FINANCIAL MARKET SNAPSHOT

October 28, 2024

Third Quarter Market Recap

In this edition of the Market Snapshot, we review market performance in the third quarter of 2024 and provide an update of current financial market conditions.

As we move into the final quarter of the year, we wanted to use this edition of the Market Snapshot to provide you with an update on the financial market conditions and share a review of the major market events that occurred in the third quarter. This has been an eventful period, filled with significant developments that continues to impact an evolving investment landscape.

Most Asset Classes Performed Well in Q3

Major US equity indices were higher in the third quarter, with the S&P 500 index up 5.5%, marking its fourth consecutive quarterly gain. The index hit all-time highs in mid-July but later dipped in early August due to labor market concerns. As these worries eased, the market rallied, finishing the quarter near record levels.

Investor focus shifted from large-cap tech stocks to cyclical and small-cap stocks. The Russell 1000 Value index jumped 8.9%, while the Russell 1000 Growth index rose a more modest 3.0%. Additionally, the Russell 2000, which tracks small-cap stocks, climbed 8.9%, and the equal-weighted S&P 500 index surged 9.1%.

The third quarter experienced broader market breadth compared to the first half of 2024. Broader market conditions are considered a good indicator of general market health because it reflects widespread participation in market movements. When many stocks are advancing rather than declining, it suggests that the upward trend is supported by a broad base of companies, rather than being driven by just a few strong performers. This widespread participation is often seen as a sign of market strength and sustainability.

The corporate earnings backdrop was also generally healthy, albeit with some imperfections. S&P 500 companies reported an 11.3% year-over-year increase in earnings growth for Q2, the highest since Q4 2021. About 80% of these firms exceeded earnings estimates, outperforming the five-year average of 77%, while only 67 companies provided negative guidance, the lowest since Q4 2022.

In the fixed income asset class, US bonds also performed strongly. The Bloomberg Aggregate Bond index, which represents investment-grade US bonds, gained 5.2%, its second-best quarterly showing since Q2 1995, and returned 11.6% over the trailing 12 months. Long-term government and credit bonds led with an 8.0% gain, while emerging-market debt and high-yield bonds rose 6.2% and 5.3%, respectively.

Data Through 10/24/24

Equity Indices	Q3 - 2024	YTD	1-Year	5-Year
S&P 500	5.9%	23.2%	38.8%	15.9%
U.S. Growth	3.2%	26.4%	43.5%	19.7%
U.S. Value	9.4%	17.1%	32.3%	10.6%
U.S. Small-Cap	9.3%	10.7%	34.0%	8.9%
International Developed	7.3%	8.1%	23.5%	6.6%
Emerging Markets	8.7%	13.3%	26.4%	4.3%
Fixed Income Indices	**Q3 - 2024**	**YTD**	**1-Year**	**5-Year**
U.S. Investment Grade Bonds	5.2%	2.2%	10.5%	(0.1%)
U.S. High Yield	5.3%	7.4%	16.6%	4.3%
Alternative Indices	**Q3 - 2024**	**YTD**	**1-Year**	**5-Year**
Broad Commodities	0.7%	5.6%	0.6%	7.3%
Real Estate	17.1%	12.8%	38.9%	4.3%

Sources: Morningstar Direct. Indices: S&P 500® index, U.S. Growth = Russell 1000 Growth, U.S. Value = Russell 1000 Value, U.S. Small-Cap = Russell 2000, International Developed = MSCI EAFE, Emerging Market = MSCI EM, Investment Grade = Bloomberg US Agg Bond, High Yield = ICE BofA US High Yield, Broad Commodities = Bloomberg Commodity, Real Estate = Dow Jones US Real Estate Capped

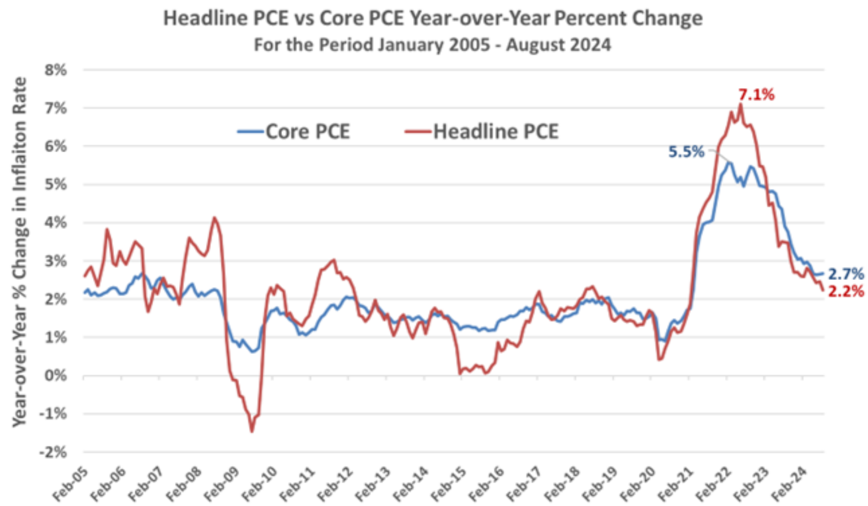
Overall, Q3 saw broad-based gains and a rotation from growth stocks to value and small-cap stocks, and the bond market's strong performance provided a welcome boost for investors holding high-quality bond investments. Asset classes were supported by the Federal Reserve's interest rate cuts and easing inflationary pressures, helping the market recover from earlier volatility.

Inflation Continues to Cool

Inflation eased in the third quarter due to improving supply chains, a more balanced labor market, and continued pressure on economic demand from high interest rates. Though, prices in some areas remain stubbornly high, keeping inflation above the Federal Reserve's 2% target.

