Third Quarter 2024

Financial Markets Commentary

The Fed Eases as the Bull Market in Stocks Rages On

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Financial Markets (see page 4 for asset class total rates of return)

- The stock market rally broadened out beyond mega-cap technology companies during the third quarter. With the exception of Energy, all 9 other sectors in the S&P 500 outperformed Technology companies. Value stocks beat growth stocks and U.S. Small-Cap stocks emerged to beat U.S. Large Cap companies. The S&P 500 Index reached a record-high close for the 41st time this year. The U.S. economy continues to grow at a solid pace and the risks of a recession have declined significantly now that the Fed began cutting interest rates on September 18th to boost economic growth. Fed officials have indicated that more rate cuts are coming soon. The Fed has effectively taken any near-term recession risk off the table.

- U.S. stocks were led higher by Small Caps and Mid Caps. Unlike Large Cap companies, smaller ones tend to finance their capital needs with floating-rate debt, which means that rate cuts directly lower their borrowing costs. Corporate profits have been stronger than expected and investors seem convinced that the Fed will bring inflation under control without sending the U.S. economy into recession.

- In terms of U.S. Large Cap sectors, Utilities and Real Estate led the way higher. Now that the Fed is committed to reducing interest rates, the relatively higher dividend yields from the stocks in these sectors look more attractive. As technology companies build data centers to power the artificial-intelligence push, these data centers will require more power. Investors believe that Utilities stocks and Real Estate (warehouse space for data centers) will benefit from this expected surge in demand. Only the Technology and Energy sectors declined in value during the quarter. Investors booked profits (sold) in high-flying, big technology companies while the price of oil dropped due to weak Chinese and European demand.

- Emerging Market stocks also posted strong performance led by China whose government on September 24th laid out a number of measures to jumpstart its economy and stock market. Several economists believe that while the support is welcome, it may not be enough to pull China's economy out of a low-growth period marked by falling prices, a real-estate crisis and spiraling trade tensions.

- For the second consecutive quarter, all investment grade bond sectors (Treasuries, Government Agencies, Corporates, Mortgage-Backed Securities, & Municipals) generated positive total returns. While the stock market's performance reflected investor optimism that the Fed can achieve a soft landing and avert a recession, for much of the quarter bond investors behaved like a recession was imminent. They bought bonds, pushing prices higher/yields lower across the entire Treasury yield curve. After being inverted (2 year yields higher than 10 year yields) for much of the past two years, the Treasury curve finally dis-inverted as 2 year Treasury yields fell faster than 10 year Treasury yields. Investors are now considering the possibility that future Fed interest rate cuts will continue to drive the 2 year yield lower, while the 10 year yield could rise on concerns that Fed interest rate cuts might heat up an already warm economy.

- Although generating positive total returns, Municipal bonds have been slow to react to the Fed's interest rate cut, leaving their performance lagging most other bond sectors. The main reason for this relative underperformance is the historic level of supply as issuers rush to borrow ahead of the election.

Global Economy & Fed Policy

- The Organization for Economic Cooperation and Development (OECD) expects global growth to increase by 3.2% in 2024 and again in 2025, after having grown by 3.1% in 2023. Declining oil prices and interest rates along with recovering real wages should help drive a pickup in global economic growth this year and next. Despite the improved outlook for growth and inflation rates, consumer confidence has yet to pick up significantly, which would further support economic growth. The OECD believes that the dissatisfaction with economic performance is tied to the fact that food prices remain well above their pre-pandemic levels. China, Japan, and Germany have disappointed. China is contending with a real estate recession and is dumping goods overseas crushing Europe's manufacturing sector and other goods producers around the world. Recent, aggressive fiscal measures by the Chinese government may not be enough to overcome structural problems in the world’s second largest economy. Japan is on the brink of stagnation this year and Germany may experience a small contraction.

- At its September 18th meeting, the Fed reduced interest rates by 0.50%. It is expected to cut again on November 7 by 0.25% to 0.50% and another 0.25% to 0.50% at the December meeting depending upon the strength or weakness in upcoming employment reports. Additionally, in its Summary of Economic Projections, more rate cuts are coming with the overnight fed funds rate falling to 2.9% sometime in 2026. It was the moment that investors had all been waiting for and stocks soared to new record highs following the announcement. At his press conference immediately following the September meeting, Fed Chair Powell stated that "strength in the labor market can be maintained in a context of moderate growth and inflation moving sustainably down to 2%. The U.S. economy appears to be pretty close to where the Fed would like and this initial 0.50% rate cut in September was an attempt to keep it that way. Given that the Fed’s continued reliance on past economic data almost ensures that they will be behind the curve in their monetary policy moves, perhaps that is why they decided to lower rates by 0.50% instead of 0.25%.

