KEY POINTS

For October, global equities retreated. U.S. indices fell approximately 1% across the board, though the S&P 500 Index remains near record highs. International stock markets were hit with declining prices and weaker currencies, ending the month down 5%. The U.S. bond index dropped 2.5% as bond yields reached four-month highs. Gold, meanwhile, continued to set all-time highs, leading all major asset classes this year with a 32% gain.

FEDERAL RESERVE AND THE GLOBAL RATE-CUTTING CYCLE: The Fed began a rate-cutting cycle in September followed by a second rate cut in November. With inflation moderating, the Fed has shifted from a single focus on reducing inflation to its dual mandate that includes maintaining a strong labor market. Markets are now pricing in short-term policy rates settling around 3.5% to 3.7% by the end of 2025, up from 2.8% after the September cut. The Fed joined other central banks (ECB and BOE), in a global rate-cutting cycle, which mitigates the downside risks to global growth.

GROWTH OUTLOOK: The U.S. economy's recent resilience has led to interest rates moving higher. The risk of recession appears low as the US GDP growth in the third quarter was 2.8%. Few excesses have built up across the economy in the residential, business, and consumer sectors. Consumer spending is strong while manufacturing is still weak. The jobs market is solid with the unemployment rate back to 4.1% and wage growth still running around 3%. Global GDP growth is estimated to be near its long-term trend at 2.6% for 2025. The Eurozone lags the U.S., while China has rolled out stimulus to spur growth. Overall, the soft-landing or no-landing growth scenario continues to be the consensus outlook.

CORPORATE EARNINGS AND EQUITY VALUATIONS: Earnings face headwinds with profit margins at peak levels and topline growth slowing. Estimates for earnings to grow 15% in 2025 are likely too high and at risk of being downgraded to 8-10%. Valuations at 22 times forward earnings (long-term average 16-17 times) are stretched and will likely limit equity appreciation in the next few years. The gap between the stock dividend yield *(1.3%)* and risk-free Treasury yields *(4.5%+)* remains stretched.

ELECTION DAY TAKEAWAYS: Donald Trump has won the White House and Republicans won a larger-than-expected majority in the Senate. The House is still unclear but leans toward a small Republican majority, which would result in a red sweep. While still early, the implications are that the 2017 Tax Cuts and Jobs Act (TCJA) will likely be extended in whole or part when it expires at the end of 2025. Secondly, energy costs will likely be lower as oil production is increased, which will lessen inflationary pressures. Third, regulations will be rolled back which will promote investment and growth and assist small businesses. Lastly, increased tariffs will be primarily focused on China and manufacturing will be incentivized to move back to the U.S. For investors, it's important to remember that whatever the composition of the government (Red/Blue, divided, unified), the economy and markets have historically grown and moved higher over time.

GLOBAL MACRO UNCERTAINTY: Macro risk is high with elevated global debt levels, trade tensions, and geopolitical conflict in the Middle East and Ukraine. Overall, we see greater macro and market volatility leading to a higher dispersion of returns across geographies and sectors, which creates an opportunity for a more active approach to managing portfolios.

ASSET ALLOCATION: Asset allocation remains a key factor and is more important than ever for investors' portfolios with the current macro backdrop. Challenges include higher inflation from the reshoring of global supply chains, higher interest rates, elevated global debt levels, and geopolitical tension. We favor balanced positioning with a quality tilt as equity valuations are stretched and bond yields provide a solid income for portfolios. We include gold and alternatives to enhance diversification and lower portfolio volatility.

KEY TAKEAWAYS FOR INVESTORS:

- The combination of solid global growth and a global rate-cutting cycle is historically supportive of risk assets.
- High global debt levels and stretched equity valuations are a headwind for the stock market over the next few years.
- Bond yields have risen and can 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**

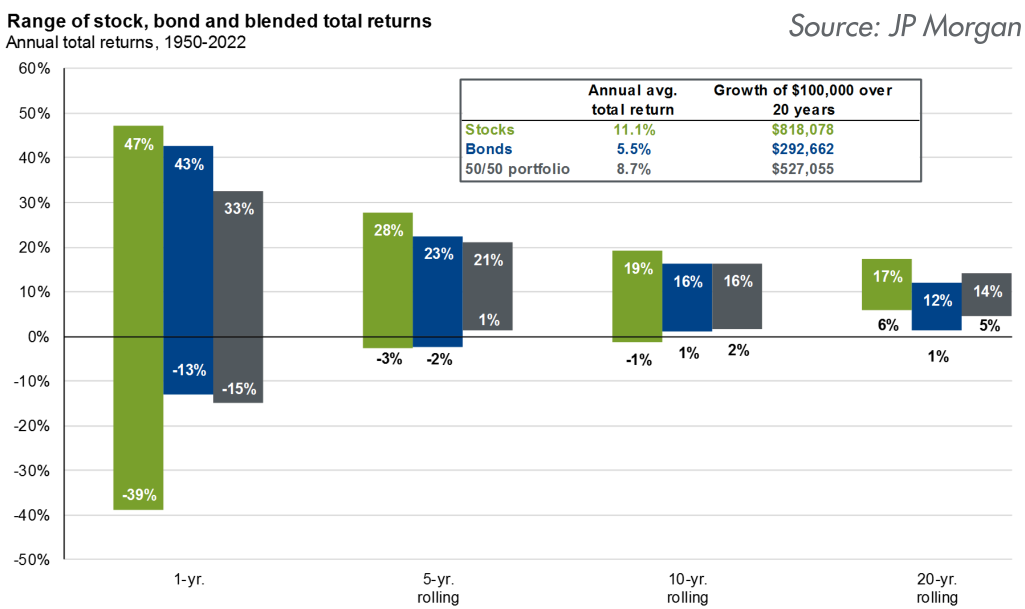
Successful investors maximize the odds of success by focusing on the long term and maintaining a long-term investment plan based on their goals. Studies show individual investors significantly underperform the broad stock market. Individuals are more likely to be driven by emotions that lead to reducing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

