Comerica Investment Monthly | September 2024

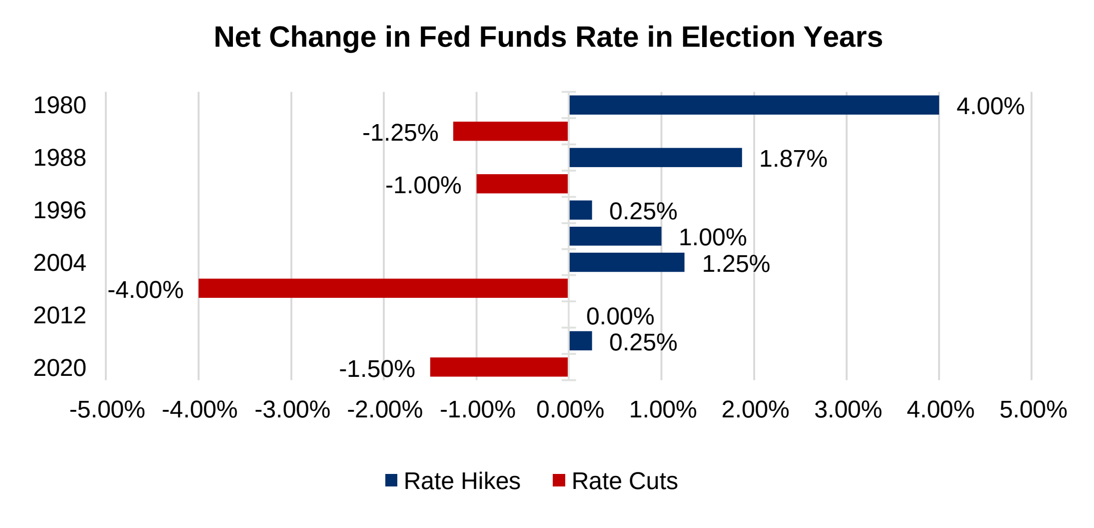
John Lynch, Chief Investment Officer
Comerica Wealth Management

Matthew Anderson, Senior Analyst
Comerica Wealth Management

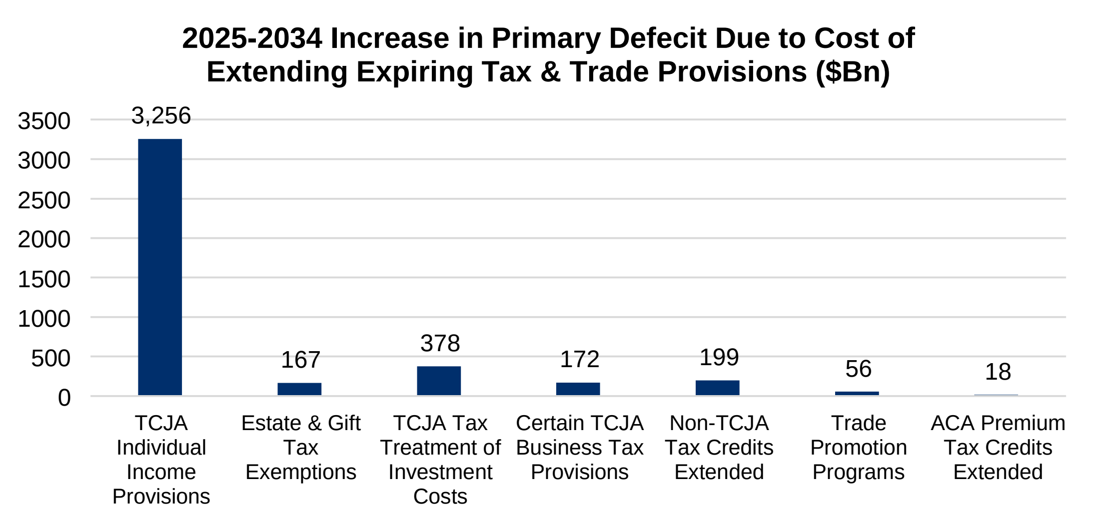
Federal Reserve & Election Years

Political considerations will not dissuade the Fed.

