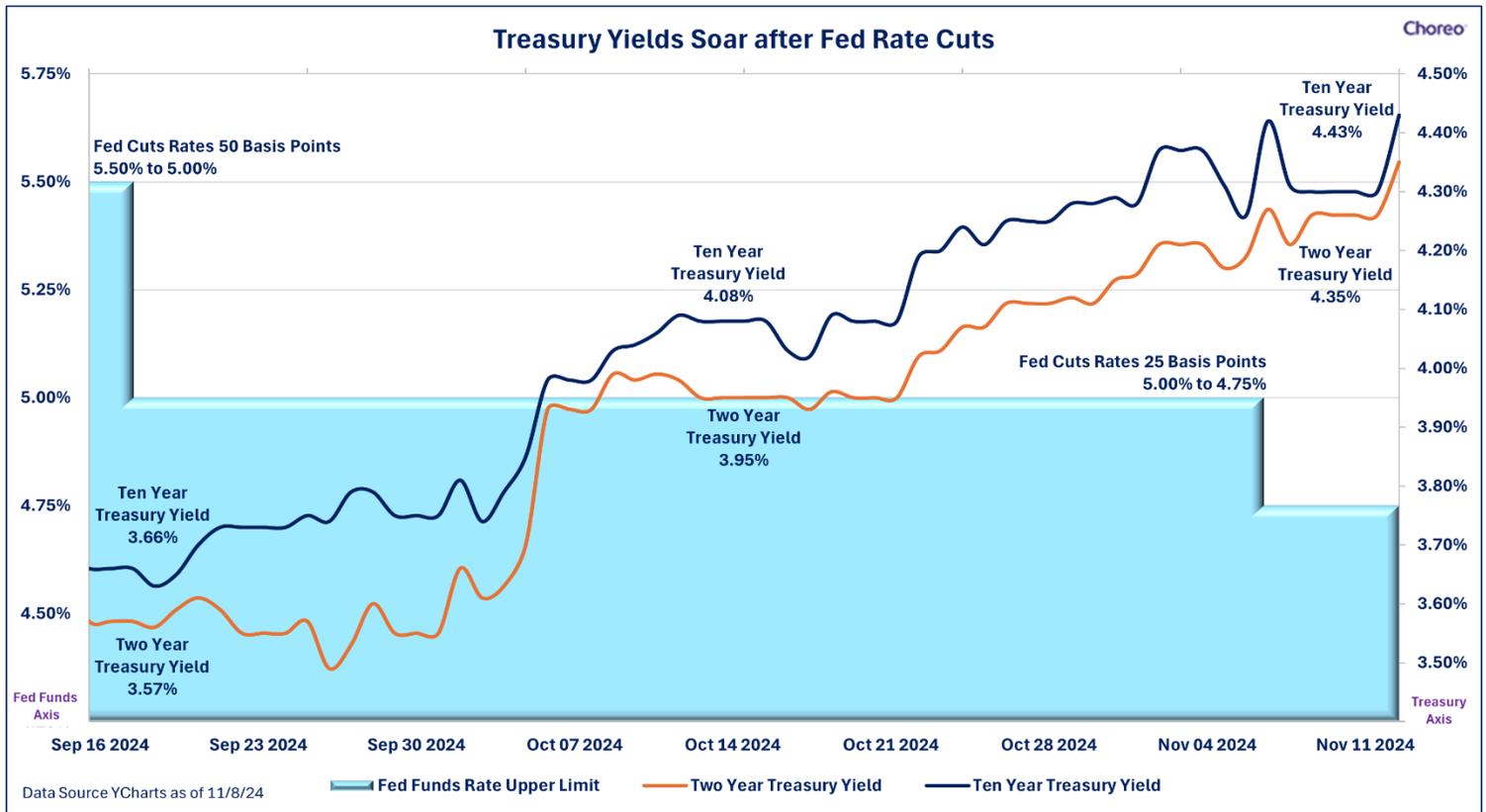
*– Del Griffith, Planes, Trains & Automobiles*

- The Presidential election is over, and a new administration is waiting in the wings.
- The economy remains resilient with a reasonably strong earnings season largely complete, inflation data stabilizing (although the path to normalization remains uncertain), and labor market data remains strong.
- Markets have responded accordingly, with equity market strength as the Federal Reserve (the “Fed”) likely maintaining a slow pace (albeit highly uncertain) of interest rate cuts ahead.

Autumn is always a period of change, but the fall of 2024, for a variety of reasons, appears to have a bit more change than normal. Not only did the U.S. have a major election, but the Fed began cutting interest rates and economic signals have been mixed. A wide variety of economic and market data are being delivered, some of which are not what they seem to be. We delve into some of these areas which are currently confounding economists and market participants alike.

