

The Markets React

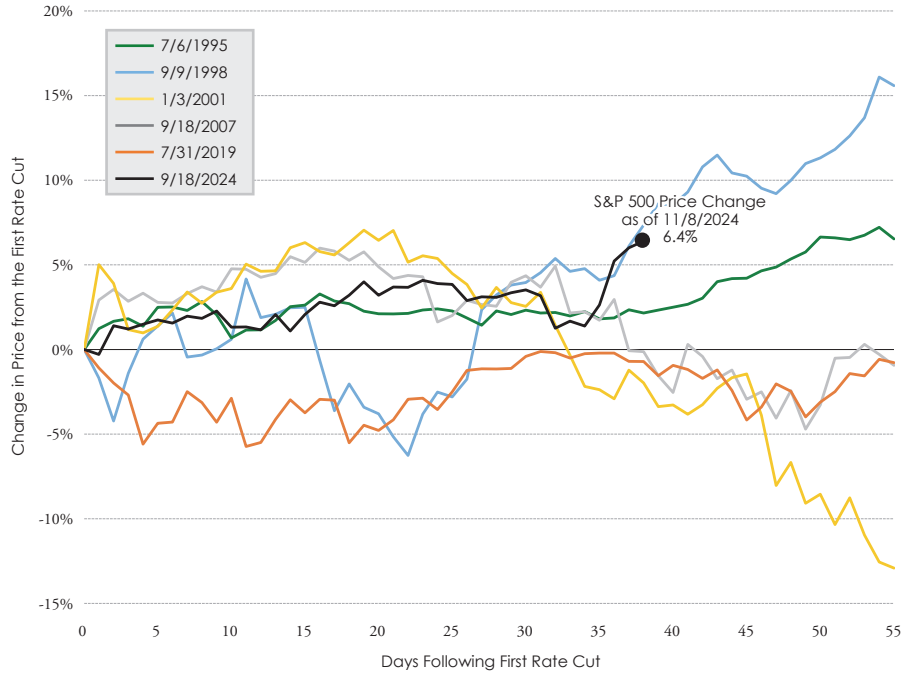
It has been an eventful few months in the financial markets. On September 18, the U.S. Federal Reserve initiated its first reduction in interest rates since 2020, reducing rates further on November 7. Meanwhile, on November 5, Donald Trump won the U.S. presidential election for a second time, leading with a significant margin both in the Electoral College and in the popular vote.

The stock and bond markets have reacted differently to these events. Stock prices have risen since the Fed reduced rates in September and have accelerated their gains since the election. The chart to the right shows the path of stock prices after each of the initial rate reductions by the Fed in previous cycles since 1995. Thus far, current stock prices have moved upward similarly to prices in 1995 and 1998, both years that were followed by healthy economic growth.

In contrast, bond yields have also risen since the Fed began cutting rates in September, and the path of bond yields has been significantly different than in past periods of Fed easing. It is likely that the bond market considers rising Federal deficits a serious, ongoing problem and has bid up long-term interest rates even as short-term rates have declined.

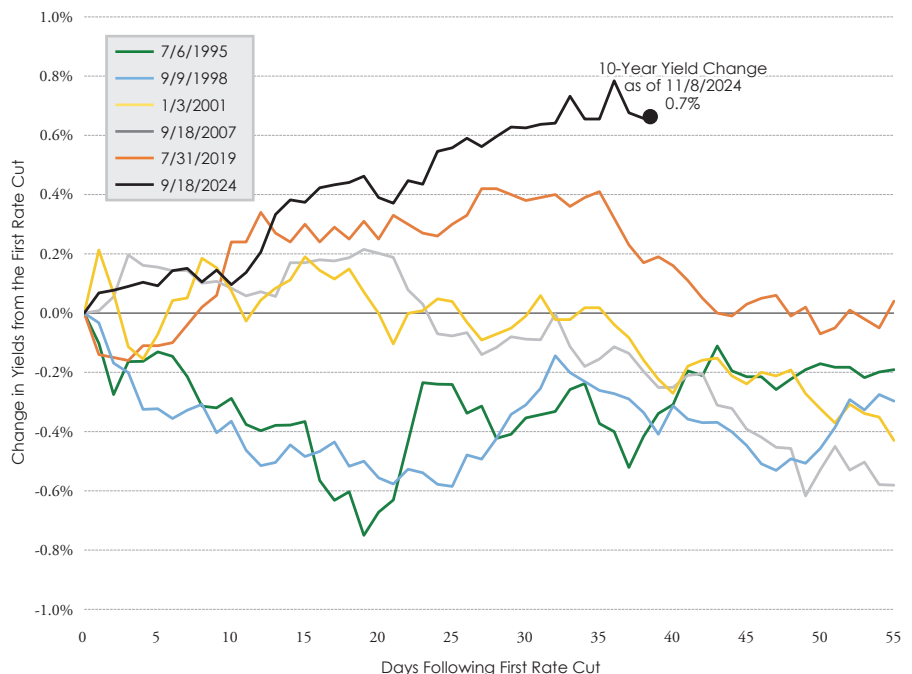
Continued economic growth should provide the potential for further stock market gains going forward. However, the surge in bond yields represents a headwind to higher stock prices and a hurdle for the U.S. economy in terms of their effect on mortgage and other financing rates. In this environment, we believe that investors could benefit from maintaining broadly diversified portfolios with a focus on high-quality, reasonably priced stocks as the markets continue to react to recent dramatic events.

Price Change After First Cut
S&P 500



Data as of 11/8/2024
Source: FactSet

Yield Change After First Cut
10-Year Treasury Note



Data as of 11/8/2024
Source: FactSet

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REFERENCED INDEX

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S&P 500 Index—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

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