SALTMARSH FINANCIAL ADVISORS, LLC

3rd Quarter 2024

INVESTMENT UPDATE

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3RD QUARTER 2024 MARKET COMMENTARY

CHRIS STENNETT, CFP®, SENIOR FINANCIAL ADVISOR, SALTMARSH FINANCIAL ADVISORS

The US stock market finished the third quarter strong, despite some mid-quarter volatility. Large US stocks, represented by the S&P 500, gained 5.01% during the quarter and are up 20.63% year-to-date. Meanwhile, the total US stock market, represented by the Russell 3000, rose 5.71% for the quarter and is up 19.4% year-to-date.

International markets also posted similarly strong performances, with the MSCI All Country World Index gaining 7.54% for the quarter and 12.11% year-to-date.

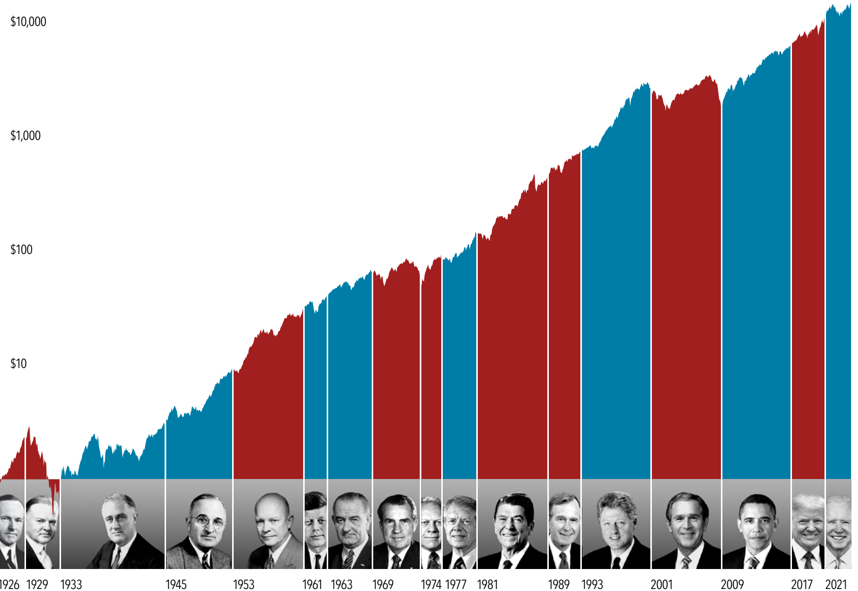
In late September, the Federal Reserve began a rate-cutting cycle, reducing the Fed Funds rate by 0.5%, bringing the target range to 4.75%–5.00%, down from 5.25%–5.50%. Additionally, Treasury yields "un-inverted" for the first time since May 2022, with the current 2-year to 10-year spread at 0.16%.

Overall, investors should be pleased with the market's resilience throughout the quarter and the strong year-to-date returns.

HOW MUCH IMPACT DOES THE PRESIDENT HAVE ON STOCKS?

DIMENSIONAL FUND ADVISORS

The anticipation building up to elections often brings with it questions about how financial markets will respond. But the outcome of an election is only one of many inputs to the market. Our interactive exhibit[1] examines market and economic data for nearly 100 years of US presidential terms and shows a consistent upward march for US equities regardless of the administration in place. This is an important lesson on the benefits of a long-term investment approach.