### **Bond Market**

On September 18, the Fed cut rates by 50 basis points for the first time in years, and thus began the interest rate cut cycle. Market expectations for future cuts ramped, and accordingly bond yields sank. During the following meeting on November 7, the Fed cut rates a further 25 bps. How has the bond market reacted? Rates have soared (and correspondingly prices have fallen). The graph below shows the Fed actions year to date versus the bond market’s actual movement as represented by the 10-year U.S. Treasury note. The reasons for this apparent mismatch are complex, but a combination of strong economic data (primarily labor market resilience and inflation normalization slowing) and Presidential election spending concerns have caused bond traders to question the future path of the Fed cuts. Regardless of the exact path, economic data yet to occur will likely determine the forward guidance. This is a classic case of things not always as they appear at first glance. Markets are highly complex with millions of data points feeding into outcomes that are not easy to gauge.

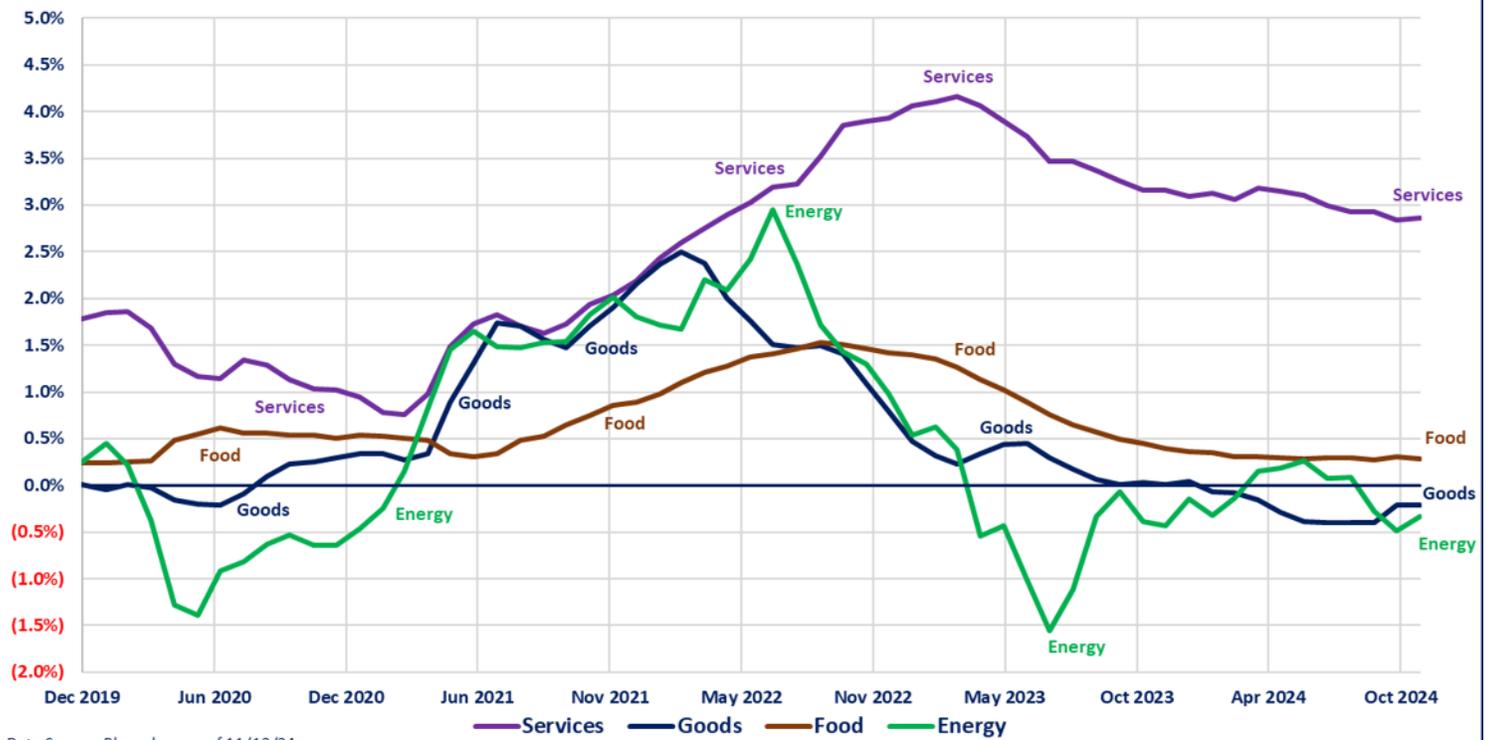


## Inflation Data

The ongoing inflation debate continues to rage. Some parts of the data, such as the housing portion have significant lags and are expected to continue to take inflation closer to Fed targets. Overall, the push and pull towards achieving the Fed's targets is challenging to predict, but also often not what it appears beneath the surface. Americans are still feeling the impact of the highly inflationary conditions which have hit hard in recent years. The normalization has been uneven and inconsistent as the data below shows. The graph below demonstrates most of the components of the inflation picture have cooled.

