PERSONAL WEALTH ADVISORY BY
Laird Norton Wetherby

Executive Summary

Q3 2024 Economic Commentary

We have entered the second half of 2024 with higher levels of uncertainty and change happening at an accelerating pace. Our focus has always been on creating portfolios that can withstand high levels of market volatility, coupled with ongoing vigilance. As long-term investors, we are mindful of what can go right as well as the risks and invest accordingly.

Some of the tailwinds that have propelled U.S. equities higher in 2024 appear to still be in place. One of the biggest positives: The continuous drop in inflation this year, making at least one interest rate cut by the Fed likely by year-end. The other positives are ongoing strength in corporate profits, record household wealth and cash balances, and the productivity enhancing potential of generative AI.

Decelerating inflation and interest rate cuts do not change our long-term view, which is for both rates and inflation to remain higher for longer (relative to pre-Covid) for a variety of factors, including increasing regionalization, high U.S. budget deficits, climate change and geopolitical tensions.

During the rest of the year, these are among the key variables likely to contribute to market movement and volatility:

- **Slowing U.S. economy.** The U.S. economy grew 1.4% in the first quarter (with 1.5% anticipated for the 2nd quarter). These are the lowest levels of growth since 2022. Most of the negative impact of higher U.S. inflation and interest rates has been borne by lower-income households, as evidenced by rising credit card and auto loan delinquencies. The Fed may not lower interest rates fast enough or soon enough to prevent an economic downturn.
- **Potential for higher U.S. political and social unrest** (as well as geopolitical risk) as we get closer to the Presidential election. The assassination attempt of former President Trump was shocking and will hopefully serve to unify both parties around a no-violence message. With that said, even prior to July 13, futures markets were forecasting a spike in stock market volatility from October into next year.

With higher probability that market volatility will pick up, LNW advisory teams are reviewing client investment plans. Depending on the client's specific situation, the following may be advisable:

- Conducting sustainability analysis to ensure asset allocations remain aligned with client goals and risk tolerance, and possibly adjusting allocations to reduce risk, as client finances and goals allow.
- Topping off fixed-income exposures, if underweight.
- Adding (or introducing) Diversifiers to act as shock absorbers or take advantage of opportunities that surface during volatile markets.
- Rebalancing equity allocations if outside strategic targets and possibly rebalancing within U.S. equities (large-cap vs. small-cap) and between U.S. and non-U.S. equities, whose valuations appear more attractive.

Please read the full *Q3 2024 Commentary* for more detail.