The Personal Consumption Expenditures (PCE) Price index, the Fed's preferred inflation gauge, dropped to 2.2% on a year-over-year basis in August from 2.4% the previous quarter and from the peak of 7.1% in June 2022. This decline indicates that the Federal Reserve's measures to control price increases are taking effect.

Core PCE inflation, which excludes food and energy prices, also decreased to 2.7% in August from 3.1% in January, suggesting underlying inflationary pressures are easing.



Source: Bureau of Economic Analysis

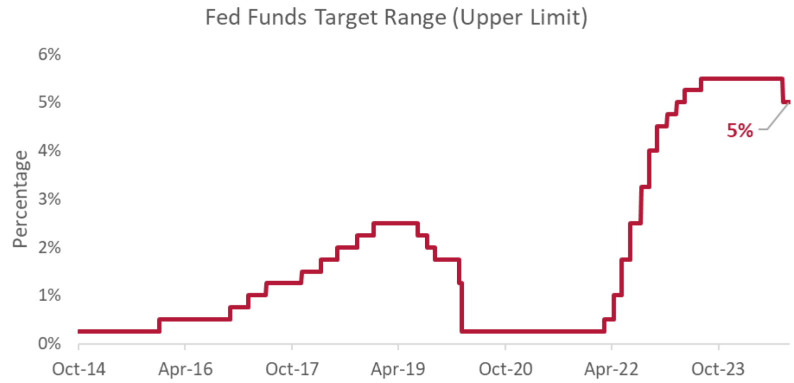
However, some areas saw persistent inflation. Rising commodity prices, particularly oil and industrial metals, were driven higher by geopolitical tensions and stimulus measures in China. Additionally, services inflation remained high, with costs for shelter, auto insurance, and restaurant meals still above pre-Covid levels. These factors kept core inflation above the Fed's target.

The Fed Initiated its First Rate Cut Since March 2020

During Q3, the Fed transitioned from a singular focus on taming inflation to a more balanced approach that also emphasizes maximizing employment, in line with its dual mandate. This shift means that while the Fed continues to monitor and address inflation, it is also taking significant steps to support job growth and economic stability. By carefully adjusting interest rates and other monetary policies, the Fed aims to lower interest rates over time and create an environment where both price stability and full employment can coexist.

During the June FOMC meeting, policymakers were still seeking "greater confidence" that inflation was sustainably moving back toward the 2% target before initiating a first rate cut. Data over the following month supported that notion and, as a result, the July meeting had a more dovish tone, with Powell indicating that a September rate cut could be on the table.

However, a weaker than expected job gain from the July nonfarm payrolls further shifted the Fed's focus sharply towards the risks to the labor side of its dual mandate. This shift was echoed in Fed Chair Jerome Powell's August 23rd speech at the annual Jackson Hole symposium, where he stated, "the time has come for policy to adjust" and emphasized that the Fed does not welcome further labor market cooling.



Source: Federal Reserve Bank of St. Louis

The market ended Q3 with a consensus expectation for a "soft economic landing," despite challenges. A softer-than-expected June CPI report and a weak July nonfarm payrolls report raised recession fears. However, improvements in labor market data and strong retail sales by the end of the quarter helped ease those concerns.

US Retail Sales Remain Strong and the Consumer Resilient

The third quarter brought a mix of challenges and resilience for the US retail sector. Despite some headwinds, there were several positive indicators that suggest a cautiously optimistic outlook for the US consumer. Retail sales in Q3 increased by 2.3% year-over-year, driven by a 7.1% rise in online sales and a 14% surge in online grocery sales.

JPMorgan Chief Executive Jamie Dimon, described the U.S. consumer as "healthy" and the economy as "resilient". He also noted that spending patterns have been solid and consistent, indicating that consumers are on solid footing. While there was an uptick in charge-offs, Dimon emphasized that this was part of a "normalization" in credit quality rather than a sign of significant weakening in consumer health.

Additionally, post-pandemic travel and entertainment spending normalized from elevated levels, but retail spending remained solid, indicating consumer resilience. Chase Bank customers continued to spend on credit cards, with balances growing. Wells Fargo noted that while lower-income consumers were struggling, overall consumer health remained solid. Bank of America also provided a reassuring perspective, expecting continued economic growth despite some concerns.

Looking Toward Year End and into 2025

Looking ahead, the bull case remains anchored in the Federal Reserve's ongoing monetary easing, with keen focus on the pace of rate cuts. Other key bullish factors include sustained disinflationary momentum, a stable (albeit slowing) labor market, robust consumer spending, continued earnings growth prospects, and the ongoing secular growth of AI technologies.

However, there are additional uncertainties. The impact of the recent China stimulus measures, announced at the end of September, remains to be seen. While these measures aim to stabilize a weakening global economy, their effectiveness is still in question.

On the bearish side, several factors warrant caution. Valuations are notably high, with over 80% of S&P constituents above their 50-day moving averages at quarter-end. Consumer confidence appears to be fraying, particularly concerning the labor market, where job growth is slowing. Additionally, there are concerns about when this trend might shift from slower hiring to rising downsizing. Geopolitical tensions in Ukraine and the Middle East also remain elevated and could add to increased market volatility over the foreseeable future.

Balancing these factors, the market's path forward will likely hinge on how these dynamics play out in the coming months and quarters ahead. As always, please do not hesitate to reach out to a member of our team with any questions.

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High yield/junk bonds (grade BB or below) are not investment grade securities and are subject to higher interest rate, credit, and illiquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

The MSCI EAFE Index is a free float –adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia.

The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing the major sectors of the U.S. economy.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

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