Capital Market Review
Third Quarter 2024

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Key Takeaways from 3Q 2024

- It was not just a Magnificent Seven story in the third quarter. Value stocks outperformed growth, small caps outperformed large caps, and the S&P 493 outperformed the S&P 7.
- Overall, the economy is in fairly good shape. Inflation is increasing slower than a year ago, GDP growth is strong, and short-term interest rates are starting to decline from Federal Reserve rate cuts. The negative continues to be that prices have risen significantly over the past four years.
- The major upcoming event is the Presidential election. Volatilty tends to increase in the weeks before an election; once a winner is proclaimed, uncertainty declines, and markets tend to do well.

Before we get into how markets performed last quarter and year to date, let's take a moment to remember a few significant events that have occurred in 2024:

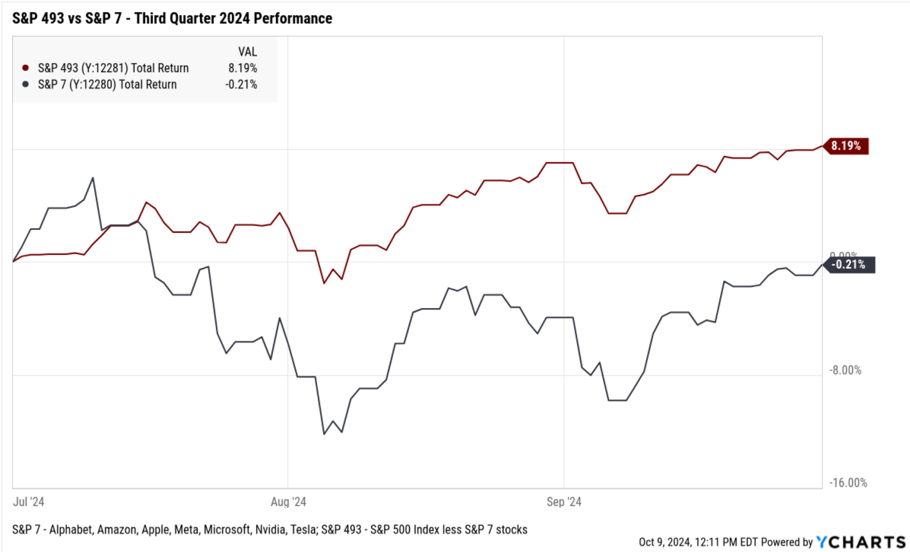
- The war between Ukraine and Russia continues with no end in sight.
- Israel and Hamas/Iran fighting has escalated. It is hard to believe we are at the one-year anniversary of Hamas invading Israel.
- This year will see 73 elections across the globe. Considering there are just 37 developed countries in the world, this is a year of major political shifts.
- The sitting U.S. President dropped out of a reelection campaign just 107 days before Election Day, passing the Democratic nomination to the sitting Vice President.
- The Republican Presidential Candidate survived two assassination attempts with in four months of Election Day.
- Multiple natural disasters have occurred across the world.

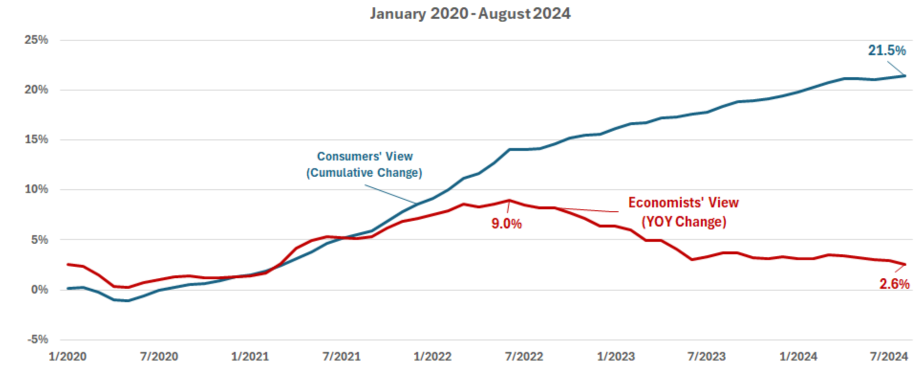
Despite these seemingly adverse events, global equity markets have increased double digits nine months into 2024. The S&P 500 Index has closed at a record high 43 times so far this year after not posting a new high in over two years. Even the Israeli stock market has positive returns, closing September up over 21% for the year, despite sitting at the center of the latest Middle East conflict.