Source: JP Morgan



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 2.6% 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 5.0%. Estimates for 2025 are $274 *(+15%)* with estimated revenue growth of 5.7%.
- Valuations are elevated above the long-term historical averages.
- The trailing 12-month operating price-earnings ratio is 24.3 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 22 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 OCTOBER 31, 2024)

- For the month of October, global equities declined. U.S. indices were down across the board, falling roughly 1%. International stock markets were impacted by declining prices and weaker currencies, ending the month 5% lower. Bond yields rose, causing the U.S. bond index to drop 2.5%.
- Year-to-date, the S&P 500 gained 21% and is near all-time highs. U.S. large cap stocks continued to lead international equities as international developed rose 7% and emerging markets gained 11.2%. The U.S. stock market has broadened as small and mid-cap stocks have reduced the gap with large cap stocks, with gains of 9.6% and 14.0%. The Growth style continued to lead with a gain of 24.1% compared to Value at 15.4%.
- Yields rose after the September rate cut by the Fed with the U.S. 10-year bond yield rising to 4.36%, the highest since early July. The Bloomberg U.S. Aggregate Bond Index is 1.9% 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 7.5% and emerging market debt gained 6.8% year-to-date.
- Gold has led all major asset classes with a gain of 32% year-to-date, adding to a 13% advance in 2023, proving its value as a hedge against geopolitical risk and excess money printing. Oil prices have declined to $71 a barrel and now are lower than the start of the year.
- Fixed income substitutes and unconstrained alternatives have had solid, positive returns year-to-date.

Period Ending October 31, 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)	15.1	32.3	4.9	10.7	8.9
Large Cap	S&P 500	(0.9)	21.0	38.0	9.1	15.3	13.0
Long-Short	S&P 500 / LIBOR plus 3	(0.3)	12.7	21.7	6.4	8.8	7.3
Small/Mid Cap	Russell 2500	(0.9)	10.3	33.1	1.5	9.8	8.9
International	MSCI World Ex US IMI (net)	(5.2)	7.0	23.8	2.0	6.3	5.3
Emerging Markets	MSCI Emerging Markets IMI (net)	(4.4)	11.2	25.1	(0.8)	4.7	3.7
FIXED INCOME							
Benchmark	FTSE World Broad Investment Grade	(3.2)	0.4	10.0	(4.2)	(1.8)	0.2
U.S. Aggregate	Barclays US Aggregate	(2.5)	1.9	10.5	(2.2)	(0.2)	1.5
U.S. TIPS	Bloomberg US TIPS	(1.8)	3.0	8.6	(1.5)	2.2	2.3
Tax Exempt	S&P Municipal Bond Index	(1.3)	1.5	10.1	(0.0)	1.2	2.4
U.S. Corp High Yield	Bloomberg US Corporate High Yield	(0.5)	7.4	16.5	3.0	4.5	4.9
U.S. Floating Rate	S&P/LSTA Leveraged Loan	0.9	7.5	10.6	6.7	6.0	4.9
International	FTSE Non USD WGBI	(4.2)	(2.4)	8.4	(7.4)	(4.4)	(1.4)
Emerging Markets	JPM Emerging Markets	(1.7)	6.8	18.2	(1.0)	0.5	2.9
REAL ASSETS							
Benchmark	Gold	3.4	32.7	37.9	15.5	12.7	8.9
Inflation	*Consumer Price Index (CPI)*	0.0	2.2	2.3	4.7	4.1	2.9
Commodities	Bloomberg Commodities	(1.9)	3.9	(1.2)	2.1	7.0	(0.1)
ALTERNATIVES							
Benchmark	LIBOR + 3	0.1	7.8	11.9	4.8	4.9	3.9
Multi-Strategy	Credit Suisse Multi-Strategy I		7.6	7.0	5.8	6.0	5.2
Global Macro	Credit Suisse Global Macro Ind		5.5	6.1	5.2	6.5	4.8
Managed Futures	Credit Suisse Managed Futures		2.4	(1.1)	4.5	5.6	3.3