



QUARTERLY INVESTMENT REVIEW & OUTLOOK– Q3 2024

Volatility picked up in Q3 and we saw a summer swoon, but stocks persevered and finished with solid returns. With inflation moderating and employment showing stress, the Fed cut rates as expected and alluded to more cuts to come. Geopolitical stress remains high and elections likely can't come soon enough for most.

- **Equities:** Stocks displayed at least a modicum of a changing-of-the-guard in Q3 with value (+9.5%) outperforming growth (+3.5%), small cap (+9.3%) outperforming large cap (+6.1%), and international (+7.3%) outperforming US (+5.9%). The US market remained heavily concentrated with the “Magnificent 7” comprising 29.4% of S&P 500 market cap, but their impact was muted as they only accounted for 0.5% of the 5.9% S&P 500 return. Top performing sectors included utilities and REITs, which was quite a change from the dominance of technology and communications services in the first half of the year. US stocks continue to trade at high multiples. The S&P 500 trades at a forward P/E of 22x, which is 35% above the historical average, and the “Mag 7” trade closer to 38x. Expensive valuations are something to watch, although an accommodative Fed and resilient corporate earnings may continue to drive stocks forward. Small and mid-cap stocks might see resurgence, as they’ve historically shown strong relative performance after commencement of Fed cuts.
- **Fixed Income:** Citing moderating inflation and a greater focus on weakening employment data, the Fed cut rates as expected in September, although not everyone expected a cut of 0.5%. Bonds rallied as a result (+5.2% in Q3) rebounding from a negative return at mid-year (-0.7%) to a positive return YTD through Q3 (+4.4%). The yield curve flattened as money market and short rates declined, although they’re still relatively attractive. The 6-month Treasury yield declined to 4.4% while the 2-year finished at 3.6% and the 10-year settled down to 3.8%. With rates dropping, higher bond duration added a lift, although the bond market may have gotten ahead of itself on this front if inflation proves stickier or employment data comes in stronger than expected. As such, balancing between bonds/CD’s of longer duration with those of shorter duration and higher current yields (“barbelling”) might be advantageous in the near term. Credit spreads (i.e. incremental rewards for accepting lower credit quality) remain historically tight. That said, excess yield and return potential suggest attractive total return for long-term investors. Thoughtfully considering credit exposure while focusing on higher quality and extending duration over time may facilitate favorable fixed income returns going forward.
- **Economy:** Geopolitical risks and mixed data from the US Economy remain in the spotlight, and the implications for future inflation, consumer spending, and corporate earnings are uncertain. An accommodative Fed provides optimism that a soft-landing can be achieved, although risks remain. The September ISM Manufacturing PMI (47.2) indicated contraction for the 22nd time in the past 23 months, while the ISM Services PMI



(54.9) showed solid growth (highest since February and denoting growth for the 49th time in last 52 months). Consumers have been resilient despite rising unemployment and higher costs of essential goods and housing, but credit card debt is up and delinquencies have hit a 13-year high (same level as when unemployment was at 8%), so consumers appear stretched. Expectations have increased for 2024 US GDP growth (2.7% consensus) and corporate earnings anticipate double digit growth through 2026. Moderating inflation has bolstered the Fed's case to cut rates, and the markets expect another 1.5% in cuts through the end of 2025, although September inflation data came in higher than expected, so time will tell if cuts materialize at the anticipated pace. Labor data and headline inflation will be watched closely, and with such a mixed bag, a balanced view and positioning continues to be prudent.

2024 PERFORMANCE – BENCHMARK INDEXES

Index	Quarter	YTD	5 Yr Ann	10 Yr Ann	15 Yr Ann
<i>S&P 500 (US large cap stocks)</i>	+5.9%	+22.0%	+16.0%	+13.3%	+14.1%
<i>S&P 400 (US mid cap stocks)</i>	+6.9%	+13.5%	+11.8%	+10.3%	+12.3%
<i>Russell 2000 (US small cap stocks)</i>	+9.3%	+11.2%	+9.4%	+8.8%	+10.6%
<i>MSCI EAFE (devel int'l large cap) - US\$</i>	+7.3%	+13.0%	+8.2%	+5.7%	+6.0%
<i>MSCI EM (emerging mkts int'l) - US\$</i>	+8.7%	+16.9%	+5.7%	+4.0%	+4.2%
<i>Barclays US Aggregate (US bonds)</i>	5.2%	+4.4%	+0.3%	+1.8%	+2.6%

Data as of 9/30/24. Returns represent total returns (dividends & capital appreciation/depreciation). Past performance is NOT predictive of future performance.