Your Weekly Investment
Insights

October 28, 2024

VERDENCE
CAPITAL ADVISORS

Key **Takeaways:**

- U.S. economic growth to lead developed economies.
- Developed European countries are at risk.
- IMF warns of global debt levels.
- Central banks have "major achievement," but risks remain.
- IMF may be too optimistic on U.S. consumer.

International Monetary Fund Lowers Global Growth Forecast

Last week, the International Monetary Fund (IMF) issued a warning to the global economy. "Downside risks are increasing and now dominate [the organization's] outlook," according to the IMF's Chief Economist, Pierre-Olivier Gourinchas. As a result of rising geopolitical risks and weaker long-term growth prospects, the organization lowered their global growth forecast for 2025 to 3.2%, slightly lower than their July forecast. The organization praised the work of global central banks in their fight against inflation, however, they reiterated the need for them to remain vigilant in fully bringing down inflationary pressures. This week, we dive deeper into the IMF's outlook and provide an overview of key areas investors should monitor.

- **U.S. to lead the developed economies:** The IMF upgraded the outlook for U.S. growth. The organization expects U.S. GDP to increase 1.9% in 2025, vs. 1.7% for all advanced economies. Rising real wages are driving the increase in growth as consumer spending remains robust. In addition, the U.S. is seeing faster growth due to increased AI related investments as well.

- **Developed European countries diverge from U.S.:** European nations have seen their global growth estimates revised lower. The IMF blamed geopolitical tensions as one of the key contributors. Additionally, the EU is more exposed to commodity prices. According to a September report from the European Commission, EU companies are still paying two to three times more for electricity, and four to five times more for natural gas, compared to U.S. firms.[1]

- **Global debt cited as a concern:** The IMF cited concerns about surging public debt, which is expected to reach $100 trillion, or 93% of world GDP, by the end of this year, according to the organization. The U.S. and China were cited as key contributors to the increase. The report issued last week stated, "risks to the [global] debt outlook are heavily tilted to the upside" and urged governments to make decisions aimed to stabilize borrowing, despite growing pressure to support aging populations and increase security.

- **Central banks and inflation:** The IMF recognized "the decline in inflation without a global recession is a major achievement." The organization, however, explained central banks should remain cautious moving forward as spikes in food and energy prices from geopolitical conflict and climate shocks have the potential to derail the progress on inflation.

The Bottom Line:

We agree with the IMF that there are many global risks that all economies should be concerned with. The weak outlook for China puts Europe at risk and inflation is something that should not be ignored. We think the IMF may be a little too optimistic about the U.S. consumer given their growing use of credit cards, mixed confidence and emergent cracks in the labor market started to emerge. As a result, we think global growth will be lowered again in their next outlook for global GDP. The biggest risk we see is global debt. The U.S., especially, has a burgeoning budget deficit with no fix in sight. This challenges the long term growth prospects for the U.S.

Megan Horneman | Chief Investment Officer
mhorneman@verdence.com
Past performance is not indicative of future returns.

Key Takeaways:

- Sales of previously owned homes plunge to 14-year low.
- Interest on federal debt exceeds $1 trillion.
- Consumer sentiment climbs to highest level since April.
- Tech-heavy Nasdaq drives U.S. performance.
- Treasury yields climb to highest level in three-months.
- Energy prices carry commodity performance.

Weekly Economic Recap –

U.S. Interest on Federal Debt Officially Exceeds $1 Trillion

The Leading Economic Indicators Index fell more then expected in September (-0.5% vs. -0.3% est.). This is the 31st out of the past 33 months that the Index has declined, the longest stretch on record. Weakness in new orders continued to be a major drag on the headline number.

Sales of previously owned homes fell to a near 14-year low in September. Prospective buyers are waiting for further declines in mortgage rates, despite the 30YR rate being at a two-year low. While the supply of existing homes for sale still remains below pre-pandemic levels, 1.39 million homes were for sale in September, a 23% increase from a year ago.

The U.S. budget deficit grew to $1.833 trillion for fiscal year 2024, marking the third-largest federal deficit in U.S. history. Interest on federal debt exceeded $1 trillion for the first time in history. As a percentage of GDP, interest costs climbed to 3.93%, which is below the 1991 record of 4.69%, but the highest since December 1998.

New applications for unemployment benefits fell for a second week to levels last seen before Hurricanes Helene and Milton. Initial claims fell by 15k to 227k as the impact of the hurricanes seems to be dissipating more than anticipated.

Orders placed with U.S. factories for durable goods declined for the second straight month in September. Capital goods orders, a proxy for business investment, increased for the second straight month.

The final reading on the University of Michigan Consumer Sentiment Index showed confidence among consumers was higher for the third straight month and moved to its highest level since April.