- The FOMC is expected to cut the Fed Funds rate later this month, officially marking the end of the 14-month “Fed pause” that has held interest rates at the highest levels in more than 20 years.
- While some may suggest that cutting interest rates this close to an election is politically motivated, it’s worth noting that election years have not dissuaded the Fed in the past. In fact, the Fed has altered interest rates in 10 of the last 11 presidential election years. In 2012, the Fed maintained the rate but initiated QE3, as rates were already zero-bound.
- Congress will need to reach an agreement to extend government funding by the end of this month to avoid a partial government shutdown. The most recent proposal calls for a six-month extension, which would move the next deadline to late March and put the spending bills in the hands of the next president and Congress.
- Next year is already shaping up to be a pivotal year for fiscal policy. In addition to a potential March deadline for the 12 annual appropriations bills, Congress will need to reach an agreement on the debt ceiling—which is projected to reach its “X-date” in August—and the expiring provisions of the 2017 Tax Cuts and Jobs Act which are expected to amount to roughly $4 trillion over the next decade.



Source: Bloomberg L.P.

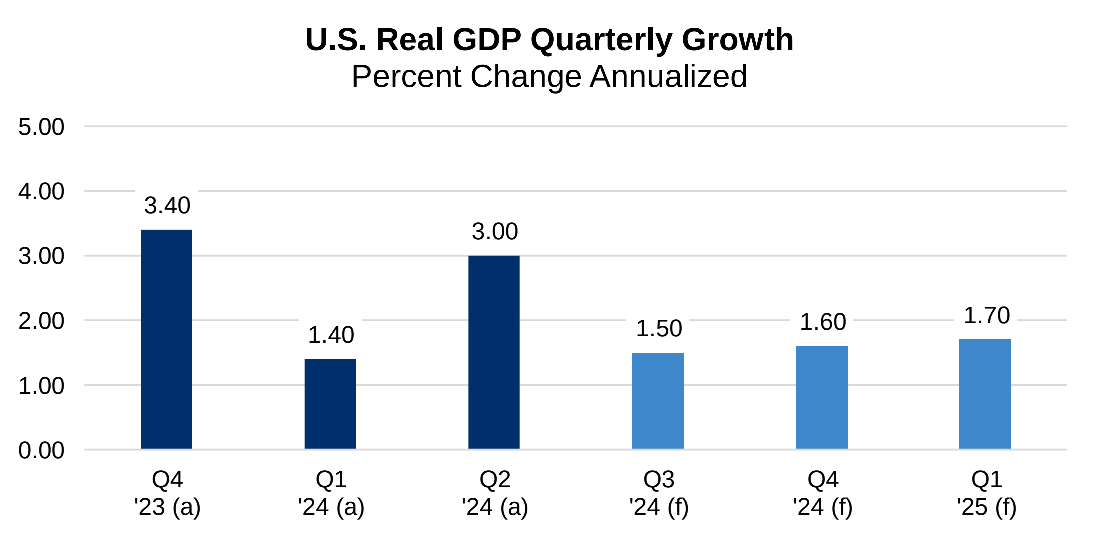


Source: Strategas

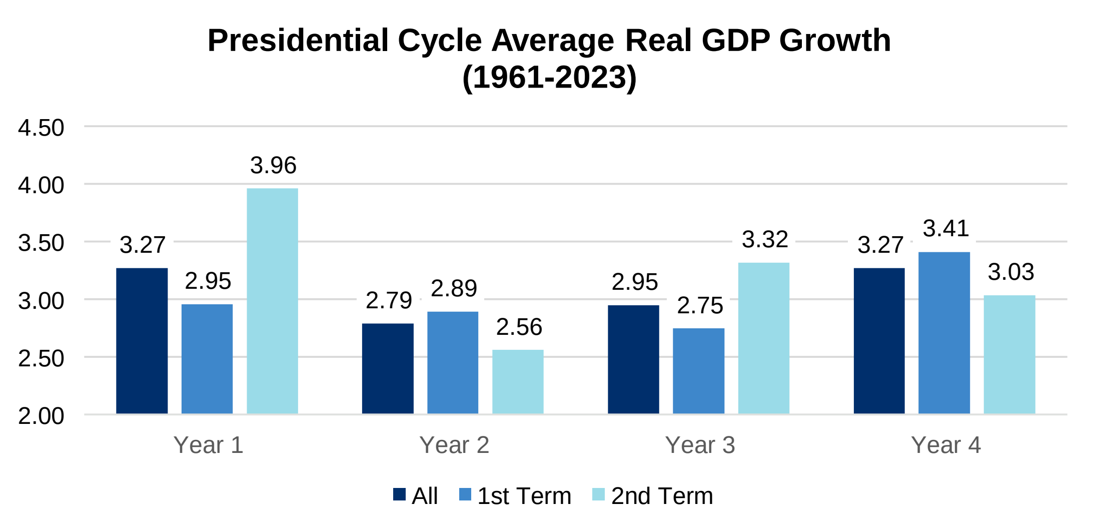
