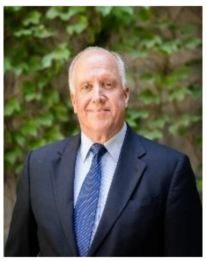
2024 – 3rd Quarter Review & Outlook

Economic and Investment Review



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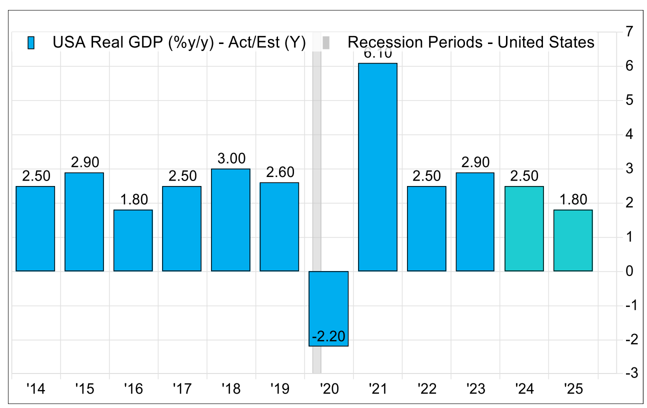
The Fed lowered the Fed Funds target rate in September as was expected. However, what was not widely expected was the size of the rate cut of 0.50% to a range of 4.75% to 5.0%. Most economists and strategists were anticipating a 0.25% reduction.

The Fed appears content with how their battle with inflation is trending and wants to avoid weakening the U.S. labor market. Fed Chair Jerome Powell said “We are committed to maintaining our economy’s strength. This decision reflects our growing confidence that with an appropriate recalibration of our policy stance, strength in the labor market can be maintained.”

Powell stated that “overall, the economy is in solid shape; we intend to use our tools to keep it there,” but he tempered any thoughts of similar action in the coming months by stating “This is not a committee that feels like it’s in a hurry to cut rates quickly.” He mapped out two more 0.25% rate cuts this year if the economy performs as expected. That would indicate a rate cut in both November and December. If the Fed follows through with two rate cuts, the target rate would be 4.25% to 4.5% at year-end.

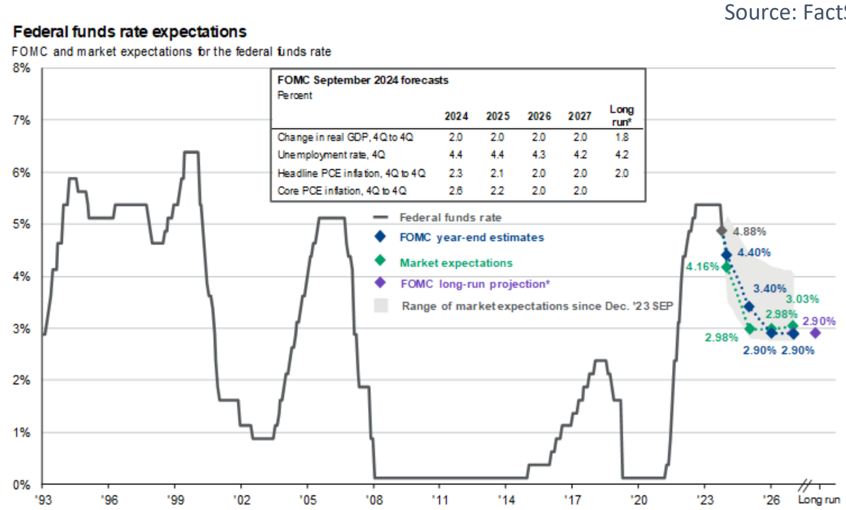
Economic Growth: U.S. economic growth is expected to have declined somewhat in Q3. Q3 GDP will be reported on October 30. GDP for the quarter is expected to be 1.8% Q/Q compared with 3.0% in Q2 and 2.3% Y/Y also compared with 3.0% in Q2. The potential for the Fed to achieve a soft landing



Source: FactSet

seems to be moving from possible to likely. Full-year GDP is expected to be 2.50% for 2024 and 1.80% for 2025.