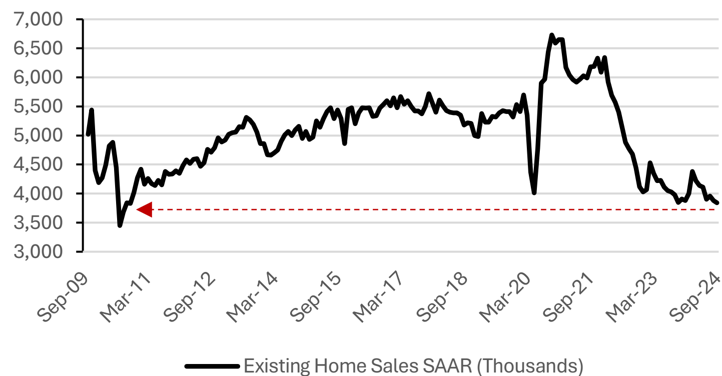
Weekly Market Recap –

Large-Cap Growth Leads U.S. Equities Higher Despite Treasury Yields Climbing

Equities: The MSCI AC World Index was lower for the first time in three weeks. Investors were watching corporate earnings closely last week and repriced Fed rate cut expectations. In the U.S., the tech-heavy Nasdaq posted its seventh consecutive week of gains as investors prepare for mega-cap tech earnings. The S&P 500 and Dow Jones Industrial Average were both lower, snapping six-week winning streaks.

Fixed Income: The Bloomberg Barclays Aggregate Index was lower for the fifth time in the past six weeks. The 10YR U.S. Treasury yield climbed to its highest level in three-months as investors digested a flood of Fed commentary that suggested they may not cut rates as aggressively as expected. Floating rate bonds and leveraged loans were the only area of fixed income higher for the week.

Commodities/FX: The Bloomberg Commodity Index was higher for the first time in three weeks. Natural gas prices led commodies higher on increased demand expectations. Crude oil was higher for the third time in four weeks as tensions in the Middle East remain elevated.



Footnotes: Data is as of September 2024.
Data Source: FactSet Research Systems, Verdence Capital Advisors.

Global Equities Weaker but U.S. Tech Rallies

		Current	1WK	1MO	3MO	1YR	YTD
U.S. Equities	Dow Jones Industrial Average	42,114	-2.7%	0.6%	5.9%	30.0%	13.4%
	S&P 500	5,808	-1.0%	1.6%	7.9%	40.7%	23.1%
	Russell 1000 Growth	3,856	0.0%	2.2%	9.6%	47.3%	27.1%
	Russell 1000 Value	1,863	-2.2%	1.1%	6.1%	32.5%	16.3%
	Russell Midcap	3,529	-2.0%	1.4%	6.8%	36.8%	14.8%
	Russell 2000	2,208	-3.0%	0.6%	-0.3%	35.6%	10.1%
	Nasdaq	18,519	0.2%	2.4%	8.0%	45.6%	24.1%

		Current	1WK	1MO	3MO	1YR	YTD
International Equities	MSCI AC World (USD)	845	-1.3%	0.3%	6.5%	34.7%	17.8%
	MSCI EAFE (USD)	2,361	-2.0%	-3.2%	2.1%	23.4%	8.1%
	MSCI Europe ex UK (USD)	2,654	-1.3%	-3.0%	2.0%	25.0%	7.7%
	MSCI Japan (USD)	3,821	-4.0%	-5.1%	-1.6%	17.5%	5.1%
	MSCI UK (USD)	1,276	-1.6%	-2.8%	2.6%	23.3%	12.2%
	MSCI EM (USD)	1,135	-1.8%	-0.1%	6.2%	26.4%	13.3%
	MSCI Asia ex Japan (USD)	739	-1.9%	0.9%	8.2%	28.9%	17.4%

		Current Yield	1WK	1MO	3MO	1YR	YTD
Fixed Income	U.S. Aggregate	4.7%	-0.9%	-2.3%	1.6%	11.1%	2.0%
	U.S. Govt/Credit	4.5%	-0.9%	-2.2%	1.7%	10.6%	2.0%
	U.S. 10 Year Treasury	4.2%	-1.2%	-3.3%	1.0%	9.9%	0.2%
	U.S. TIPS (1-10YR)	4.2%	-0.7%	-1.3%	1.5%	8.0%	3.6%
	U.S. High Yield	7.3%	-0.4%	-0.3%	3.1%	16.8%	7.5%
	EM Bonds (USD)	6.5%	-0.6%	-1.1%	3.4%	17.4%	6.8%
	Municipal Bonds	3.6%	-1.1%	-1.3%	0.4%	9.8%	0.8%

