



Aptus 3-Pointers: October 2024 Highlights

Market Overview

October was a month of pivotal events and market activity, including earnings releases, an upcoming election, and a Federal Reserve meeting. Volatility surged as the term premium increased, contributing to fluctuations in long-term yields and signaling potential structural shifts in fixed-income markets. Despite the uncertainty, equity markets showed resilience, with significant attention to large-cap versus small-cap performance and the role of operating leverage among U.S. companies. Mortgage rates, meanwhile, rose sharply, reflecting changes in lending conditions and posing challenges in the real estate sector.

Fixed Income vs. Equities: The Cost of Borrowing

A defining feature of October was the focus on fixed-income markets, as the term premium spiked, leading to higher yields on the long end of the curve. This shift underscores the importance of evaluating asset allocation in light of potential long-term higher rates. Fixed income's viability as a diversification tool is increasingly scrutinized as structural pressures on bonds persist. On the equities side, October highlighted the continued dominance of large caps, driven by operating leverage, contrasting with the more CapEx-intensive small-cap sector.

Broadening Market Participation: The Small-Cap Anomaly

While historically small caps have led off market bottoms, October revealed an anomaly with large caps outperforming due to factors like AI adoption and operating leverage. The October 27 anniversary of the 2022 bull market bottom highlighted this divergence. Despite the atypical small-cap underperformance, the general market trend remains positive, bolstered by seasonal factors, historical fourth-quarter strength, and liquidity inflows, especially in an election year.

Government Expenditures and Economic Growth

The U.S. government's expenditures have now scaled to a level of the size of the third-largest economy in the world, exerting substantial influence over private sector dynamics. With a backdrop of increased government spending and calls for addressing fiscal concerns, October underscored the role of growth and productivity in managing debt



levels. Rising inflation expectations also point to the need for adjustments in long-term portfolios, highlighting the challenges and opportunities of navigating a high-spending economic environment.

Looking Ahead: Election and Economic Outlook

With the U.S. election around the corner and continued liquidity injections, October closed with cautious optimism. Seasonality trends indicate potential strength in the fourth quarter, mirroring historical performance patterns. The focus remains on growth as a cornerstone of market resilience, with notable implications for both equity and fixed-income strategies.

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