The rate of inflation is slowing but the cumulative effects of inflation are still putting considerable pressure on the consumer. This has led the consumer to trade down in some areas of goods and services and to greater prioritization of spending. Overall consumer demand appears to have softened. Total Retail and Food Services sales were down on



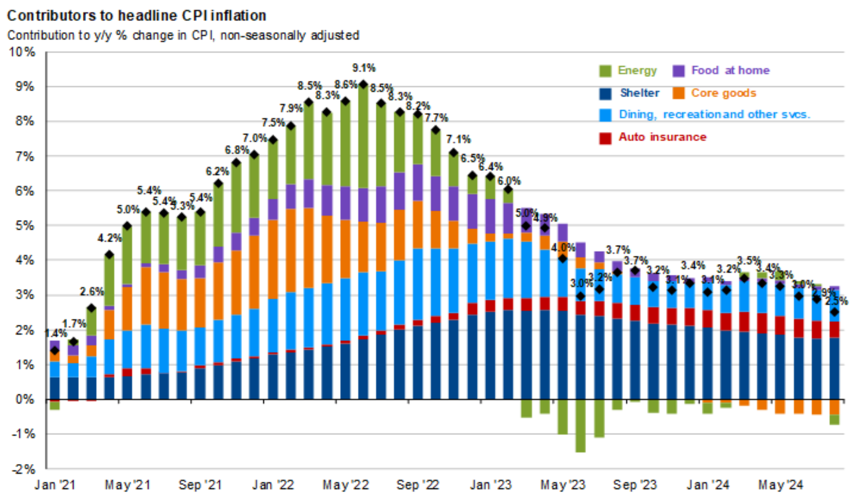
FOMC September 2024 forecasts
Percent

	2024	2025	2026	2027	Long run*
Change in real GDP, 4Q to 4Q	2.0	2.0	2.0	2.0	1.8
Unemployment rate, 4Q	4.4	4.4	4.3	4.2	4.2
Headline PCE inflation, 4Q to 4Q	2.3	2.1	2.0	2.0	2.0
Core PCE inflation, 4Q to 4Q	2.6	2.2	2.0	2.0	

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

an inflation-adjusted basis in August. However, lower interest rates should result in lower borrowing costs which should be a support to consumer spending in the future.

Inflation, as measured by the Consumer Price Index (CPI), peaked at 9.0% in June 2022. It has since declined to 2.6% in the August reading. Lower energy prices and an improved supply chain are



Source: JPMorgan

contributing to lower inflation; however, energy prices have ticked up in the past few days in anticipation of a response by Israel to the Iranian missile attacks. The dockworker strike could have seriously disrupted the supply chain but was luckily limited to just three days. Shelter and auto insurance costs have been two slower areas to adjust downward. Core PCE, the Fed's preferred measure of inflation, has declined to 2.7%. The Fed acknowledges that considerable progress has been made but continues to target a 2.0% core PCE. The remaining difference between the current rate of inflation and the target rate may be slower to eliminate.

The labor market continues to look healthy. September nonfarm payrolls rose 254K M/M, well ahead of consensus estimates of 140-150K. The unemployment rate fell by 0.1% to 4.1%.

The Global Purchasing Managers' Index indicates that economic activity momentum is positive in most areas of the world. The strongest activity in developed countries is currently found in the U.S., Japan, and the U.K. The strongest activity in emerging countries is currently found in India. Manufacturing is still contracting in many countries, including the U.S., but services are leading the way.

The European Central Bank reduced its policy rate by 0.25% in June and 0.60% in September in their effort to support the Eurozone economy.

The People's Bank of China recently made bold moves to stimulate their economy by freeing up funds for new lending through reduced reserve requirements, lowering a key short-term interest rate, making funds for stock purchases and buybacks, and lowering rates on existing mortgages. The Chinese equity market surged on the announcement.

Equity Markets

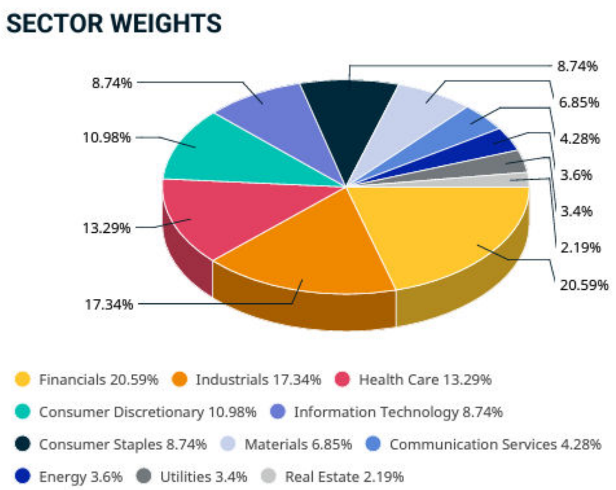
The U.S. large-cap equity market continued to move higher in Q3. The S&P 500 was up 5.89% but performance broadened out with value stocks leading the way. Value stocks were up 9.05% in the quarter compared with 3.72% for growth stocks. However, growth stocks continued to outshine value stocks year-to-date and for one year. Value stocks still led growth stocks for three years as growth stocks had a bigger 2022 hole to climb out of.