NOTES & DATA SOURCES

- In US dollars. This material is in relation to the US market and contains analysis specific to the US. Stock returns are represented by the S&P 500 Index. Source: S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.
- Data presented in the growth of $1 chart is hypothetical and assume reinvestment of income and no transaction costs or taxes. The chart is for illustrative purposes only and is not indicative of any investment. Growth of wealth for the full sample from January 1, 1926, through December 31, 2023. Growth of wealth for each presidential term starts on the inauguration month of each president up to but not including the inauguration month of a successor. Growth of wealth for Calvin Coolidge's term starts on January 1, 1926, based on the inception date of the S&P 500 Index.
- Federal surplus or deficit as a percent of gross domestic product, inflation, and unemployment data from Federal Reserve Bank of St. Louis (FRED). GDP Growth is annual real GDP Growth, using constant 2012 dollars, as provided by the US Bureau of Economic Analysis. Unemployment data not reported prior to April 1929. Federal surplus or deficit as a percent of gross domestic product data is an annual average.
- US Government Presidential and Congressional data obtained from the History, Art & Archives of the United States House of Representatives. US Senate data is from the Art & History records of the United States Senate.
- For Herbert Hoover, the federal budget is calculated from 1929 to 1932. Annual real GDP growth is calculated from 1930 to 1932; GDP data not available prior to 1930.

1. www.dimensional.com/us-en/insights/how-much-impact-does-the-president-have-on-stocks

A DATA-DRIVEN PERSPECTIVE:
ELECTION YEARS & THEIR IMPACT ON THE MARKET

CHRIS STENNETT, CFP®, SENIOR FINANCIAL ADVISOR, SALTMARSH FINANCIAL ADVISORS

As the November election approaches, it's normal for investors to become anxious about how the outcome may impact their investments. The president wields tremendous power, so it's reasonable to assume that the election of a particular party or candidate will have a direct and significant effect on the stock market. While this is an understandable conclusion, it is not correct. In this article, we'll explore election year market trends from 1928 to 2023, to illustrate why sticking to your investment strategy is the best approach, regardless of election results.

WHAT THE DATA TELLS US: 1928–2023

The chart below illustrates the actual return of every election year (Blue) and the year after (Green).

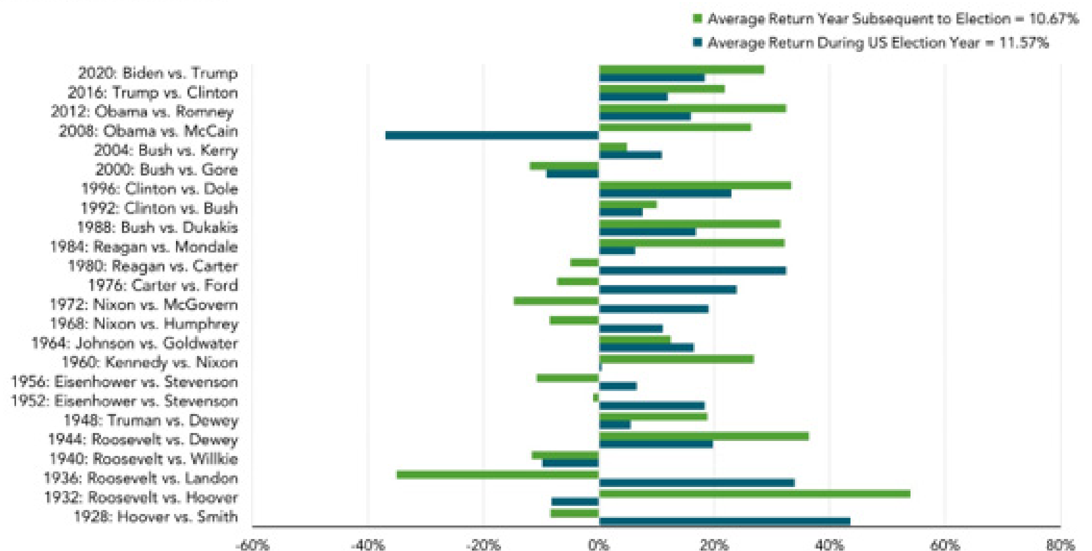
Key insights:

