**October 25, 2024 Web Comments**

| | WEEKLY CLOSE | % CHANGE YTD |
|---|---|---|
| DOW JONES IND | 42,114.40 | 11.74% |
| S&P 500 | 5,808.12 | 21.77% |
| NASDAQ | 18,518.61 | 23.36% |

# The Strategists Continue to Get It Wrong

On October 18 the S&P 500 Index (S&P) closed at yet another record, and beginning this week, as of October 25 it's now up 21.77 % for the year. Even the sell-side strategists have been surprised. In January, strategists expected the S&P 500 Index to be flat for the year. Their estimates have been raised again and again, but the Index has continued to outpace them.

To be fair, in terms of the economy, the jobs market has held up much better than expected, while inflation appears to be under control. Interest rates are high but are declining, and all of the gains from AI weren't yet in the prices in January even though the long-term metrics were suggesting extreme caution. So, the question is, "How do you deal with a situation that looks O.K. in the short-term but unfavorable in the long term?"

We can see some of the dichotomy among the strategists. For example, David Kostin, US equity strategist for the Goldman Sachs Group, raised his year-end S&P forecast on October 4, from 5,600 to 6,000, with a 12-month target of 6,300. That's about 11% over a year. Last week, he published a follow-up paper suggesting that the index will gain only 3% in nominal terms (1% in real terms) per year over the next decade; one of the worst on record. This is despite a head start of 10% in the next 12 months.

The availability to predict, simultaneously, that an already strong market will have a great 12 months and a poor next 10 years is beyond the scope of our imagination.

Earnings season, another big short-term factor, is pointing to the fact that, so far, earnings forecasts are not being aggressively challenged and profit margins are continuing to expand.

For the long-term, almost nothing matters other than valuation.  We note that, historically, an irrationally expensive market can always get more expensive, and lower bond yields justify paying more for stocks.

Again, something strange has been happening in the equity market as we reported last week. Actual stock returns are exceeding forecasts by the biggest margins since the 19th century while analysts continue to downplay the corporate earnings picture. The most plausible explanation we can make for this dichotomy is the effect of the exceptional pandemic-era monetary stimulus has had on both US corporations and, particularly, the overall US economy, which could not have appeared in any analytical forecast.

We are reminded that, at this writing, the 10 largest stocks in the S&P account for more than a third of the total market cap.

## What About the Bond Market?

It is beginning to look like bond investors enthusiasm is being fueled by optimistic bets for easier monetary policy. They are forgetting the reality that change might not happen as they would like. We would call bond investor's attention to:

1. A repeat of September's half-point cut is appearing to be off the table.

2. The US jobs market is strong, and according to The Bloomberg Economic Surprise Index (Index), which reports changes in the Index when it exceeds economic forecasts is at the highest level since May.

3. The threat of faster inflation should Trump win the election.

4. The US budget deficits are getting bigger. The International Monetary Fund, at its annual meeting in Washington this week, is predicting that US debt will surpass 100% of gross domestic product next year.

Have a nice weekend.

| Joseph Robillard | Robert W. Nichols Ph.D. | Donald R Bessler, CPA |
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| President | Founder | Chief Investment Officer |

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