Benchmark Index Returns (%)	3 mo.	6 mo.	9 mo.	12 mo.
USTREAS TBill 3-Month	1.46	2.83	4.20	5.66
BBg US Govt/Credit 1-5 YR	3.50	4.36	4.50	8.10
BBg Municipal Bond 3 YR	2.39	2.75	2.47	6.17
BBg US Aggregate Bond	5.20	5.26	4.45	11.57
BBg Municipal Bond	2.71	2.69	2.30	10.37
BBg Corp High Yield	5.28	6.44	8.00	15.74
FTSE WGBI Non-USD	8.61	5.52	1.92	12.02
S&P 500	5.89	10.42	22.08	36.35
DJ Industrial Average	8.72	7.35	13.93	28.85
Russell 2000	9.27	5.69	11.17	26.76
MSCI ACWI	6.61	9.67	18.66	31.76
MSCI EAFE	7.26	6.81	12.99	24.77
MSCI EM	8.72	14.16	16.86	26.05
DJ US Select REIT	15.56	15.37	14.92	33.71
Bloomberg Commodity	0.68	3.58	5.86	0.96

A key theme of last quarter was the rotation from large cap technology stocks. While those companies continue to do well and maintain a positive outlook, the market cared about other companies, and it was not just an Nvidia story. We finally have a quarter where value stocks beat growth stocks, and small companies did better than their large cap peers.

The Magnificent Seven (a term coined to describe Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) have been the definition of large cap outperformance for much of the past two years. Not only can we say value and smaller companies did better than the S&P 500, but we can also say the other 493 stocks in the S&P 500 Index finally outperformed the Magnificent Seven, even if it was only a short-term period.





Economy

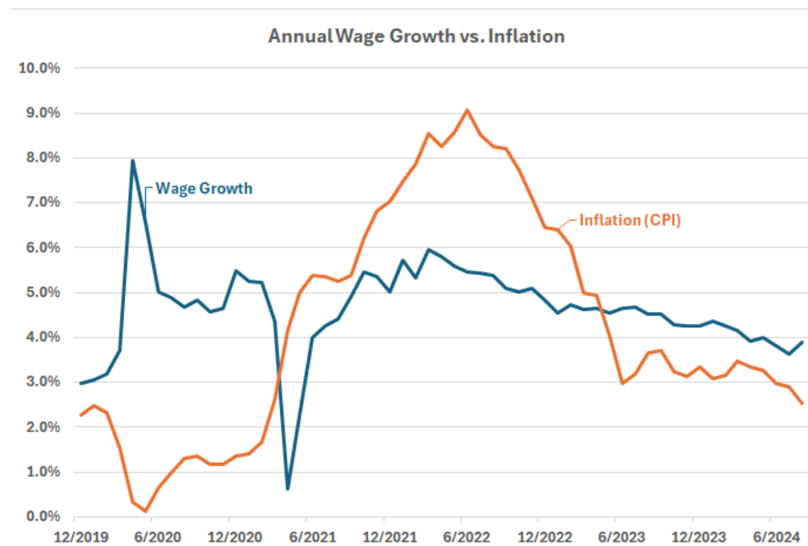
Going back about two months, markets were worried the jobs market was weakening after a few data points were reported weaker than expected. This resulted in the S&P 500 Index declining slightly over 8%, sending panic across markets. That panic quickly reversed when a report on the jobs market came in stronger than expected. With sentiment changing so quickly, it is difficult to know the actual state of the U.S. economy.

Depending on headlines and news sources, the economy is doing well or poorly, and the truth is that data has been mixed, with a sway to the positives. The negative continues to be inflation. Some news sources can mislead the public when inflation is quoted as being "lower" than a year ago. While that is true, the better way to say it is that prices are increasing slower than last year; however, they continue to increase.

The varying views on inflation stems from how individuals perceive price increases, whether from a consumer's or an economist's standpoint. Economists, for instance, view inflation through the lens of how it changed over the past year. Looking at the red line in the chart to the right, economists view inflation as slowing since its 9% peak in June 2022, and is now increasing at 2.6%, so price increases are slower or "lower" than they were two years ago.

