



Northport Investment Management, LLC
A Registered Investment Adviser

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Market Commentary – 3rd Quarter 2024

It was a strong quarter for U.S. equities, characterized by a widening out of this year's stock market rally. A new order surfaced in Q3, as broad swaths of the market, from utilities to real estate to industrials to financials, outperformed the technology sector. Despite the fatigue among the big tech stocks, gains by a wide range of other stocks pushed the major indexes higher. For the third quarter, the Dow rose 8.2%, ending at its 33rd record high close of 2024. The S&P 500 advanced 5.5% in Q3, while the NASDAQ Composite added 2.6%. Year-to-date, the Dow is ahead 12.3%, the S&P 500 has risen 20.8% (22.1% with dividends), and the NASDAQ Composite is up 21.2%.

Ten of the eleven S&P 500 sectors were positive for the third quarter. The Utilities (+18.5%) and Real Estate (+16.3%) sectors led, while the Energy (-3.1%) and Communications Services (+1.4%) sectors lagged. All eleven S&P 500 sectors are positive year-to-date. The Information Technology (+29.6%) and Communications Services (+27.9%) sectors are the best year-to-date performers, and the Energy (+5.7%) and Real Estate (+11.5%) sectors are the worst. Mid-cap, small-cap, international and emerging market stocks all bested the S&P 500 benchmark in Q3, supporting the case for diversification. The S&P 500 Value Index narrowed its performance gap with the S&P 500 Growth Index during the quarter, a positive for Northport stocks.

Bonds had a positive quarter as the market received the interest rate cut for which it was waiting. On September 18, the Fed came through with a 50-basis point (1/2 of 1 percent) rate cut which lowered the benchmark Fed funds rate to a range between 4.75% and 5.00%. The Fed also suggested that it could go further, cutting by 25 basis points in each of their next two meetings, scheduled for November 2024 and December 2024. Fed chairman Powell has said that the U.S. economy is in solid shape, and that Fed officials intend to keep it that way. He also indicated that interest rates will move "over time toward a more neutral stance", if the economy evolves as expected. The yield on the benchmark 10- year Treasury note closed the quarter at 3.80%, down from 4.3% at the end of Q2 2024. The current yield on our Schwab non-sweep money market is down to around 4.7%, from a pre-cut yield of 5.1%. I expect interest rates to continue to fall, but not dramatically. Interest rates around four percent, with inflation at roughly half this level, remain attractive to balance accounts with fixed income cash flow, where appropriate.



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The Fed is attempting to recalibrate interest rates lower to continue to support a strong labor market, while inflation continues to decline to targeted levels. They are trying to achieve a so-called “soft landing” that brings inflation down without a sharp rise in joblessness. So far, so good, but we are not out of the woods yet. Q3 2024 produced an interesting development in government bonds. Since July of 2022, two-year Treasuries had been trading at a higher yield than 10-year Treasury notes, a phenomenon known as an inverted yield curve. An inverted yield curve is a classic recession signal. In September, the inversion disappeared, as the longer-term Treasuries yield finally climbed back above that of the shorter-term note. An inverted yield curve sometimes returns to normal just before a recession, as traders bet on aggressive Fed rate cuts. This time, most investors are not expecting that a recession is in the offing, with over half of respondents of one recent money manager survey not expecting a U.S. recession in the next eighteen months.

While stock market bears will point out that historically, the Fed has been too late on monetary policy adjustments, and that they likely missed the mark in this cycle, stock market bulls have a strong case based upon our resilient U.S. economy. Key U.S. macroeconomic fundamentals today are solid, and near where we want them to be long-term. The U.S. economy is growing around 3%, inflation is around 2%, the unemployment rate is close to 4%, and the 10-year Treasury yield is around 3.75%. There appears a high likelihood that the Fed can pull off that elusive soft landing.

History shows that the stock market tends to perform well when interest rates are falling and the economy is growing. Falling interest rates lower borrowing costs for businesses and consumers, which can foster investment and spending. Small-cap stocks can especially benefit since they tend to have more floating-rate debt than their larger peers. The key is economic growth. As always, earnings drive stocks. I am pleasantly surprised by the current positive economic conditions. My biggest concern is that the stock market may be priced for perfection. The S&P 500 is currently trading around 21X earnings (historically it trades around 15 times). I am comforted by the recent broadening out of stock market returns. It is also good to see our Value investing bias gain momentum. Factoring cash flow into our total return, through fixed income, and through our dividend paying stocks, will continue to hold us in good stead. Inevitable unexpected disruptions will occur. Wars and elections may produce volatility in Q4. Still, I see no reason for making major changes to our emphasis on diversification, yield, dividends and total return.

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