		Current	1WK	1MO	3MO	1YR	YTD
Commodities	Bloomberg Commodity Index	240	2.1%	0.4%	4.9%	0.6%	6.1%
	Crude Oil (USD/bbl)	$71.8	3.7%	2.1%	-6.5%	-13.6%	0.1%
	Gold ($/oz)	$2,747.6	1.0%	3.4%	16.2%	38.8%	33.2%
	Copper	$437.1	-0.3%	-1.3%	6.3%	21.7%	12.3%
	Wheat	$569.0	-0.7%	-3.4%	1.2%	-13.8%	-14.9%
	U.S. Dollar	104	0.7%	3.3%	-0.1%	-2.1%	2.9%
	VIX Index	20.3	12.8%	31.9%	10.1%	0.7%	63.3%

Footnotes: Data is as of October 24, 2024.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

[1]: https://commission.europa.eu/document/download/ec1409c1-d4b4-4882-8bdd-3519f86bbb92_en?filename=The%20future%20of%20European%20competitiveness_%20In-depth%20analysis%20and%20recommendations_0.pdf

Megan Horneman | Chief Investment Officer
mhorneman@verdence.com
Past performance is not indicative of future returns.

Disclaimer:
© 2024 Authored by Megan Horneman, Chief Investment Officer, Verdence Capital Advisors, LLC. Reproduction without permission is not permitted. The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index.