- **Average Return During U.S. Election Years (1928–2023):** 11.57%. This is a solid return, even during the uncertainty of election years. The year-to-date return in 2024 is already an impressive 20.6% through the end of the 3rd quarter, demonstrating that election cycles don't inherently spell doom for markets.
- **Average Return in the Year Following Elections:** Historically, the average return of the S&P 500 the year after an election is 10.67%, irrespective of which party wins. Why is this important? New regimes elected in November don't officially take office until the following calendar year, so current year returns aren't reflective of the new administration's policies. By looking at the returns in the year after an election, investors get a better idea of how the market responded to the new leadership.
- **Average Return Across All Presidential Terms:** 9.5%. Over time, the market has produced positive returns during a wide variety of political administrations.
- **Notable Terms with Negative Returns:** Negative market returns have occurred under different political leaderships, including Bush (Rep. 2005–2008 and 2001–2004), Roosevelt (Dem.1937–1940), and Hoover (Rep. 1929–1932). Yet, these periods of decline were influenced by broader economic conditions, such as recessions and global crises, rather than solely by who was in office.
- **Election Month Returns:** Stock market data dating back to 1926 shows that returns during the month when a presidential election was held was not significantly different from those in other months. This further reinforces that election-related volatility is often overestimated.

WHY ELECTIONS DON'T TYPICALLY AFFECT STOCK PRICES

Owning stocks means owning part of a company, and the primary focus of companies is to grow their business and deliver value to shareholders. This goal remains constant, regardless of who is in the White House.

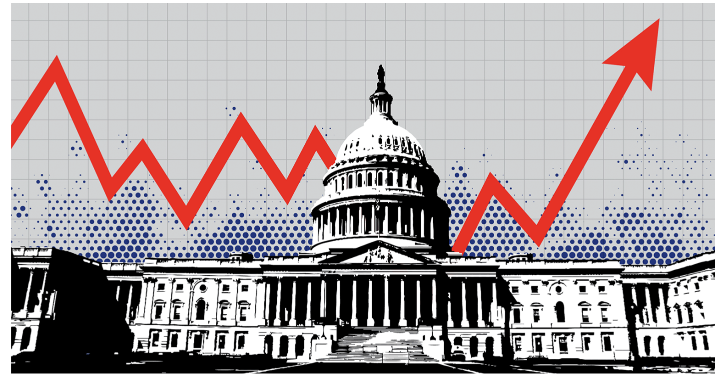
Additionally, as information about tax policies, regulations, and other potential political outcomes becomes clearer, this information is quickly absorbed into stock prices. Market participants, including large institutional investors, buy or sell based on this new information, which causes prices to adjust accordingly. By the time election results are official, much of the market has already "priced in" any political changes, making sudden reactions less necessary.



Presidents may influence specific sectors—such as energy, healthcare, or defense—but predicting which way markets will move based solely on election outcomes has proven to be highly unreliable. Ultimately, markets are driven by a wide range of factors including global economic conditions, corporate earnings, and interest rates, none of which are controlled exclusively by political parties.

STICK TO YOUR LONG-TERM PLAN

It is extremely difficult to identify consistent patterns in election years that allow for reliably predicting returns above the market. Data from almost a century shows that, while elections may create short-term uncertainty, the long-term trajectory of markets remains positive across administrations of both parties. Because of this, our advice on the best course of action for most investors is to stick to their long-term plan. Remember, successful investing is built on patience, discipline, and a commitment to your investment strategy — regardless of political outcomes. If you're unsure about your strategy, or don't have one, consult with one of our financial advisors.



THE UNWINDING OF THE YEN "CARRY" TRADE

MARK HEMBY, CFA, CFP®, SENIOR FINANCIAL ADVISOR, SALTMARSH FINANCIAL ADVISORS

At the start of August, the U.S. stock market experienced an unexpectedly sharp decline, losing over 7% in just the first three trading days. While those losses were eventually recovered, many investors were left wondering what caused such a dramatic sell-off. The answer lies in something known as the "carry trade," specifically, the Yen carry trade. But what exactly is the Yen carry trade, and why did it have such a significant impact on equity markets?

UNDERSTANDING THE BASICS

When you purchase an asset, there's often a cost associated with maintaining that position—this is known in finance as the "cost of carry." For example, if you're a wheat supplier, there are costs to store and transport the wheat to your buyers. In financial markets, the cost of carry refers to the interest rate you pay to finance the asset you purchase.