- We still believe that the likely U.S. economic scenario moving forward may be a cross between a “no landing” and a “soft landing.” Fed rate hikes have caused inflation to slow, while unemployment remains low, and no recession has materialized. Now that the Fed reversed the course of monetary policy at its September meeting by reducing rates, and with additional cuts expected in the coming months, economic growth should get a boost and corporate profits are likely to remain strong. This should prevent a material rise in unemployment and an economic slowdown. In this stronger for longer economy, bond yields may stay elevated relative to the past 16 years and the potential for higher stock prices remains good.

- Risks to economic stability over the remainder of the year and early next include a U.S. dockworkers strike, inflation, recession in Europe, deflation in China, wars in Ukraine and the Middle East, a significant rise in oil prices, and the outcome of U.S. elections. A geopolitical oil shock could lead to stagflation (inflation rate is high or increasing, the economic growth rate slows, and unemployment remains steadily high). The fiscal policy implications (taxes & tariffs) of who wins U.S. elections in November can definitely impact the balance of risks in the near-term. Any of these aforementioned risks have the potential to reduce global growth and increase inflationary pressures.

The Election, Outlook and Portfolio Strategy

- We believe that investment decisions should be based upon longer-term fundamentals, rather than near-term geopolitical risks. The economic and monetary policy outlook will be much more important in shaping financial markets than the results from the November U.S. election. At this point in time, the presidential election is too close to call. About all that we do know is that neither candidate seems averse to protectionism (tariffs) and fiscal irresponsibility (increased government spending). Historically, average returns for the S&P 500 tend to be slightly lower in presidential election years compared to non-election years. When the incumbent party fails to remain in the White House, the S&P 500 on average experiences more volatility in the 6 months after the election. This reflects the uncertainty created by potential policy changes from a new administration, and the stock market hates uncertainty. The health of the economy plays a critical role in determining if the political party in the White House wins re-election.

- Recent economic data has shown that inflation cooled for a fifth consecutive month in August, hitting a new three-year low. U.S. job growth has rebounded from earlier this Spring while consumer sentiment is improving, and households are continuing to spend. However, the unemployment rate has ticked up this year from 3.7% to 4.2% and there are signs that lower-income consumers are struggling to pay their bills. ***Over the past 80 years, the Fed has never managed to bring down inflation without causing an economic recession. This time may be different.*** While a soft-landing scenario in which Fed rate hikes cause inflation to slow, while unemployment remains low, and no recession occurs seems possible, it feels like we are currently in a no-landing scenario in which rates stay higher for longer without a significant rise in unemployment and economic slowdown, while bond yields stay elevated and the potential for higher stock prices is good. ***We believe that it is possible to have a strong economy and good stock market performance in a rate environment that is relatively high compared to the past 16 years.***

- ***We continue to be slightly overweight bonds and slightly underweight risk.*** The Fed's response to reduce inflation has resulted in the highest bond yields since December 2008. Municipal bond yields and ratios to taxable bonds remain relatively high providing an attractive entry point which should provide investors with good opportunities to earn tax-free income.

- In risk markets, we favor U.S. stocks. As long as the economy grows while the jobs market stays strong and inflation remains contained, U.S. Large Cap stocks can continue to perform well. For Q3 2024, corporate earnings for the S&P 500 index grew at 4.6% year-over-year, marking the 5th straight quarter of earnings growth. The broadening rally that occurred during the quarter indicates that many investors think the economy looks healthy enough for stocks from a variety of industries to continue to run higher, potentially contributing to a more sustainable rally. We are also overweight U.S. Small Cap and International Developed Market stocks. Now that the Fed has begun reducing interest rates, borrowings costs for Small Cap companies are falling while the value of the U.S. dollar is weakening to the benefit of international companies and economies. We remain overweight government bonds while avoiding direct exposure to Emerging Market stocks, Real Estate, Gold, and High Yield bonds. ***Investors should continue to benefit from balance and diversification in their portfolios to help mitigate the risks associated with the highs and lows of economic and market cycles and shorter-term geopolitical events.***