Presidential Cycles & Real GDP Growth

The checkbook is a powerful tool.

- Second quarter real GDP was revised up to a 3.0% annualized expansion from the original estimate of 2.8%. Real consumer spending led the gains, revised up to 2.9% annualized from 2.3% previously and inflation revisions were modest, as the GDP price index climbed 2.5% year-over-year (YOY).
- Growth prospects look favorable for the second half as federal spending increases leading up to the election.
- Indeed, incumbents commonly use fiscal stimulus to boost economic conditions to aid their re-election efforts. It is a bipartisan phenomenon that has generally bolstered economic growth during election years.
- The effects of these actions are reflected in patterns of Real GDP growth. From 1961 through 2023, U.S. real GDP growth has averaged approximately 3.0% per year. However, in an election year with a first-term president, this average increased by 40 basis points.
- The only period that has produced higher economic growth has been in the first year of a re-elected president, when the full impact of the prior year's fiscal spending has led to real GDP growth that is nearly a full 1% higher than the long-term average.



Source: Bloomberg L.P., Comerica Bank Economics



Source: Bloomberg L.P.

Market Performance as of 8/31/2024

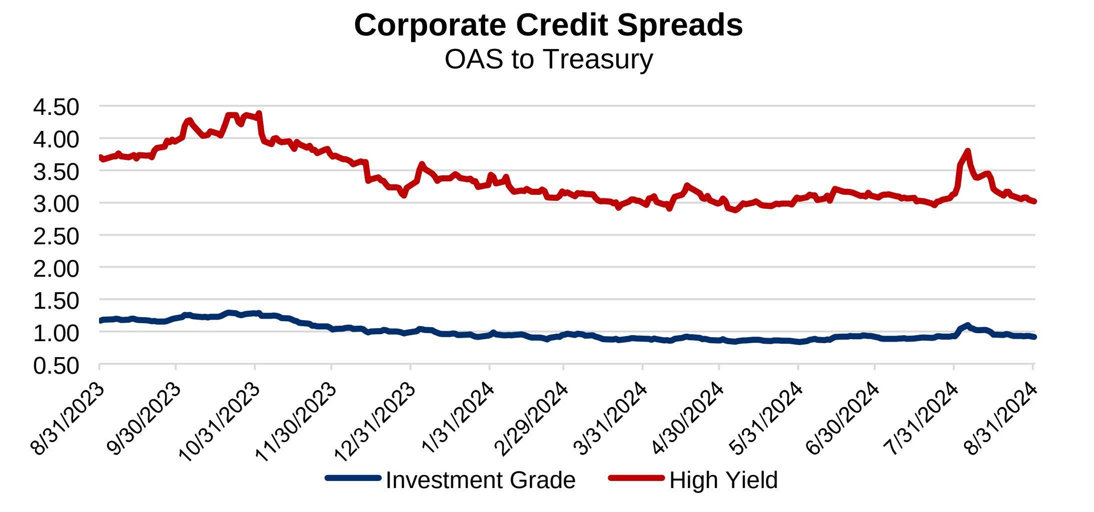
High-yields spreads make a round-trip.