In banking, a bank can borrow and use cash from the market to buy a financial asset like a Treasury bond. If you can borrow at a 4% interest rate and purchase a bond that pays 4.5%, you've got a positive carry of 0.50%. Banks can profit from such transactions where the cost of carry is positive. Most often, banks and financial institutions borrow money in the overnight lending market. If you borrow overnight, you must refinance the loan daily. As long as the borrowing rate is lower than the yield on the purchased asset, you have a positive carry.

THE CURRENT MARKET SCENARIO

Recently, U.S. overnight borrowing rates have been higher than the yields on many assets available for purchase. As of this writing, the overnight rate banks are charged is 5.35%, while a 10-year Treasury bond yields only 4.20%. This creates an unprofitable situation for many financial institutions, pushing them to seek cheaper borrowing rates. And where were the lowest overnight rates? Japan.

Until recently, financial institutions could borrow overnight in Japan at just 0.10%. US fund managers involved in the Yen carry trade deployed the following strategy:

1. Borrow Yen at a low interest rate.
2. Convert Yen to another currency, such as the U.S. dollar.
3. Buy an asset in the other currency that yields more than the original loan.

But this strategy isn't without risks. There are three primary risks associated with the Yen carry trade:

1. Borrowing rates in Yen might increase.
2. Foreign exchange rates could make converting back to Yen more expensive.
3. The value of the purchased assets might decline.

In this case, all three risks materialized simultaneously. The Bank of Japan recently raised its overnight borrowing rate from 0.10% to 0.25%. While this may not seem significant, for those using leverage to amplify returns, this increase can render the trade unprofitable. When this happens, investors in the carry trade must sell assets (causing prices to drop) and buy Yen (driving up the Yen's value) to repay their loans. If many market participants are doing the same, the market can experience significant movements.

Indeed, the value of the Yen compared to the U.S. dollar dropped 11%, and the Japanese stock market fell by 18%. These are historically large moves. If the carry trade investors are holding U.S. dollar-denominated assets, the value of those assets may also fall, which explains why many tech stocks recently saw a sharp decline.

THE IMPORTANCE OF DIVERSIFICATION

This situation underscores why Saltmarsh Financial Advisors employs a widely diversified strategy. Rather than engage in speculative trades, we focus on a well-diversified asset allocation that aligns with our clients' time horizons, risk tolerance, and long-term goals. Please reach out to us to learn more about how we can assist you with even more strategies for managing your overall wealth.

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ANNOUNCEMENTS & EVENTS!

PHILANTHROPIC GIVING: ALIGNING YOUR MONEY & VALUES

THURSDAY, OCTOBER 24 • 5:30 - 7:30 PM
5ELEVEN PALAFOX • PENSACOLA, FL

Developing a tax-savvy gifting strategy with the help of seasoned professionals can ensure thoughtful integration of your philanthropic giving goals with your long term personal financial needs. Following refreshments and hors d'oeuvres, our featured panel will provide valuable insights about charitable gifting with perspectives from a financial planner, tax advisor, estate planning attorney, and nonprofit consultant.

In the spirit of the giving season, we will be making a charitable donation on behalf of all our guests to a local nonprofit organization with a representative in attendance at the event.

LEARN MORE & RSVP
www.saltmarshfa.com/events

WELCOME TO THE TEAM, MICHAEL C. HALL!

We are excited to announce that Michael C. Hall, CFP® has joined the Pensacola office as a Director. Hall brings more than 20 years of experience working in financial services. His experience includes advising clients on wealth management, investing, portfolio analysis, risk management, and estate planning. Most recently, he served as Regional Manager for Charles Schwab & Co.'s Mid-South Region covering major markets across Mississippi, Arkansas, and Tennessee. Prior to that, he worked as a portfolio consultant in Schwab's Private Client Division where he managed a portfolio of more than $300M in assets.

"We are thrilled Michael has joined the team. His strong values and client-centered approach are a perfect fit for the Saltmarsh investment philosophy," commented Christina Doss. "Michael has a passion for civic leadership and giving back. He is excited to return to Pensacola and eager to leverage his financial expertise to benefit the community."

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