Total Rate of Return Performance as of 9/30/2024

Stock Indices	Asset Class	QTD Return	YTD Return
MSCI AC World Daily TR N	Global Equities	6.61%	18.66%
DOW JONES INDUS. AVG	U.S. Large Cap Equities	8.72%	13.93%
NASDAQ COMPOSITE	U.S. Large Cap Equities	2.76%	21.84%
S&P 500 INDEX	U.S. Large Cap Equities	5.89%	22.08%
RUSSELL 1000 GROWTH INDX	U.S. Large Cap Growth Equities	3.19%	24.55%
RUSSELL 1000 VALUE INDEX	U.S. Large Cap Value Equities	9.43%	16.68%
S&P 400 MIDCAP INDEX	U.S. Mid Cap Equities	6.94%	13.52%
RUSSELL 2000 INDEX	U.S. Small Cap Equities	9.27%	11.16%
MSCI EAFE	International Developed Market Equities	7.35%	13.55%
MSCI EM	Emerging Market Equities	8.82%	17.13%
DJUSslct REIT Trust	Real Estate	15.56%	14.92%
S&P 500 Sector Indices	**S&P 500 Stock Sectors**	**QTD Return**	**1 Year Return**
S&P 500 ENERGY INDEX	U.S. Large Cap Equities - Energy	-2.32%	8.36%
S&P 500 HEALTH CARE IDX	U.S. Large Cap Equities - Health Care	6.07%	14.35%
S&P 500 CONS DISCRET IDX	U.S. Large Cap Equities - Consumer Discretionary	7.80%	13.91%
S&P 500 CONS STAPLES IDX	U.S. Large Cap Equities - Consumer Staples	8.96%	18.74%
S&P 500 INFO TECH INDEX	U.S. Large Cap Equities - Information Technology	1.61%	30.31%
S&P 500 UTILITIES INDEX	U.S. Large Cap Equities - Utilities	19.37%	30.63%
S&P 500 INDUSTRIALS IDX	U.S. Large Cap Equities - Industrials	11.55%	20.20%
S&P 500 COMM SVC	U.S. Large Cap Equities - Communication Services	1.68%	28.81%
S&P 500 MATERIALS INDEX	U.S. Large Cap Equities - Materials	9.70%	14.14%
S&P 500 FINANCIALS INDEX	U.S. Large Cap Equities - Financials	10.66%	21.90%
S&P 500 REAL ESTATE IDX	U.S. Large Cap Equities - Real Estate	17.17%	14.31%
Commodity ETF/Index	**Type of Commodities**	**QTD Return**	**1 Year Return**
ISHARES GOLD TRUST	Gold	13.13%	27.34%
S&P GSCI Tot Return Indx	Broad Commodities	-5.26%	5.23%
Bond ETFs/Index	**Fixed Income Sectors**	**QTD Return**	**1 Year Return**
ISHARES CORE U.S. AGGREGATE	Core Bonds	5.30%	4.55%
ISHARES INTERMEDIATE GOVERNM	Intermediate Government & Corporate Bonds	4.12%	4.55%
SPDR PORTFOLIO HIGH YIELD BO	High Yield Debt	5.58%	8.45%
ISHARES 3-7 YEAR TREASURY BO	U.S. Treasuries	4.41%	4.24%
ISHARES MBS ETF	Mortgage-Backed Securities	5.40%	4.50%
ISHARES 5-10Y INV GRADE CORP	Corporate Debt	5.96%	6.34%
ISHARES NATIONAL MUNI BOND E	Municipal Debt	2.71%	2.20%
TREASURY BILL	Cash	1.34%	3.97%

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Notes

Total Rate of Return Sources on page 3: *MSCI, Standard & Poor's, Dow Jones, NASDAQ, Russell, & Blackrock IShares. Investors cannot invest in a market index directly; the performance of an index does not represent any actual transactions and its performance does not reflect the deduction of any fees or expenses associated with actual investing. Market performance information is included on this slide solely to demonstrate the potential benefits historically associated with long-term investing in a portfolio of well-diversified asset classes and does not represent or suggest results DT Investment Partners would or may have achieved when managing client portfolios*

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