- August proved to be a good month for fixed income investors. Soft economic data at the beginning of the month created recession fears that sent yields tumbling and a triggered flight to quality.
- Though the growth scare proved to be short lived, the scale of the move was quite remarkable. The yield on the 10-year U.S. Treasury note fell roughly 50 basis points over the course of a few trading sessions and the yield curve brief reverted to upward-sloping after investors began aggressively pricing in Fed rate cuts.
- Markets eventually calmed following some reassuring economic reports in the middle of the month but yields still ended the month lower across the major fixed income indexes we track. The yield on the benchmark Bloomberg U.S. Aggregate Index closed the month 21 basis points lower.
- Interest rate sensitive (longer duration) sectors of the bond market were the best performers for the month. Long-Term Treasuries led with a 2.04% total return for the month.
- After spiking at the beginning of the month, high-yield spreads made a remarkable round-trip to finish the month lower than where they started.

Fixed Income

	Price	Aug %	QTD %	YTD %	1YR %
Aggregate Index	4.42	1.44	3.81	3.07	7.30
Treasuries (1-10 yrs)	3.88	1.09	2.95	3.17	6.26
Treasuries (10+ yrs)	4.29	2.04	5.68	0.39	4.89
Corp - Inv Grade	4.94	1.57	3.99	3.49	9.29
Corp - High Yield	7.30	1.63	3.61	6.28	12.55
MBS Pass-through	4.67	1.61	4.29	3.27	7.46
TIPS	4.04	0.78	2.58	3.30	6.17
Muni - Inv Grade	3.45	0.79	1.71	1.30	6.09
Muni - High Yield	5.29	1.18	2.29	6.52	12.38
USD Emg Mkts Debt	6.62	2.10	3.98	6.29	12.29

Source: Bloomberg L.P.



Source: Bloomberg L.P.

Market Performance as of 8/31/2024

Equities march higher after volatility abates.

- August was a volatile month for equity investors. The CBOE Volatility Index (VIX), often referred to as the "fear gauge," spiked to ~65 intra-day on August 5th before settling to ~38 at the close. The only times that VIX has ever reached levels above 65 were during the height of the Great Financial Crisis and the onset of COVID-19, both of which peaked above 85. Fears proved to be overblown as the VIX retreated below 15 over the following two weeks.
- Disappointing economic data at the beginning of the month combined with the unwinding of the Japanese yen carry trade sparked a sell-off in equity markets. The S&P 500® Index briefly flirted with correction territory, defined as a drop of 10% from a recent market high, before rallying to close the month up 2.4%.
- The prospect of lower interest rates helped equity markets rebound in the second half of the month. Interest rate sensitive sectors such as Real Estate (+5.79%), Utilities (+4.86%) and Financials (+4.51%) were among the top performers.
- Consumer Staples outperformed Consumer Discretionary by ~6.9% during the month, providing some evidence that markets believe the U.S. economy is entering the late phase of the business cycle.

Equities

	Price	Aug %	QTD %	YTD %	1YR %
Dow Industrials	41,563.08	2.03	6.64	11.75	22.06
S&P 500®	5,648.40	2.43	3.67	19.52	27.12
Nasdaq Composite®	17,713.63	0.74	0.00	18.58	27.20
Russell 2000®	2,217.63	-1.50	8.51	10.38	18.44
Russell 3000® Growth	2,885.99	1.93	0.64	20.65	30.09
Russell 3000® Value	2,419.84	2.44	8.04	14.71	20.99
MSCI EAFE®	2,453.44	3.27	6.33	12.47	20.10
MSCI EM	1,099.92	1.64	2.01	9.80	15.46

Source: Bloomberg L.P.

