QUARTERLY

MARKET INSIGHTS

3Q 2024

VOLATILITY MAKES A COMEBACK, BUT MARKETS KEEP THEIR POSITIVE MOMENTUM.

"Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves." **-Peter Lynch**

SUMMARY

- The US economy remained in good health in Q3, supported by better consumer spending, while labor markets continued to soften.
- The S&P 500 withstood a near -10% decline in early August to close the quarter at an all-time high.
- US interest rates fell across the yield curve as markets priced in interest rate cuts, helping push bond markets to positive returns.
- Looking forward, geopolitics will be front and center with US elections. While October may be volatile, seasonality points to a positive Q4.

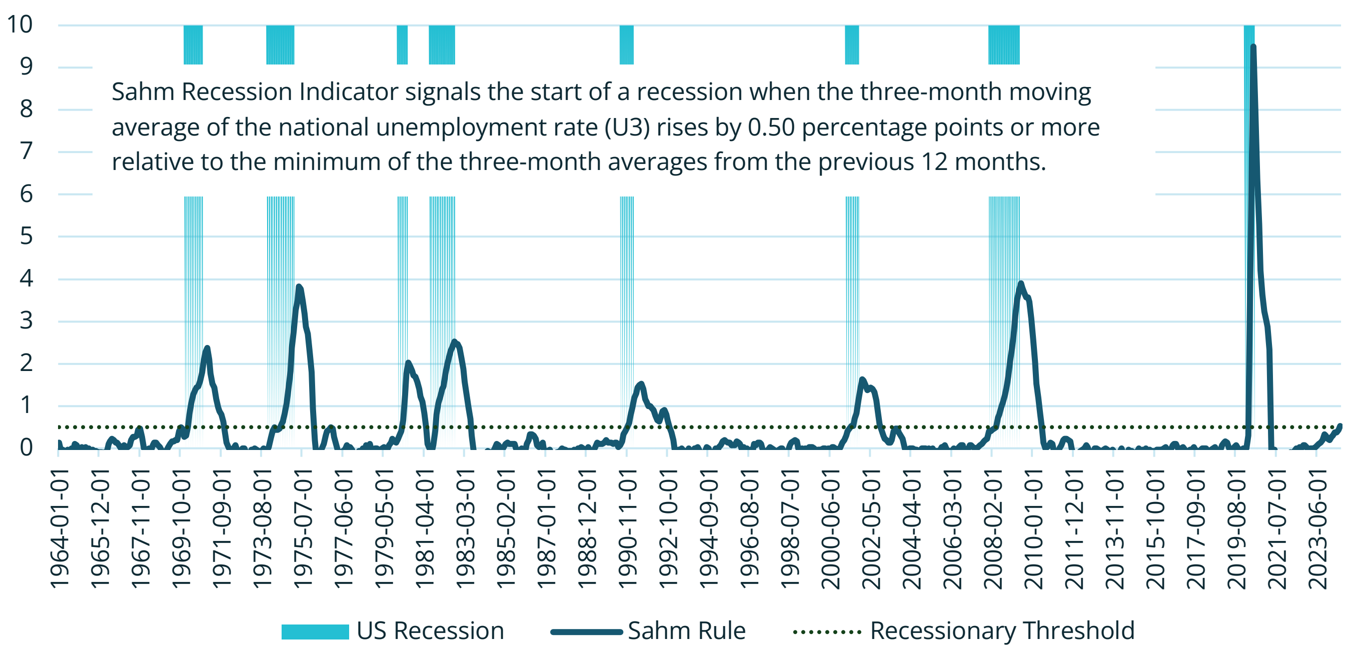
ECONOMY

Resilient GDP growth, softening employment, and falling inflation.