Consumers have a different perspective. We continue to feel price increases; just because prices rose over a year ago, they are still included in what we pay each day. Since the beginning of 2020, prices have increased a little over 21%, according to the Consumer Price Index. During the 2010's decade, prices rose 19% throughout the entire ten-year period. No wonder consumers have had to adjust their budgets; we received a decade's worth of inflation in just a few years.

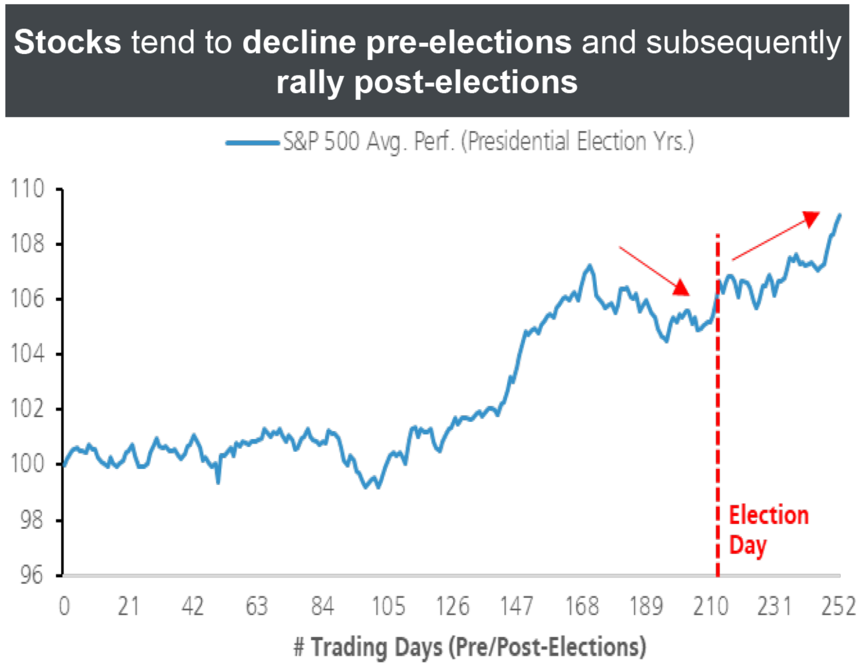
Positive change has been developing over the past year, and that is employee wages are back to outpacing inflation. However, this will not immediately make up for the two-year period where inflation ran significantly higher than wage increases. Economic data and its impact on the economy do not change quickly. There is always a lag from when the data changes to when consumers feel the change; but the good news is, we are moving in a direction more like the prior decade, in terms of wages increasing more than inflation, and away from that past two years.



Election

We are often asked what we see happening in markets over the next few months. While the answer is always "we have no idea," the next three months will most likely exaggerate that point even further due to the election. While most Americans are likely looking forward to moving past election day, especially those of us living in swing states, many clients are concerned about what the election outcome means for their investments.

It's important to understand that the market is indifferent to the outcome of the Presidential election. What it truly cares about is the uncertainty that the election brings. From a market perspective, the most favorable scenario is a split Congress. Regardless of which party wins the White House, significant campaign promises cannot be implemented without a supermajority in Congress. Without a supermajority, we expect to see little change, meaning certainty returns as a, hopefully, calming presence to markets.



Source: JPMorgan Guide to the Markets, 4Q2024

We would not be surprised to see volatility increase in the weeks leading up to election day. However, after we know the winner, markets tend to trade higher through the end of the year, as demonstrated by the chart on the left. What could potentially change the typical market reaction in the chart is a close and contested result that delays proclaiming a winner. In this scenario, uncertainty would continue and likely lead to more volatility in markets. While this is not ideal, it would not change our process or our portfolio views. It would likely be another event we could add to the list we first discussed, with hopefully similar market results.

It is hard to believe it has been one year since the start of the Israel/Hamas war, and we are also approaching three years of the Ukraine/Russia war. Despite these major geopolitical conflicts, markets are higher. No matter what happens with the election, wars, or some event that is not on any of our radars, there could be volatile returns in the shorter term. However, looking to the next few years, we expect portfolios to continue to grow in value.

10/2024

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