S&P 500® Sectors

	Price	Aug %	QTD %	YTD %	1YR %
Communication Svcs.	300.95	1.24	-2.82	23.11	32.13
Cons Discretionary	1,500.16	-0.97	0.67	6.37	12.43
Cons Staples	882.60	5.94	7.98	17.68	18.58
Energy	695.86	-1.70	0.38	11.35	6.29
Financial	759.21	4.51	11.26	22.57	35.32
Health Care	1,829.71	5.10	7.89	16.31	20.11
Industrials	1,110.78	2.86	7.90	16.26	23.54
Info Tech	4,298.51	1.25	-0.86	27.14	38.73
Materials	593.39	2.39	6.89	11.21	16.15
Real Estate	272.90	5.79	13.42	10.65	21.95
Utilities	385.51	4.86	11.98	22.55	25.55

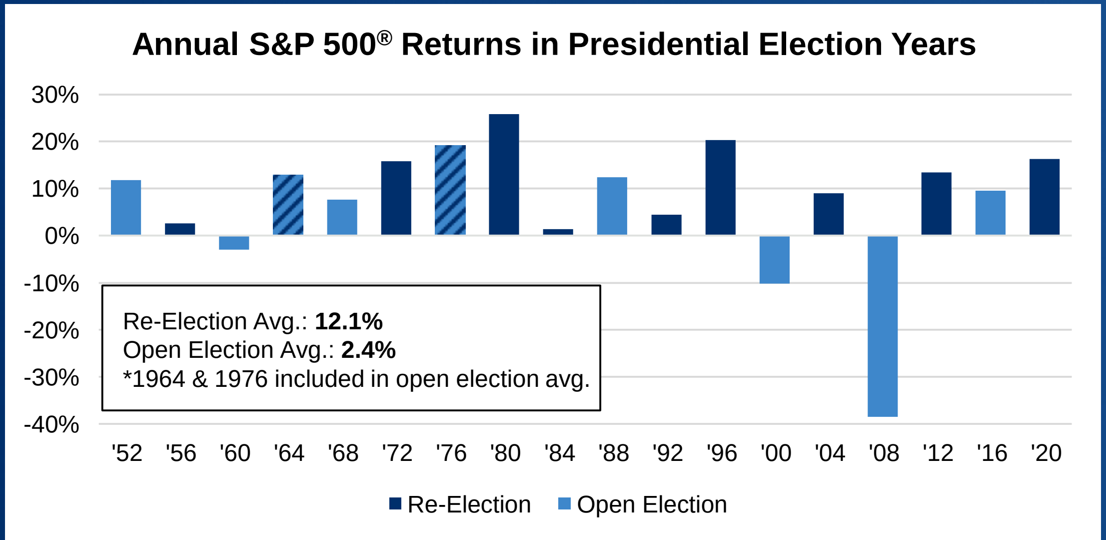
As of 8/30/2024 Source: Bloomberg L.P.

Equities

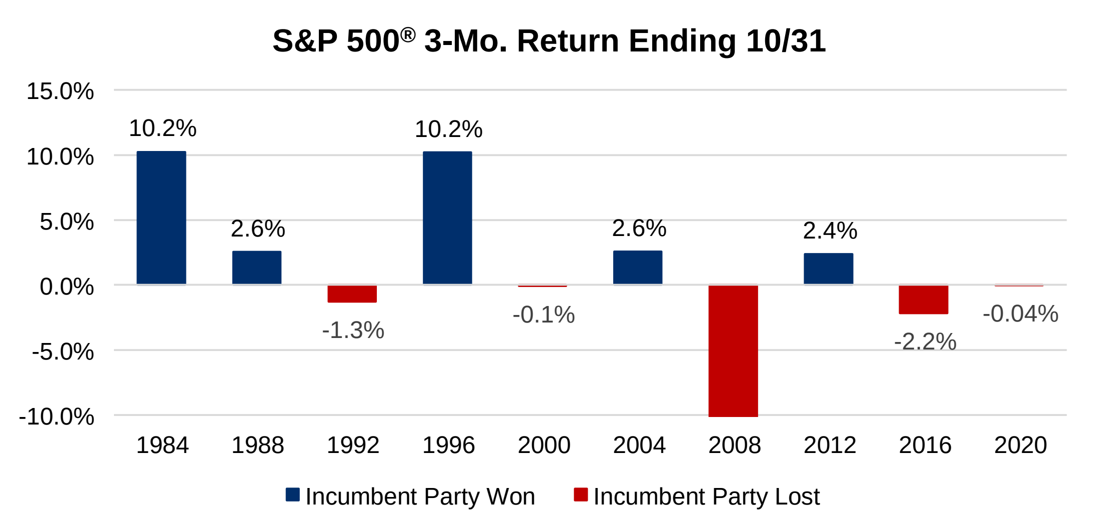
Open vs. Re-Election Years

Instead of volatile political headlines, focus on market signals.