This material was prepared by Verdence Capital Advisors, LLC ("VCA" or "we", "our", "us"). VCA believes the information and data in this document were obtained from sources considered reliable and correct and cannot guarantee either their accuracy or completeness. VCA has not independently verified third-party sourced information and data. Any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur. These projections, market outlooks or estimates are subject to change without notice. This material is being provided for informational purposes only and is not intended to provide, and should not be relied upon for, investment, accounting, legal, or tax advice. Past performance is not a guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product or any non-investment related content, made reference to directly or indirectly in these materials will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. You should not assume that any discussion or information contained in this report serves as the receipt of, or as a substitute for, personalized investment advice from VCA. Alternative investments are designed only for sophisticated investors who are able to bear the risk of the loss of their entire investment. Investing in alternative investments should be viewed as illiquid and generally not readily marketable or transferable. Investors should be prepared to bear the financial risks of investing in an alternative investment for an indefinite period of time. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. All indexes are unmanaged, and you cannot invest directly in an index. Index returns do not include fees or expenses. Sector Watch Use of this website is intended for U.S. residents only. Any recommendation, opinion or advice regarding securities or markets contained in such material does not reflect the views of Verdence Capital, and Verdence Capital does not verify any information included in such material. Verdence Capital assumes no responsibility for any fact, recommendation, opinion, or advice contained in any such research material and expressly disclaims any responsibility for any decisions or for the suitability of any security or transaction based on it. Any decisions you may make to buy, sell, or hold a security based on this research will be entirely your own and not in any way deemed to be endorsed or influenced by or attributed to Verdence Capital. It is understood that, without exception, any order based on such research that is placed for execution is and will be treated as an UNRECOMMENDED AND UNSOLICITED ORDER. Further, Verdence Capital assumes no responsibility for the accuracy, completeness, or timeliness of any such research or for updating such research, which is subject to change without notice at any time. Verdence Capital does not provide tax, or legal advice. Under no circumstance is the information contained within this research to be used or considered as an offer to sell or a solicitation of an offer to buy any particular investment/security. Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Lower rated securities are subject to greater credit risk, default risk, and liquidity risk. Commodity-related products, including futures, carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by underlying commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions, regardless of the length of time shares are held. Data is provided for information purposes only and is not intended for trading purposes. Verdence Capital shall not be liable for any errors or delay in the content, or for any action taken in reliance on any content. Weekly Insights/Qtrly & Annual Outlook The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index. Semi-Annual Chart Pack Where shown, performance information presented is that which has been calculated and presented by an unaffiliated third-party manager. We have no insight into the performance of the advisor/product/account or fund shown and do not attempt to determine whether the performance presented is accurate. Therefore, the performance could be incorrect, overstated or not reflective of actual trading of client funds. There is the potential that the performance shown is a back test and not the result of real investment advice and trading. As such, it could not be relied upon as indicative of future returns of a particular strategy. Where performance shown is that of a pooled account, limited partnership, or private equity fund, you should be aware that there is a significant lack of transparency into the operations and investment process and investment vehicles invested in. As a result, pricing and valuation of the underlying holdings which produced the stated performance could be incorrect, stale, or overstated and therefore the performance figures presented cannot be relied upon. Before investing, we encourage you to request additional information, particularly performance information, of any product that you are considering for your client. You should read, as applicable, the Prospectus, SAI, Composite Disclosure and/or performance disclosure associated with any product that you are considering for investment for your or your client's. Products shown may have minimum account sizes or minimum investments which may preclude retail and non-high net worth investors from being able to invest in these products. You should be aware that certain LPs may be closed to new investors and therefore your clients may be prevented from investing in these products. Portfolio Implementation and Rationales The SMA Asset Allocation Models do not represent a personalized recommendation of a particular investment strategy to you or your clients. You should not buy or sell an investment without first considering whether it is appropriate for your client's portfolio. Additionally, you should review and consider any recent market news. All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed. Supporting documentation for any claims or statistical information is available upon request. Examples provided are for illustrative purposes only and not intended to be reflective of results you can expect to achieve. Diversification and asset allocation do not ensure a profit and do not protect against losses in declining markets. Any forecasts contained herein are for illustrative purposes only, may be based upon proprietary research and are developed through analysis of historical public data. Investments in growth stocks may experience price volatility due to their sensitivity to market fluctuations and dependence on future earnings expectations. Sector allocation references to market capitalization ("smid cap" or "micro caps" etc.) may be subject to special risks given their characteristic narrow markets, limited financial resources, and less liquid stocks, all of which may cause price volatility. International/global investing can involve special risks, such as political changes and currency fluctuations. These risks are heightened in emerging markets. A significant percentage of the underlying investments in aggressive asset allocation portfolio investments have a higher-than-average risk exposure. You should consider your risk tolerance of each of your clients carefully before choosing such a strategy. An investment with multiple underlying investments (which may include asset-allocation or custom blended investments) may be subject to the expenses of those underlying investments in addition to those of the investment itself. Investments may reside in the specialty category due to 1) allowable investment flexibility that precludes classification in standard asset categories and/or 2) investment concentration in a limited group of securities or industry sectors. Investments in this category may be more volatile than less flexible and/or less concentrated investments and may be appropriate as only a minor component in an investor's overall portfolio. Investment Managers You and your clients should carefully consider investment objectives, risks, charges, and expenses of Funds discussed. This and other important information are contained in the respective Fund prospectuses and summary prospectuses, which should be read carefully before investing. Investment portfolio statistics change over time. Current performance may be lower or higher than return data quoted herein. The investment return and the principal value of an investment will fluctuate; so, an investor's shares/units, when redeemed, may be worth more or less than their original cost. Verdence relies heavily on unaudited third-party data. Data sources include public data, such as mutual fund data, and non-public data, such as information provided by other investment advisors and managers of limited partnership pooled accounts. Data and/or statistics included on this Portal, including references to performance, opinions, ratings, rankings, manager statistics and demographic information, product, or strategy descriptions, either quantitative or qualitative, are based upon information reasonably available to us as of the applicable date(s) then-published. Information has been obtained from sources that we believe to be reliable, but these sources cannot be guaranteed as to their accuracy or completeness. All data and information produced by a third party has the potential to be incorrect, incomplete, or otherwise misleading. No implication shall be created that the information contained on the Site is correct, including as of any time subsequent to the publish date, and Verdence does not undertake an obligation to update such information at any time after such date. Verdence makes not warranty or representation of the veracity of the data and information and its use of the information should not be implied as an endorsement of any material or statements made. Data, particularly non-public data, is subject to error and where the information is not audited, the potential for error is greater. Where shown, performance information presented is that which has been calculated and presented by an unaffiliated third-party manager. We have no insight into the performance of the advisor/product/account or fund shown and do not attempt to determine whether the performance presented is accurate. Therefore, the performance could be incorrect, overstated or not reflective of actual trading of client funds. There is the potential that the performance shown is a back test and not the result of real investment advice and trading. As such, it could not be relied upon as indicative of future returns of a particular strategy. Where performance shown is that of a pooled account, limited partnership, or private equity fund, you should be aware that there is a significant lack of transparency into the operations and investment process and investment vehicles invested in. As a result, pricing and valuation of the underlying holdings which produced the stated performance could be incorrect, stale, or overstated and therefore the performance figures presented cannot be relied upon. Before investing, we encourage you to request additional information, particularly performance information, of any product that you are considering for your client. You should read, as applicable, the Prospectus, SAI, Composite Disclosure and/or performance disclosure associated with any product that you are considering for investment for your or your client's. Certain products shown may have account minimums or minimum investment sizes that are unattainable for your clients and therefore they may not be eligible to invest in these products. Reference to registration with the Securities and Exchange Commission ("SEC") does not imply that the SEC has endorsed or approved the qualifications of Verdence or its respective representatives to provide any advisory services described on the Site.

Megan Horneman | Chief Investment Officer
mhorneman@verdence.com