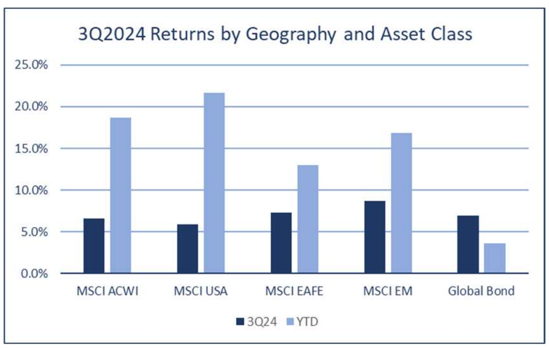
A Look Back…3rd Quarter 2024

We call our quarterly review "A Look Back" to remind our readers that is all it is – backward looking. While it is important to keep tabs on what your portfolio is doing, it is equally important to ignore short-term results. Keep focused on the long-term goals of your portfolio and whether it is achieving them.

The Markets

A strong year for stocks in 2024 continued in the third quarter. Geographically, Emerging Markets was again the best-performing region, followed by Non-US Developed, which rebounded from a weak second quarter. The US brought up the rear, but had a still-strong 6% return. Within the US, contrary to the first half of the year, it was Technology and Technology-related stocks that held the overall market back. From a big picture perspective, it was a volatile quarter – July was weak as June employment data came in below expectations and recession fears arose. However, those fears were quelled as July and August economic data showed resilience. Importantly, financial markets got the long-awaited Federal Reserve interest rate cut they wanted. As a result, global fixed income, as measured by the Bloomberg Barclays Global Aggregate Index, also delivered strong returns.



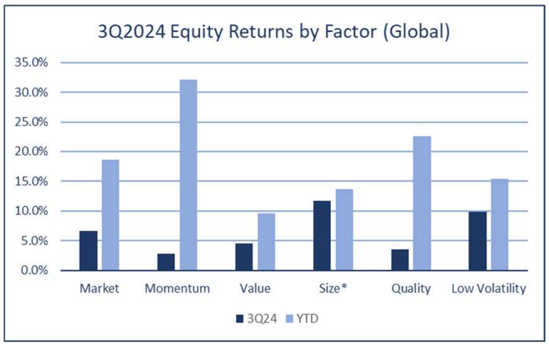
Source: Morningstar; As of 9/30/24

Outlook

With a strong 9 months in the rearview mirror, much remains to be seen for the remainder of the year. Aside from earnings (which have been, on balance, good so far as of this writing), we have an election to think about and two more Federal Reserve meetings. On the former, we don't have much to say as electoral outcomes can be difficult to predict. More importantly, regardless of outcome, it is even more difficult to predict whether investors will care who wins. There may certainly be some adjustments to which areas of the markets win and lose, but that doesn't necessarily determine overall direction. In our view, the more important determinants will be the economic data and the impact it will have on the Fed's path. Recall that last year Chairman Powell indicated three rate cuts. Well, we didn't get any until September, but we essentially got two-in-one as they lowered their benchmark rate by 0.5%. As the data continues to show economic strength in the US, another cut of that size seems unlikely. The final two decisions will take place on November 7th (delayed one day due to the election) and December 18th. The most important inputs will be, in no particular order as they are all intertwined, the October and November jobs reports (including wage growth) and inflation readings. As for the housing market, as we have noted recently, there has not been any relief for mortgage rates since the Fed's September rate cut. Remember that the rate they control is a very short-term one; mortgage rates are dictated by the yield on the 10-year US treasury, which has only risen since said rate cut. The conundrum is, as long as the US economy remains robust, that yield is unlikely to drop meaningfully anytime soon.

The Factors

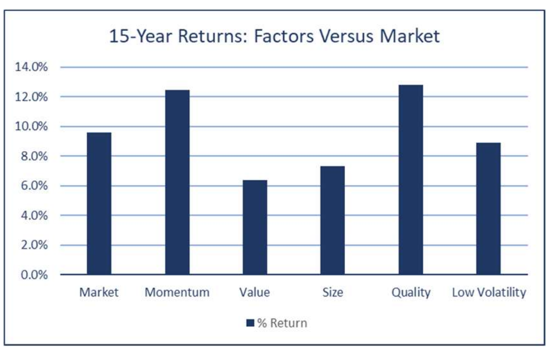
On the equity front, it was a tale of haves and have-nots for factors as Size and Low Volatility outperformed the broader market index, the MSCI All Country World Index (ACWI). This came at the expense of the heretofore market-leading Momentum and Quality, although this can be viewed in a positive light as market returns are becoming less concentrated than they have been in recent years. Our overweight to Low Volatility and Size helped performance, but that was offset by exposure to Momentum and Quality. As noted earlier, the overweight to the US was a detractor.



Source: Morningstar; As of 9/30/24

The Long-Term Record

While factors can be cyclical in that they will go through periods of doing better and worse than a simple market index like the MSCI ACWI, the long-term track record is clear as shown below. Although some of the record includes back-tested returns (i.e. before the indexes were actually created), the methodologies (how they screen for stocks) remain consistent. We include for full disclosure the inception dates of all indexes.



Source: Morningstar; As of 9/30/24
Global Stocks = MSCI ACWI NR USD Index (Inception: 1/1/01)
Global Momentum= MSCI ACWI Momentum NR USD Index (Inception: 11/30/95)
Global Value = MSCI ACWI Enhanced Value NR USD Index (Inception: 5/29/15)
Global Quality = MSCI ACWI Quality NR USD Index (Inception: 5/29/92)
Global Low Vol = MSCI ACWI Minimum Volatility (USD) NR USD Index (Inception: 5/28/93)
Global Size = MSCI ACWI Risk Weighted NR USD Index (Inception: 4/6/11)

lower costs. better results.

Disclosures

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The Factors

Momentum: Data suggests that stocks that have outperformed recently may continue to do so in the near-term.
Value: Data suggests that relatively cheap stocks may outperform more expensive ones over time.
Size: Data suggests that smaller company stocks may outperform those of larger ones over time.
Quality: Data suggests that stocks of high quality companies may outperform those of lesser quality over time.
Low Volatility: Data suggests that low volatility stocks may outperform on a risk-adjusted basis over time.