- Our thesis coming into the year was that equity markets do very well during presidential re-election years. In fact, the S&P 500® has not declined during a presidential re-election year since 1948. Incumbent presidents commonly use fiscal stimulus to boost economic conditions to aid their re-election efforts.
- However, with President Biden dropping out of the race in July, this year has shifted from a re-election year to an open election year. Historically, open elections have produced below-average returns, but the economic tailwinds typically seen during re-election years are still present.
- Much of the fiscal spending has either already occurred or is in the process of being deployed and the usual market weakness seen during primary season of open election years will not be a factor this year.
- So far this year, the S&P 500® Index has risen 18.4%, marking the best eight-month start to an election year since 1936. However, to get a sense of where the election is going, keep an eye on the market's performance in the three-months leading up to election day.
- The S&P 500®'s performance from August to October has correctly predicted each presidential election since 1984. In years when the S&P 500® Index is positive in the three months ending October 31st, the incumbent party has won. Conversely, when the index was negative the incumbent party has lost.



Source: Strategas Research Partners

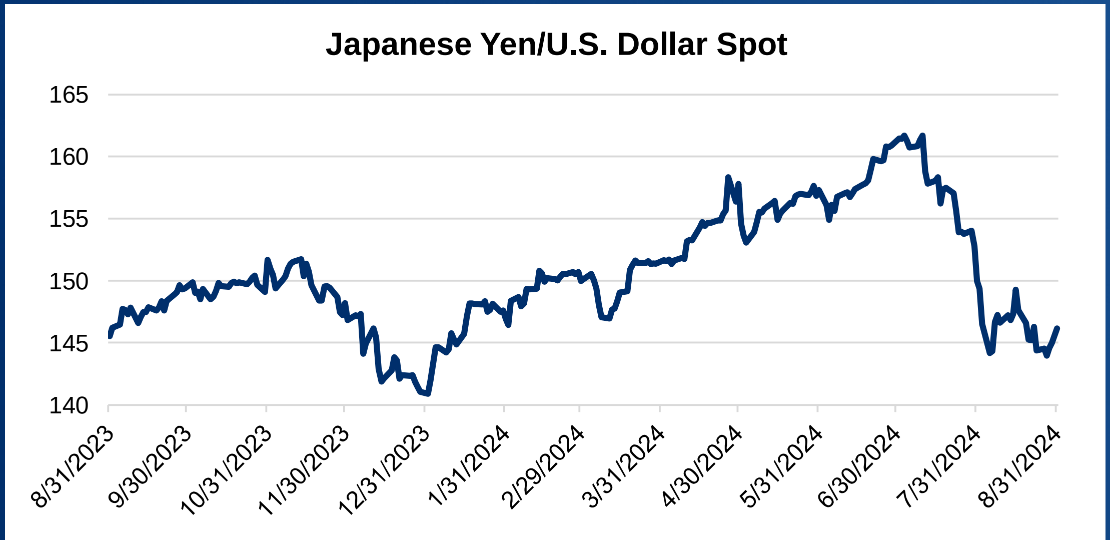


Source: Bloomberg L.P.

Bank of Japan (BOJ)-Related Volatility Dissipates

Though the Japanese yen continues to strengthen.

- After hitting new highs in late July, the Nikkei 225 Index plunged ~25.0% before making up approximately half those losses in recent weeks. The Japanese yen, on which the export-driven economy depends on the currency's weakness, has strengthened considerably in recent weeks, due to expectations of a continued hawkish stance by the BOJ.
- Eurozone inflation was higher than expected this summer, as consumer prices grew 2.6% year-over-year. Though this reading was expected to give some pause to monetary policymakers, the ECB decided to cut interest rates by an additional 25 basis points at their September meeting, to 3.50%. The second cut in three months was intended to support waning economic growth. To be sure, market interest rates throughout Europe have plunged in recent months, essentially forcing the ECB's hand.
- While the People's Bank of China (PBOC) cut interest rates on several occasions these past few months, the economy continues to remain under pressure due to the continuing property crisis, weak consumer spending and elevated trade tensions. After climbing just 0.7% q/q in the second quarter, recent data suggest further weakness in housing and consumption. Consequently, the Shanghai Composite Index has declined ~15% from its 2024 highs in late-May.