The title for this section is either one big contradiction or evidence that the Fed is achieving what has only been done once in the last 60 years (1994-1995) — a soft landing.[1] The US economy continued its recent pace of growth during the third quarter. Following a +1.6% increase in real GDP growth for Q1 2024, the economy posted a +3.0% figure in Q2 and looks to be on trend for a near +3.0% increase in GDP for Q3, according to the Federal Reserve of Atlanta's GDPNow estimate (as of 9/27/2024).[1] Meanwhile, current consensus estimates for Q4 US GDP growth (as of 9/30/2024) are at +2.0%.[1]

The resilience of the US economy comes at a time of confusing economic data, notably in labor markets. While employment remains healthy from the context of history with an unemployment rate of 4.1%, the rate of change in jobs gains is clearly trending downward.[1] The rise in the unemployment rate since its lows of 3.4% (January 2023) to the current 4.1% has been driven primarily by increases in the labor force rather than jobs being lost and, with that, has added to the "this time is different" narrative.[1] Traditional academic measures such as the 'Sahm Rule' —a coincident indicator of economic recession—have failed to (at least to date) capture the current economic environment and has forced prognosticators to rethink the role of traditional economic indicators as expectations are set. For our part, we set expectations using a wide variety of economic and market indicators and, while the former are weakening, the latter continue to point to an economy that remains on a stable footing.

SAHM RULE & RECESSIONS



Source: Clearstead, BLS, Federal Reserve Bank of St. Louis, 8/30/2024

---

[1] Bloomberg LP

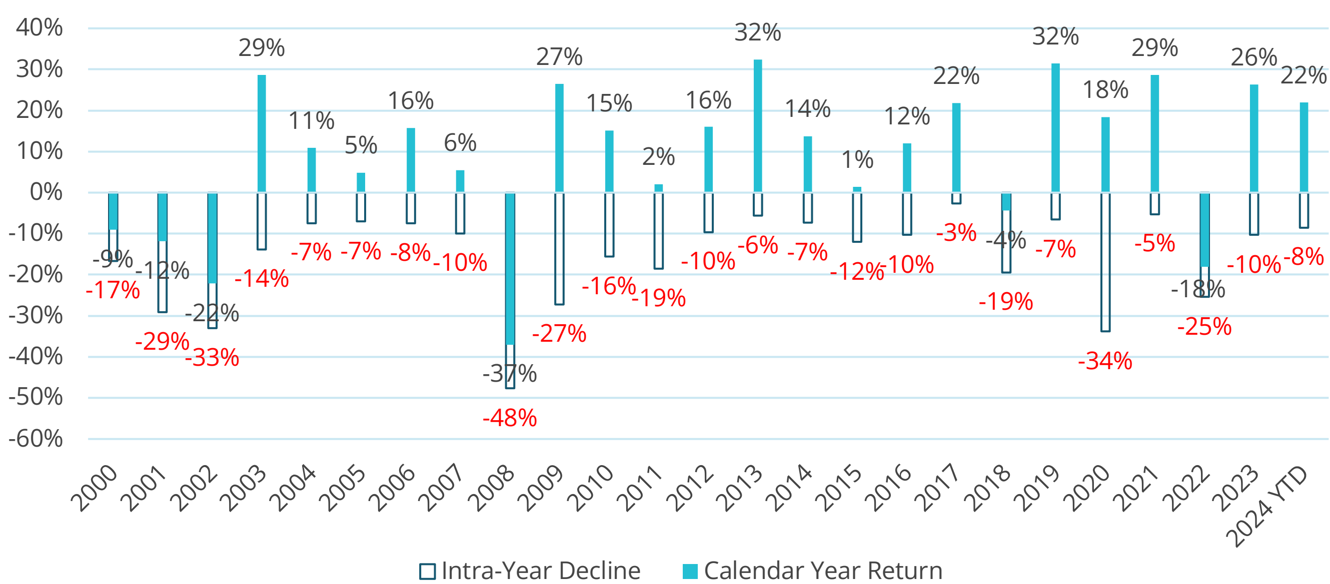
Inflation continues to fall towards the Fed's 2.0% target and as a result has prompted the central bank to loosen monetary policy after the most aggressive tightening cycle in 40 years. While the Fed continues to focus on data dependency, the Fed's most recent Summary of Economic Projections shows a median expectation for Fed Funds to be at 4.4% by year-end 2024, implying another 50bps in rate cuts in Q4.[2] As of third quarter end, futures markets have fully priced in 50bps with a 50% probability for an additional 25bps rate cut by year end.[1]

EQUITY MARKETS

The S&P 500 reaches all-time highs following mid-quarter volatility.

