MONTHLY **INVESTMENT OUTLOOK** | OCTOBER 2024

KEY POINTS

Equity markets had a strong third quarter. The S&P 500 had a total return of 5.9%, bringing its year-to-date return to 22.1%. Bond yields moved lower as the Federal Reserve began to cut U.S. rates and bonds returned 5.2% for the third quarter. Small and mid-sized companies had the strongest gains in the third quarter at 8.7%, underscoring the importance of maintaining a diversified portfolio. The broadening of market leadership is a positive development as market returns earlier in the year were very narrow, concentrated in a handful of mega-cap tech stocks benefiting from optimism about artificial intelligence. Gold has led all major asset classes this year with a gain of 28%.

FEDERAL RESERVE AND THE GLOBAL RATE-CUTTING CYCLE: The Federal Reserve's decision to cut short-term rates by 50 basis points and signal a cycle of sequential rate cuts is an important inflection in monetary policy after the rapid increase in interest rates in 2022. The Fed signaled an additional 50 bps in rate cuts by the end of the year and another 100 bps in cuts in 2025. With inflation moderating, the Fed has shifted from a single focus on bringing down inflation to its dual mandate that includes maintaining a strong labor market. With short-term rates at 4.75% - 5.0% and materially above inflation around 2.5%, the Fed has plenty of room to reduce interest rates. The Fed has now joined other central banks, that includes the ECB and BOE, in a global rate-cutting cycle, which mitigates the downside risks to global growth.

ECONOMIC GROWTH: The U.S. economy accelerated during the second quarter to a 3.0% annual rate but has begun to moderate as manufacturing and the labor market have started to slow. Few excesses have built up across the economy in the residential, business, and consumer sectors. The unemployment rate has dipped back to 4.1% on strong job creation and wage gains in the recent September jobs report. The combination of easing GDP growth, a solid labor market, cooling inflation, and lower interest rates indicate recession fears are overdone and keeps alive the soft-landing narrative for the economy.

CORPORATE EARNINGS AND EQUITY VALUATIONS: Earnings face headwinds with profit margins at peak levels, topline growth slowing, and economic growth moderating. With earnings estimates forecasted to grow 9% in 2024 and 15% in 2025, estimates may likely be too high and are likely to be revised lower to 8-10% growth in 2025. Valuations at 21 times forward earnings (long-term average 16-17 times) are elevated. The gap between the stock dividend yield (1.4%) and risk-free Treasury yields (4.75%+) remains stretched, making the relative valuation of bonds attractive for portfolios.

GLOBAL MACRO UNCERTAINTY: Macro risk is high with political and geopolitical uncertainty elevated. Wars continue in the Middle East and Ukraine. The U.S. election in November is a toss-up and could result in important policy changes with market implications. Overall, we see greater macro and market volatility leading to a higher dispersion of returns across geographies and sectors, which creates an opportunity for active portfolio management.

ASSET ALLOCATION: Asset allocation remains a key factor and is more important than ever for investors' portfolios with the challenging macro backdrop. Challenges include long-term inflation pressures from the reshoring of global supply chains, the lagged impact of higher rates, high global debt levels, and geopolitical tension. We favor balanced positioning with a quality tilt as equity valuations are elevated and bond yields still provide solid income. In fixed income, we take advantage of the high yields that provide income and portfolio protection during recession or geopolitical turmoil. We include gold and alternatives to enhance diversification and lower portfolio volatility.

KEY TAKEAWAYS FOR INVESTORS:

- Growth is slowly easing but remains positive and supported by upcoming rate cuts and moderating inflation.
- A global rate-cutting cycle has begun and the Fed has signaled roughly 200 bps of cuts in rates by the end of 2025.
- Bond yields remain attractive and provide income generation, portfolio diversification, and capital preservation during recessions.
- The key to reaching your long-term investment goals is diversification, balanced asset allocation, and focus on the long-term horizon.