Source: Bloomberg L.P.

Source: Bloomberg L.P.

Comerica WEALTH MANAGEMENT

Market Performance as of 8/31/24

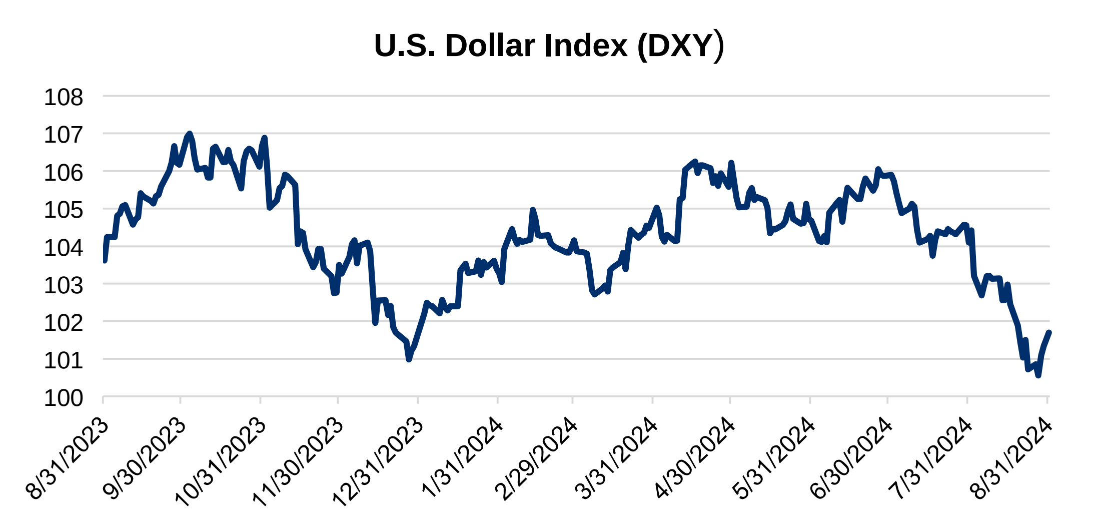
U.S. dollar continues to weaken.

- After enjoying relatively solid gains during the first half of the year, on worse than expected inflation readings, the U.S. dollar index (DXY) has significantly weakened this summer. Technical support levels have broken down, given improved inflation data, market expectations for Fed rate cuts, falling market interest rates and the growing discontent of global investors regarding the widening federal budget deficit.
- Despite the weaker U.S. currency, oil prices weakened considerably this summer, as WTI fell approximately $20.00 from the 4th of July to the Labor Day weekend. China's rapid slowdown was cited by the International Energy Agency (IEA) as the primary reason for the second consecutive monthly reduction in its global demand forecast. Additionally, OPEC cut its estimate for global demand growth by 2 million barrels per day, to 104.2 million, in 2024.
- Copper has also struggled given the poor demand dynamics in China, and the commodity hovers near important technical support levels.
- While the market technicals for many commodities wither, gold continues to set new all-time highs due to the combination of a weaker U.S. dollar, expectations for monetary easing, along with elevated geopolitical tensions.

Currency and Commodities

	Price	Aug %	QTD %	YTD %	1YR %
USD	101.70	-2.30	-3.94	0.36	-1.85
Euro	1.10	2.05	3.13	0.08	1.89
GB Pound	1.31	2.11	3.81	3.11	3.58
Yen	146.17	2.61	10.05	-3.51	-0.44
Gold	2,503.39	2.28	7.59	21.35	29.03
Copper	414.50	-0.75	-5.59	6.54	9.87
WTI	73.55	-5.60	-9.80	2.65	-12.05

Source: Bloomberg L.P.



