Q3 2024

Market Commentary

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Quarter in Review

The third quarter of 2024 marked a turning point with long-awaited relief from the Federal Reserve's elevated rates. Markets rallied significantly, driven by optimism for a soft landing, improved inflation data, and the initial round of rate cuts.

The equity market continued its upward momentum, with all major indices ending Q3 strongly. Despite the S&P 500's worst first week of September since 1953, the index recorded new highs during the month, finishing up 2.14%, 5.89% on the quarter, and 22.08% year to date. The Dow Jones Industrial Average also finished on a high note, up by 8.72% in the third quarter, another record close.

Almost all sectors saw gains, with Utilities and Real Estate leading with 19% and 17% increases, respectively.[1] Despite a pullback toward the end of the quarter, small-cap stocks had a stronger performance than their large and mid-cap counterparts, recording a 10% rise in Q3. Emerging Markets also posted robust returns, outpacing the U.S. and International Developed markets.[2]

Fixed-Income Markets posted positive returns for the quarter as yields declined. The 10-year U.S. Treasury dropped roughly 60 bps for the month, while the two-year shaved off 100 bps, helping the 10-2 spread to finally exit its prolonged inversion.
The Bloomberg U.S. Aggregate bond index, a widely tracked measure of total returns on U.S. fixed income, enjoyed a robust 5.20% gain for the quarter, while the Bloomberg Global Aggregate bond index posted 6.98%.[3]

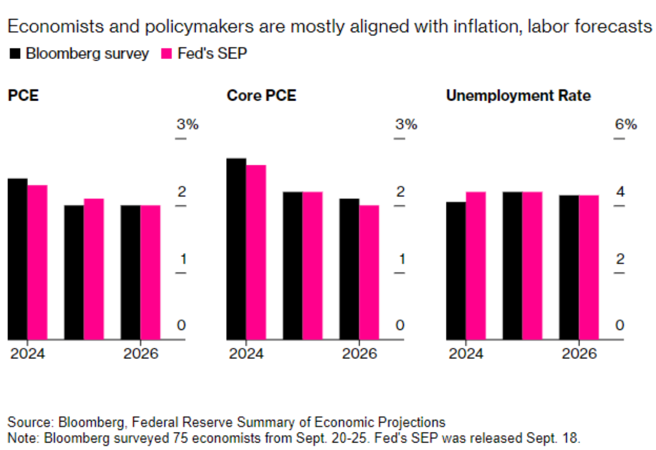
The Global Commodities Market has seen challenges over the quarter. The Bloomberg Commodity Index hit its lowest point for the year in July, driven by economic stagnation in China. Performances among commodities varied, with Precious Metals enjoying a positive spell, while Energy showed weakness due to potential increases in oil supply and diminished global demand.[4]

What's Been Driving Markets

The Economy, Inflation & the Fed

The U.S. economy experienced steady growth, with the GDP rising at a 3% annualized rate through Q2 despite predictions of a slight reduction. This growth occurred even as the Fed has kept a keen eye on potential wage inflation signs, which could influence monetary policy decisions down the line.

Federal Reserve Chair Jerome Powell recently articulated an optimistic view of a "soft landing" for the economy supported by lowered interest rates—a process that began with a half-point cut in September. Should the economy maintain its current trajectory, Powell expects two more quarter-point cuts before the year end. Despite this, the market is anticipating more aggressive cuts.[5]



Inflation, as represented by the PCE index for August, rose by 0.1%, aligning with expectations and slowing the year-on-year rate to 2.2% from 2.5% in July. Employment has also seen changes, with the labor market showing signs of cooling.

Economists and Federal Reserve officials predict a 4.4% average unemployment rate in 2025, which is expected to decrease slightly in the subsequent year. As of August, the jobless rate was 4.2%, which is anticipated to remain consistent in September.[6]

1 S&P Dow Jones Indices, Index Dashboard Data as of September 30, 2024

2 Morningstar Direct as of September 30, 2024

3 Morningstar Direct as of September 30, 2024

4 S&P Dow Jones Indices, Index Dashboard Data as of September 30, 2024

5 Omeokwe, A., "Powell Says Fed Will Lower Rates 'Over Time,'" Bloomberg.com, September 30, 2024, https://www.bloomberg.com/news/articles/2024-09-30/powell-says-fed-will-move-over-time-to-more-neutral-stance