## Consumer Price Index Components

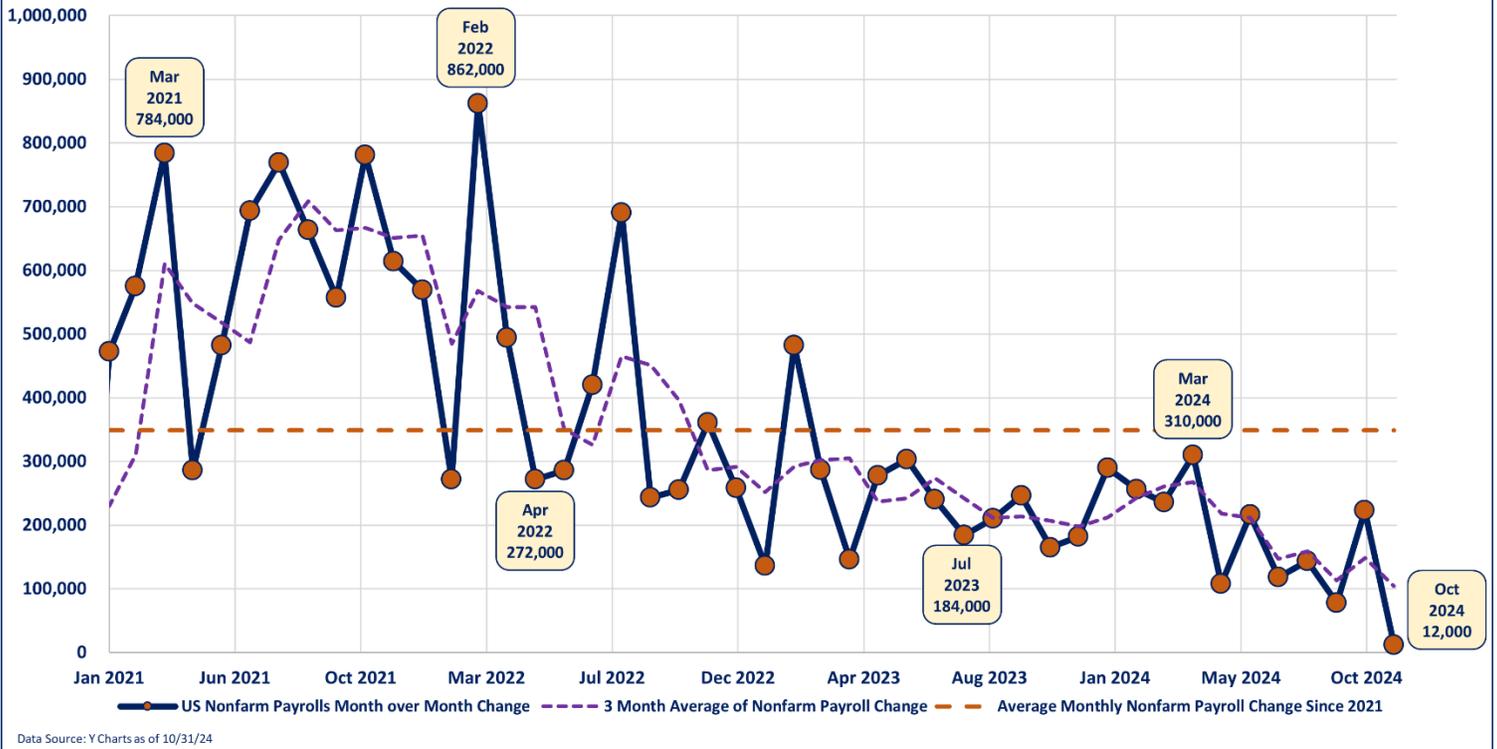
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## Labor Markets

Recent labor market reports including job openings and broad reports all seem to point towards a meaningful slowdown in jobs growth. However, much of this data may be somewhat of a red herring as they were impacted by the port strikes, and weather-related issues. Analysis of the labor market should be based on trends over time, rather than small data samples. The longer-term graph of claims data does show some weakening, but more information is needed to detect a meaningful trend. The first glance analysis of a weakening trend in jobs data can shift quickly and a high degree of uncertainty remains.

## US Nonfarm Payrolls Month over Month Change



### Conclusion

Market trends and performance can change quickly and often not in an obvious way. Things are not always what they seem, and the initial trends may end up as red herrings over a longer period. Investors are usually best served by maintaining the long-term outlook and ignoring the noises which are heard in the dark. As we approach the new year, and a new Presidential cycle, unquestionably there will be changes afoot, and worthy economic data to focus on.

We wish you and your families a Happy Thanksgiving and as always, we welcome your feedback. Please reach out to your Choreo advisor with any questions or comments.

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