



November 2024

AHB Economic and Market Commentary

Economic Commentary

Inflation

Inflation continues to moderate through 2024. The Core Consumer Price Index (CPI) rose 3.3% in September. While this is not yet at the Federal Reserve's target of 2%, it represents a significant decline from the 6.6% level in 2022. Therefore, the Federal Reserve's policy has shifted to a more balanced focus on promoting economic growth and maintaining stability in the labor market.

Federal Funds Rate

On September 17, the Federal Open Market Committee (FOMC) announced a 50-basis point reduction in the Fed Funds rate and signaled further rate cuts ahead. FOMC comments revealed that somewhat weaker labor statistics prompted the committee to lower the Fed funds rate. Labor markets have firmed since the cut and 3Q24 GDP came in at a healthy 2.8%, with expectations for 4Q24 of 2.5%.

Corporate Earnings

The corporate earnings outlook is improving. After 6% growth in 2023, S&P earnings are projected to increase 9% in 2024 and 14% in 2025. Until 2H24, a narrow group of technology and communication services companies provided the bulk of the earnings growth. The release of the third quarter demonstrated a broadening of strength in growth to include Financials and Pharmaceuticals.



Bond Yields

In the third quarter, US Treasury yields have increased. The US 10-year Treasury bond yields 4.41%, up from 3.62% the day before the FOMC started cutting rates. BBB bond spreads remain tight relative to historical levels, indicative of a healthy environment. Drivers of the recent increase in yields are likely better than expected economic growth along with anticipated stimulative fiscal policy which increased risk premiums as the US fiscal debt approaches \$35 trillion and T-Note quality becomes an issue.

Market Commentary & AHB Positioning

As we reach the midpoint of the fourth quarter, equity markets are retaining their performance, with S&P 500 24% YTD. Bond market volatility has returned, with the 10-year yield bottoming in September at 3.62% and increasing to 4.41%.

AHB Core Equity portfolios remain diversified and structured to benefit from future growth areas such as information technology, financials, and innovation within health care. The economic data provides a supportive backdrop for equities, with moderate economic growth and inflation.

AHB Fixed Income portfolios are tactically positioned in a ladder of short to mid-term maturities. We have increased the duration of portfolios to secure higher rates of return, which are now available.

Sincerely,

AHB Investment Policy Committee