6 Golle, V., and Morgan, D., "U.S. Inflation Hits Fed's 2% Goal Early 2025 in Economists Survey," Bloomberg.com, September 27, 2024, https://www.bloomberg.com/news/articles/2024-09-27/fed-s-preferred-price-gauge-seen-hitting-2-goal-in-early-2025

What's Been Driving Markets

The Election

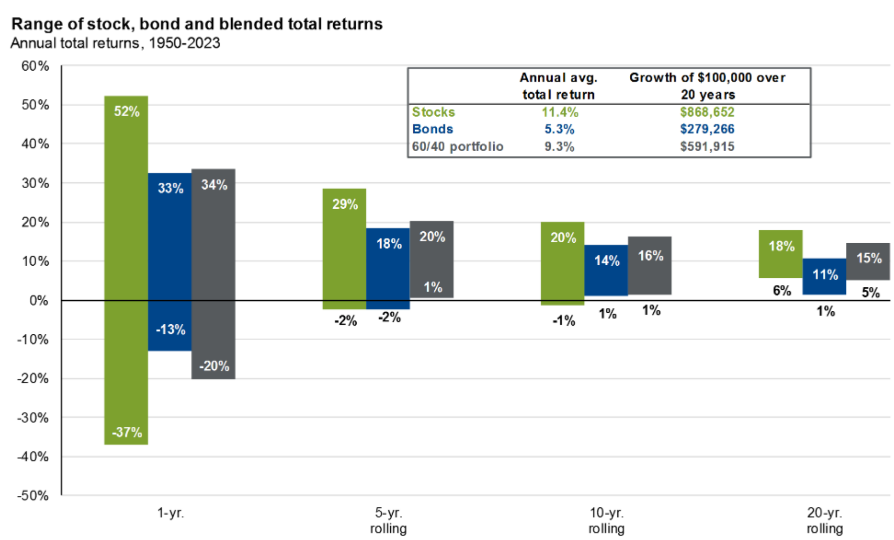
Elections influence the financial landscape, as the uncertainty they bring can prompt reactionary investment behaviors, potentially impacting stock market valuations. Political shifts can potentially trigger changes in foreign policies and international relations—both of which can impact stock prices. Historical trends to show that markets typically trend upward, regardless of political changes during election years.

We believe maintaining a steady, long-term investment approach during political transitions is often considered a sound strategy.

Final Thoughts – Stay the Course

No one can predict with certainty what is going to happen. Of course, that doesn't stop us from guessing or believing we know what will happen. But even the world's brightest, most well-informed, connected, successful minds don't know what will happen.

What we do know, however, is the tendency of markets to reward investors over time. The chart below shows that markets can be highly volatile, and short-term results can vary widely. Yet, investors willing to remain patient and stay the course over time have historically been rewarded with a more reliable range of outcomes.



Hypothetical Illustration. Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Standard & Poor's, Strategas/Ibbotson, J.P. Morgan Asset Management Guide to the Markets – U.S. Data are as of September 30, 2024. Returns shown are based on calendar year returns from 1950 to 2023. Stocks represent the S&P 500 Shiller Composite for periods prior to 1936 and the S&P 500 thereafter. Bonds represent Strategas/Ibbotson for periods prior to 1976 and the Bloomberg Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2023.

Disclosure

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Index Disclosure and Definitions All indexes have certain limitations. Investors cannot invest directly in an index. Indexes have no fees. Historical performance results for investment indexes generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance. Actual performance for client accounts may differ materially from the index portfolios.

S&P 500 Index represents the 500 leading U.S. companies, approximately 80% of the total U.S. market capitalization. Dow Jones Industrial Average (DJIA) Is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The Nasdaq Composite Index (NASDAQ) measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market, and includes over 2,500 companies. MSCI World Ex USA GR USD Index captures large and mid cap representation across 22 of 23 developed markets countries, excluding the U.S. The index covers approximately 85% of the free float-adjusted market capitalization in each country. MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets (as defined by MSCI). The index consists of the 25 emerging market country indexes. Bloomberg Barclays U.S. Aggregate Bond Index measures the performance of the U.S. investment grade bond market. The index invests in a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States – including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year. Bloomberg Barclays Global Aggregate (USD Hedged) Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging market issuers. Index is USD hedged.