2024 Q3 Returns				
EQUITY	**Q3 2024**	**YTD 9.30.24**	**1 Year 9.30.24**	**3 Years Annualized**
S&P 500	5.89	22.08	36.35	11.91
S&P 500 Value	9.05	15.36	31.09	13.11
S&P 500 Growth	3.72	28.16	41.10	10.07
Dow Jones Ind Avg	8.72	13.93	28.85	9.98
NASDAQ Composite	2.76	21.84	38.64	8.83
S&P Mid Cap 400	6.94	13.54	26.62	7.46
S&P Small Cap 600	10.13	9.33	25.86	3.99
MSCI EAFE	0.89	12.46	18.11	8.46
MSCI Emerging Mkts	6.77	18.73	25.43	3.27

Source: FactSet

Small cap stocks were charged up by the first rate cut and initiation of a new easing cycle. Small cap stocks should benefit from greater availability to lower cost capital.

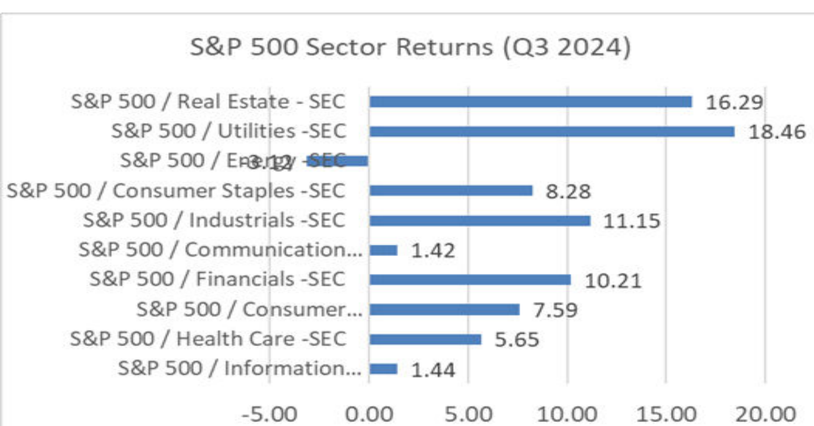
Developed International stocks continued to lag the U.S. market in Q3 but have still performed well over the past twelve months. The question is asked, why has the MSCI EAFE benchmark trailed its U.S. counterpart, the S&P 500? Part of the answer may lie in the makeup of the index benchmarks. The U.S. equity market benefits from including more of the world's most productive companies, many of which are found in the technology sector or have a technology focus in other sectors. The S&P 500 has a 31.6% weight in the technology sector. The EAFE index has a significantly lower weight in technology and fewer strong growers in other sectors.



Source: msci.com

Emerging market stock benefited from the stimulus program in China and from a broadening out of equity investments.

The most interest rate-sensitive sectors of the S&P 500 had the strongest performance in Q3. Utilities



Source: FactSet

and Real Estate followed by Industrials and Financials led the way. Utilities also benefited from a projected increase in electricity demand from AI. Information Technology was a laggard in the quarter but continues to be the leader on a YTD and one-year basis. Information Technology was up just 1.4% in the quarter but was up 29.6% YTD and 51.3% for one year through the end of Q3.

Earnings growth estimates for the S&P 500 remain strong for 2024 and 2025. EPS growth estimates for 2024 have declined slightly from 11.2% at the beginning of the year to 10.2% currently. EPS growth estimates for 2025 have risen from 13.4% in January to 14.9% today.

The S&P 500 is currently at 5,735 and has been as high as 5,767. The P/E multiple based on the next twelve months' earnings estimate is 21.65X compared with the 10-year average of 18.35X. A higher-than-average P/E multiple may be maintained due to continued economic growth, strong earnings growth, and declining interest rates.

Our year-end forecast for the S&P 500 is 5,700 and 5,950 for twelve months. The forecast is based on 13.9% earnings growth in 2025, compared with the consensus estimate of 14.9%. Earnings growth of 11.5% is used for 2025, compared with the consensus estimate of 12.5%. P/E multiples are forecasted to regress slowly towards the long-term mean but remain elevated for the reasons stated above.

Goldman Sachs forecasts that the S&P 500 will reach 6,300 in twelve months. Raymond James forecasts 5,850 for twelve months. Yardeni Research maintains a range of 4,800 -- 6,000 for 2025.