Source: Bloomberg L.P.

 |

Comerica WEALTH MANAGEMENT

Comerica Wealth Management consists of various divisions and affiliates of Comerica Bank, including Comerica Bank & Trust, N.A. Inc. and Comerica Insurance Services, Inc. and its affiliated insurance agencies.

Comerica Bank and its affiliates do not provide tax or legal advice. Please consult with your tax and legal advisors regarding your specific situation.

Non-deposit Investment products offered by Comerica and its affiliates are not insured by the FDIC, are not deposits or other obligations of or guaranteed by Comerica Bank or any of its affiliates, and are subject to investment risks, including possible loss of the principal invested.

Unless otherwise noted, all statistics herein obtained from Bloomberg L.P.

This is not a complete analysis of every material fact regarding any company, industry or security. The information and materials herein have been obtained from sources we consider to be reliable, but Comerica Wealth Management does not warrant, or guarantee, its completeness or accuracy. Materials prepared by Comerica Wealth Management personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of Comerica Wealth Management, including investment banking personnel.

The views expressed are those of the author at the time of writing and are subject to change without notice. We do not assume any liability for losses that may result from the reliance by any person upon any such information or opinions. This material has been distributed for general educational/informational purposes only and should not be considered as investment advice or a recommendation for any particular security, strategy or investment product, or as personalized investment advice.

Diversification does not ensure a profit or protect against a loss in a declining market. Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The investments and strategies discussed herein may not be suitable for all clients.

The S&P 500® Index, S&P MidCap 400 Index®, S&P SmallCap 600 Index® and Dow Jones Wilshire 500® (collectively, "S&P® Indices") are products of S&P Dow Jones Indices, LLC or its affiliates ("SPDJI") and Standard & Poor's Financial Services, LLC and has been licensed for use by Comerica Bank, on behalf of itself and its Affiliates. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services, LLC ("S&P") and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings, LLC ("Dow Jones"). The S&P 500® Index Composite is not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, or their respective affiliates and none of such parties make any representation regarding the advisability of investing in such product nor do they have any liability for any errors, omissions, or interruptions of the S&P Indices.

NEITHER S&P DOW JONES INDICES NOR STANDARD & POOR'S FINANCIAL SERVICES, LLC GUARANTEES THE ADEQUACY, ACCURACY, TIMELINESS AND/OR THE COMPLETENESS OF THE WAM STRATEGIES OR ANY DATA RELATED THERETO OR ANY COMMUNICATION, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNCATION (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO. S&P DOW JONES INDICES AND STANDARD & POOR'S FINANCIAL SERVICES, LLC SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS, OR DELAYS THEREIN. S&P DOW JONES INDICES AND STANDARD & POOR'S FINANCIAL SERVICES, LLC MAKE NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIM ALL WARRANTIES, OR MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE OR AS TO RESULTS TO BE OBTAINED BY COMERICA AND ITS AFFILIATES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE S&P INDICES OR WITH RESPECT TO ANY DATA RELATED THERETO. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL S&P DOW JONES INDICES OR STANDARD & POOR'S FINANCIAL SERVICES, LLC BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY, OR OTHERWISE. THERE ARE NO THIRD-PARTY BENEFICIARIES OF ANY AGREEMENTS OR ARRANGEMENTS BETWEEN S&P DOW JONES INDICES AND COMERICA AND ITS AFFILIATES, OTHER THAN THE LICENSORS OF S&P DOW JONES INDICES.

"Russell 2000® Index and Russell 3000® Index" are trademarks of Russell Investments, licensed for use by Comerica Bank. The source of all returns is Russell Investments. Further redistribution of information is strictly prohibited.

MSCI EAFE® is a trademark of Morgan Stanley Capital International, Inc. ("MSCI"). Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

FTSE International Limited ("FTSE") © FTSE 2016. FTSE® is a trademark of London Stock Exchange Plc and The Financial Times Limited and is used by FTSE under license. All rights in the FTSE Indices vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE Indices or underlying data.comerica.com/insights