Peter Lynch's quote should remind investors that trying to position for a correction more than likely comes at a cost of inferior performance versus simply riding through a correction. In fact, had you closed your eyes for a few days, you would hardly know the S&P 500 encountered an -8.5% mid-quarter decline as the index rallied to close the third quarter up +5.9% to a new all-time high.[1] The index is now up +22.1% year-to-date (as of Q3), the best nine month start to a year since 1997.[1]

CALENDAR YEAR DECLINES AND CALENDAR YEAR RETURNS S&P 500



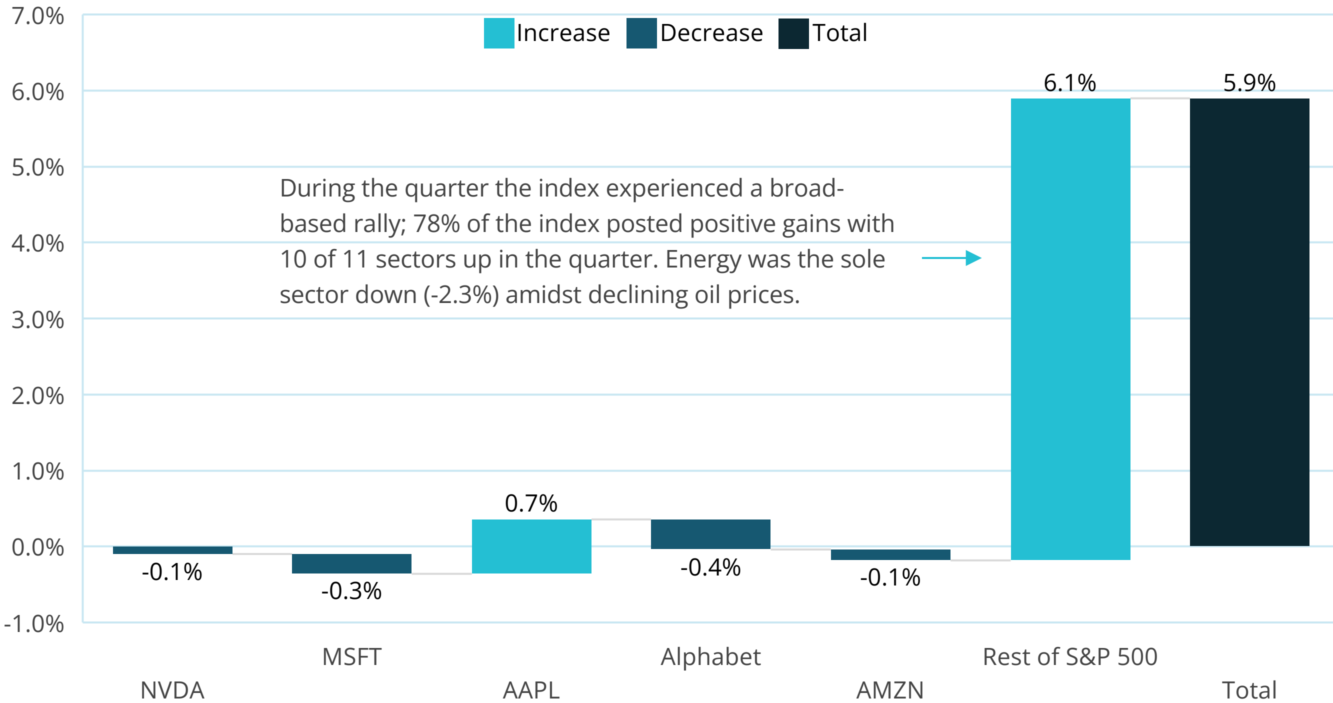
Source: Clearstead, Bloomberg LP, as of 9/30/2024, Red figures are peak-to-trough intra-year declines, Black figures are calendar year total returns, Past performance is not an indicator of future results.

