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Executive Summary

Q4 2024 Economic Commentary

So far in 2024, we have had another banner year for global capital markets. In the U.S., three positive economic trends have boosted most financial assets and allowed the markets to look past rising political and geopolitical risks:

- **Expectation for Lower Rates.** The Federal Reserve made its first interest rate cut (50 basis points) in mid-September after a historically long period of rate hikes. The speed and magnitude of future Fed moves will be an important market driver and largely depend on how well the U.S. labor market is doing.
- **Tame U.S. inflation.** Price increases are on a downward trend approaching the Fed's 2% target and by some recent measures below 2%. The wild cards are further escalation in the wars in Ukraine and the Middle East creating supply chain disruptions and/or a serious ramp-up in tariffs under a new Administration.
- **Resilient U.S. economy**. The Bureau of Labor Statistics recently said that U.S. economic growth was more robust than initially reported 2022-2023. This potentially raises the odds that the U.S. is further away from a recession than previously thought.

Political & Geopolitical Concerns

Historically, U.S. elections have had little, if any, impact on the markets despite the appeal of believing this time is different. The most desirable election outcome for capital markets on November 5th? Uncontested results for the Presidency; and a Congress divided along party lines or with a small majority, making it difficult to enact radical changes in policy.

Regardless of the election results, we see two ongoing risks: (1) Higher U.S. deficits requiring more Treasury debt issuance; and (2) an adversarial relationship with the world's other superpower, China. Both are likely to contribute to a regime of higher interest rates and inflation than experienced pre-Covid.

Portfolio Positioning

We cannot pretend to know how U.S. elections and the two ongoing wars will pan out. But we do know how investors can put the odds in their favor in weathering historic market turbulence as well as occasional downturns:

- An asset allocation built around realistic levels of risk (what you can handle emotionally and should take on to achieve your goals);
- Adhering, with discipline and without emotion, to a long-term investment plan;
- Well-diversified exposures.

Each LNW portfolio is built around the above three principles and includes a variety of exposures that working together can serve to navigate portfolios through market cycles. In our *Q4 2024 Commentary* we delve into the possible reactions of asset classes given the potential for negative surprises in the U.S. election.

Unless you envision a dystopian future, the U.S. has seen far worse than what we are experiencing today. Optimism about the world's long-term potential to overcome challenges and to support growth is a critical pillar of investing. It is also important to realize that investors may be overestimating the risks to the global economy, and the risks could even be to the upside, barring continued escalation of the two major wars. Once the uncertainty of U.S. elections is lifted, pent-up economic activity can resume, helping the global economy.

Please read the full *Q4 2024 Commentary* for more detail.