QUARTERLY ECONOMIC OUTLOOK | THIRD QUARTER 2024

A long autumn.

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SEI recently released its third-quarter Economic Outlook. Here is a summary of our key perspectives, focusing on global economic growth, monetary policy, inflation, geopolitics, elections across the globe, and equity markets.

- Since 1928, September has historically been the worst calendar month for the performance of the S&P 500 Index. This year, the index threatened to follow the same pattern early in the month but recovered after the Federal Reserve's (Fed) decision to "go big" and decrease the federal-funds rate by 50 basis points (0.50%—twice what was expected by many market observers). However, despite the dramatic interest-rate reduction, the S&P 500's price return has not made much progress since mid-July as a variety of concerns put pressure on stocks.
- Although equities and other risk assets remain near all-time highs, stock markets globally have become more volatile in recent months—due, in part, to signs of slowing growth in some of the most important economies, including the U.S., China, Germany, France, and Canada. Geopolitical uncertainty also is rife, highlighted by the wars in Ukraine and the Middle East, a consequential election in the U.S. (marred by multiple assassination attempts on former President Donald Trump), a change in government in the U.K. and France, and a shift away from established/centrist parties in several European countries that has benefited the extremes on both sides of the political spectrum.
- The U.S. presidential contest has seen both major-party candidates (Kamala Harris and Donald Trump) expressing economic views that, if implemented, could well lead to either higher inflation or slower growth, or both. Whether tariffs or tax credits, either party's policy would likely be inflationary at a time when high prices remain a concern and the economy is still running near capacity. It appears that neither major presidential candidate is doing the nation the courtesy of even pretending that fiscal responsibility is on the agenda.
- Advanced-country central banks have entered an interest-rate-cutting cycle as inflation pressures have eased. The Bank of Canada was the first major developed-market central bank to cut its policy interest rate this calendar year, followed by the European Central Bank and the Bank of England. The U.S. Fed was the last to cut but made up for lost time with a so-called "jumbo cut." Japan is the outlier, having raised its overnight interest rate twice this year but keeping at a level that is well below those of other central banks.
- Interest rates have fallen sharply in response to the Fed's interest-rate cut and renewed focus on maintaining full employment. Ten-year sovereign bond yields of Canada, Germany, the U.K., and the U.S. have now fallen to their lowest levels of the year. In the aftermath of the Fed's half-point reduction in the federal-funds rate, traders have priced in additional cuts to a range of 2.75% to 3.00% by the end of 2025. By comparison, the Federal Open Market Committee's median projection for the federal-funds rate by year-end 2025 is 3.4% (suggesting a range of 3.25% to 3.50%). We believe that market participants are overestimating the magnitude of interest-rate cuts over the next 12-to-15 months.
- The U.S. unemployment rate rose to 4.2% over the quarter. Economists and policymakers are worried that this mild deterioration in the labor market will turn into a major bloodletting; we are a little more sanguine. Despite its rise, the unemployment rate it is still low relative to its own history and much lower than other countries' jobless rates. There is too much concern over the slowing of U.S. economic growth and labor-market conditions, and too much complacency regarding the inflation outlook and the impact that further fiscal stimulus may eventually have on longer-term bond yields.

A full-length paper is available if you wish to learn more about these timely topics.

Glossary

Policy rates are the interest rates set by central banks, used to influence other interest rates. This includes the Fed's **federal-funds rate** in the U.S.

Index definitions

The S&P 500 Index is a market-weighted index that tracks the performance of the 500 largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market. The **price return (the S&P 500 price index)** excludes dividends and other payouts that would be included in the **total return**.

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