These forecasts will likely be subject to review following the election in order to take into account the possibility of margins being negatively impacted by increased corporate tax and regulation. Also, additional tariffs could lead to higher prices and more pressure on the consumer.

Fixed Income Markets

The Fed rate cut, related rate outlook, and declining inflation have changed everything in the fixed-income market. The Bloomberg U.S. Aggregate Bond Index was up 5.2% in Q3 compared with just 0.07% in Q2. The index is up 4.45% for YTD and 11.57% for 12 months through September 30th. Municipal bond returns were just slightly behind at 2.55% for the quarter, 2.21% YTD, and 9.43% for twelve months. High-yield bonds also performed well. The lower-credit bonds were up 5.38% for the quarter, 7.78% YTD, and 15.55% for twelve months.

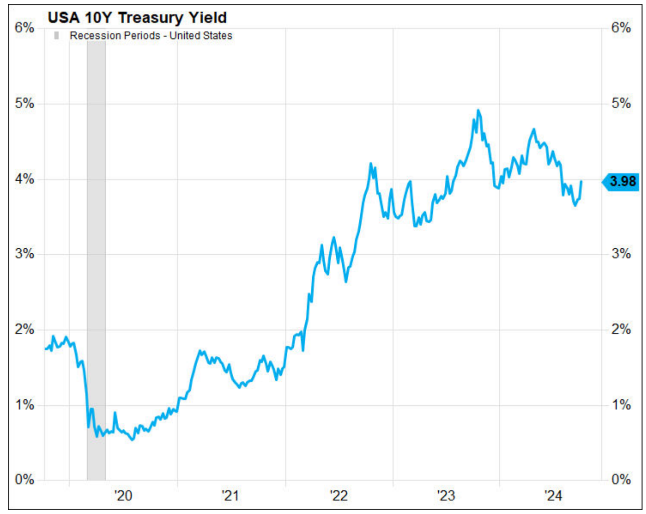
2024 Q3 Returns				
FIXED INCOME	Q3 2024	YTD 9.30.24	1 Year 9.30.24	3 Years Annualized
Bloomberg US Agg Bond	5.20	4.45	11.57	-1.39
ICE AMT-Free Nat'l Muni	2.55	2.21	9.43	0.23
Markit iBoxx USD Liquid High Yield Index	5.38	7.78	15.55	3.04

Source: FactSet

Money market rates generally dropped on the Fed rate cut. The yield for a Fidelity money market fund that we have utilized in some accounts has dropped from about 5.3% to about 4.85%. Money market fund investments typically include repurchase agreements and commercial paper. Repurchase agreements generally are just overnight or for other very short periods. The yield on repurchase agreements is currently about 4.90% and will adjust down immediately to additional rate cuts. Commercial paper maturities range from 15 to 270 days. Commercial paper yields have already adjusted to a range of 2.50 -2.75%.

Excess amounts in money market funds should be moved out to short-term bond funds to maintain a higher yield for longer and to benefit from the duration impact of declining rates on the short end of the yield curve.

The 10-year U.S. Treasury traded near 5% a year ago and moved down to 3.75% in September. It moved back to about 4% in reaction to stronger-than-



Source: FactSet

expected job numbers. We do not expect the yield to drop to sub-2% levels seen in the past.

Municipal bond issuance has picked up ahead of the presidential election. There will be greater demand for municipal bonds if tax rates are raised by the incoming administration.

Real Assets

Real estate investments have significantly lagged equity returns over the past five years; however, anticipation of a Fed rate cut has stimulated the

2024 Q3 Returns				
Real Assets	Q3 2024	YTD 9.30.24	1 Year 9.30.24	3 Years Annualized
Dow Jones U.S. R/E	17.08	13.72	34.17	3.05
S&P GSCI	-5.26	5.23	-6.06	8.80

Source: FactSet

market over the past calendar quarter. The movement of some return of workers to the office has also helped.

Energy and agricultural products have pushed the commodities benchmark (S&P GSCI) lower. Precious metals remain elevated. Gold is near all-time highs at $2,630/oz.

Asset Allocation

Performance in the U.S. large-cap equity market has broadened out to previously underperforming sectors. Still, much of the upward movement is due to increased valuations rather than improving fundaments. It is recommended that clients reassess their overall objectives and risk tolerance to determine if adjustments to the asset allocation are due.

Alternative investments may be appropriate for some investors to help manage volatility and potentially reduce downside risk. Investors willing to accept less liquidity may wish to increase their allocation to alternative investments, particularly to private equity and private credit to improve long-term return potential.

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