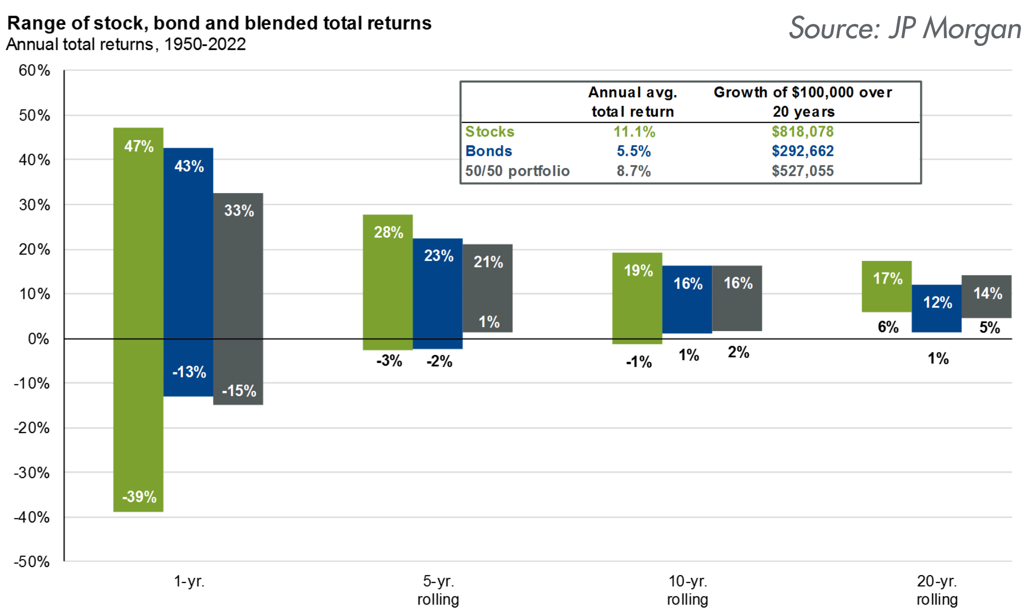
SUCCESSFUL INVESTMENT PRINCIPLES: FOCUS ON THE LONG GAME

Successful investors maximize the odds of success by focusing on the long term and maintaining a long-term investment plan based on their goals. Studies show individual investors significantly underperform the broad stock market. Individuals are more likely to be driven by emotions that lead to reducing equity and risk assets after market declines during times of volatility.

By taking a multi-year view, investors stack the odds in their favor of achieving investment success and achieving their goals. As can be seen in the chart below, over any one-year period the annual return for the S&P 500 can be volatile with returns from -39% to +47% since 1950. Over any 5-year period, the range shrinks to -3% to +28%. Most importantly, there has never been a twenty-year period since 1950 where equities have experienced losses, as returns ranged from +6% to 17%per year for the S&P 500.

For balanced accounts, the data shows that there has never been a rolling 5, 10, or 20-year period where a simple 50/50 portfolio of stocks and bonds had a negative return. Overall, from 1950 to 2022, a 50/50 portfolio compounded 8.7% per year. The lesson is that the more time you have and the more diverse your portfolio, the less risk there tends to be over a longer time of having a negative return, and, lastly, to focus on the long term to achieve your goals.

TIME, DIVERSIFICATION, AND THE VOLATILITY OF RETURNS



ECONOMIC DATA

- Global growth is forecasted to be lower yr.-over-yr. in 2024 but close to the long-term trend and weighed down by high debt levels, higher interest rates, and deglobalization. However, for 2024, estimates have been revised higher since the start of the year with estimates for the U.S. of 2.3% and global growth of 2.6%. For 2025, consensus estimates for U.S. and global growth are 1.8% and 2.6%, respectively.
- S&P 500 earnings were $208 (+48%) in 2021, $219 (+5%) in 2022, and $220 (+1%) in 2023 (FactSet). Estimates for 2024 are $241 (+9%) with estimated revenue growth of 5.1%. For Q3 2024, the estimated earnings growth rate for the S&P 500 is 4.2%. Estimates for 2025 are $277 (+15%) with estimated revenue growth of 5.9%.
- Valuations are elevated above the long-term historical averages.
- The trailing 12-month operating price-earnings ratio is 24.5 times operating earnings compared to the 10-year average of 21.7 times and the 50-year average of 14.2 times earnings.
- The forward operating price-earnings ratio is 21.4 times earnings, which is above the 10-year historical average of 18.0 times earnings and above the 30-year average of 16.7 times earnings.

MARKET RECAP (AS OF SEPTEMBER 30, 2024)

- The stock market posted solid gains in the third quarter. The S&P 500 gained 5.9% as the market broadened beyond the Mag 7 stocks. Small cap outperformed large cap, and value outperformed growth. Meanwhile, bond yields fell, fueling a 5.2% rise in the U.S. Bond Index as bonds rallied.
- Year-to-date, the S&P 500 gained 22.1% to all-time highs led by mega-cap technology stocks and optimism on AI. U.S. large-cap stocks continued to lead international equities as internationally developed equities rose 12.9% and emerging markets gained 16.3%. The U.S. stock market has broadened as small and mid-cap stocks have reduced the gap with large-cap stocks, with gains of 11.2% and 14.6% year-to-date. The Growth style continued to lead year-to-date with a gain of 24.5% compared to Value which rose 16.7%, with Value outpacing Growth by 6% in the third quarter.
- U.S. interest rates moved sharply lower with the U.S. 10-year bond yield ending at 3.79% as bond yields trend lower. The Bloomberg U.S. Aggregate Bond Index recovered its earlier year losses and is 4.4% higher for the year. Credit has outperformed the investment grade sector as the economy remains resilient and spreads are tight. Floating-rate bank loans rose 6.6% and emerging market debt gained 8.6% year-to-date.
- Gold has led all major asset classes with a gain of 28% year-to-date, adding to a 13% advance in 2023, proving its value as a hedge against geopolitical risk and excess money printing. Oil was weak in the third quarter and is now lower than at the start of the year.
- Alternatives: Fixed-income substitutes and unconstrained alternatives have had solid positive returns year-to-date.

Period Ending September 30, 2024 *Source: Bloomberg.* *Past performance is not indicative of future results.*

			Trailing Performance (annualized for periods > 1 year)				
Asset Class	**Index**	**MTD**	**YTD**	**1Y**	**3Y**	**5Y**	**10Y**
EQUITIES							
Benchmark	MSCI All Country World IMI	2.3	17.8	31.0	7.4	11.9	9.2
Large Cap	S&P 500	2.1	22.1	36.3	11.9	16.0	13.4
Long-Short	S&P 500 / LIBOR plus 3	1.3	13.1	20.9	7.7	9.1	7.5
Small/Mid Cap	Russell 2500	1.5	11.3	26.1	3.4	10.4	9.5
International	MSCI World Ex US IMI (net)	1.3	12.9	24.8	4.8	8.1	5.7
Emerging Markets	MSCI Emerging Markets IMI (net)	6.2	16.3	25.6	1.0	6.5	4.2
FIXED INCOME							
Benchmark	FTSE World Broad Investment Grade	1.6	3.6	12.2	(3.3)	(1.0)	0.5
U.S. Aggregate	Barclays US Aggregate	1.3	4.4	11.6	(1.4)	0.3	1.8
U.S. TIPS	Bloomberg US TIPS	1.5	4.9	9.8	(0.6)	2.6	2.5
Tax Exempt	S&P Municipal Bond Index	1.0	2.9	10.3	0.4	1.5	2.6
U.S. Corp High Yield	Bloomberg US Corporate High Yield	1.6	8.0	15.7	3.1	4.7	5.0
U.S. Floating Rate	S&P/LSTA Leveraged Loan	0.7	6.6	9.6	6.5	5.7	4.9
International	FTSE Non USD WGBI	2.0	1.9	12.0	(6.3)	(3.4)	(1.1)
Emerging Markets	JPM Emerging Markets	1.8	8.6	18.6	(0.4)	0.9	3.3
REAL ASSETS							
Benchmark	Gold	5.2	28.4	42.5	14.8	12.5	8.2
Inflation	*Consumer Price Index (CPI)*	0.2	2.0	2.6	4.7	4.1	2.8
Commodities	Bloomberg Commodities	4.9	5.9	1.0	3.7	7.8	0.0
ALTERNATIVES							
Benchmark	LIBOR + 3	0.8	7.7	11.7	5.2	5.1	4.0
Multi-Strategy	Credit Suisse Multi-Strategy I		6.8	6.2	5.7	6.0	5.1
Global Macro	Credit Suisse Global Macro Ind		2.5	3.5	4.3	5.8	4.4
Managed Futures	Credit Suisse Managed Futures		0.7	(2.7)	5.3	4.6	3.3