In the third quarter, the S&P 500 witnessed broad-based participation in contrast to the preceding quarter which saw most gains attributable to a handful of mega cap technology companies.

---

[2] https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20240918.pdf

Q3 S&P 500 CONTRIBUTION TO PERFORMANCE



Source: Clearstead, Bloomberg LP, 9/30/2024, performance attribution of SPDR S&P 500 ETF Trust. Past performance is not an indicator of future results.

The broadened rally was a welcome sign and helped boost small cap stocks, with the Russell 2000 gaining 9.3%.[1] Relatedly, during the quarter, value stocks outperformed growth stocks across all market capitalizations but was most pronounced in large cap where the Russell 1000 Value index (+9.4%) beat the Russell 1000 Growth index (+3.2) by 6.2 percentage points.[1]

In overseas markets, developed international stocks (MSCI EAFE index) gained +7.3%, beating out the equivalent US indices. Meanwhile, in Japan, the Nikkei 225 index fell -3.6% in Q3 amidst continued equity market volatility that ultimately spilled over to the US markets in August—at its worst the Nikkei fell -25.5% over a 16-day span as shifting monetary policy by Japan's central bank caused an unwind of the so-called Yen carry trade.[1] China experienced a sharp rally late in the quarter, fueled by numerous stimulus announcements by the country's central bank. The MSCI China Index rose +23.5% during the quarter, and while eye popping, the index remains -45.0% below its all-time high as the country's economy struggles to get past real estate woes and weak general economic conditions.[1]

On the domestic earnings front, the S&P 500 is expected to see its earnings grow by +4.6% on a year-over-year (YoY) basis with revenues growing by +4.8% (YoY) in the third quarter.[3] While Q3 is in the rear-view mirror, all eyes will be on earnings guidance for this coming Q4 as expectations ramp up considerably—Q4 earnings for the index are expected to grow by +14.9% YoY on revenue growth of +5.3% YoY.[3] Despite US election year noise, and wars in both Europe and the Middle East, US companies are finding ways to profitably sell goods and services.

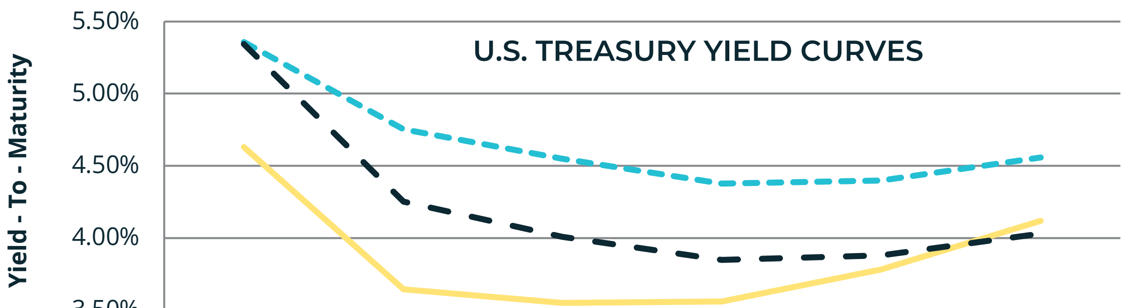
---

[3] Factset Earnings Insight, 9/27/2024

FIXED INCOME MARKETS

Falling interest rates and stable credit spreads buoy fixed income markets.

Falling interest rates pushed the Bloomberg Aggregate Bond Index to its fourth best quarter since 1990, after posting a gain of 5.2% during the quarter.[1] The 10-Year US Treasury yield fell from 4.4% to 3.8% in the third quarter as inflation continued to cool and as concerns over US Treasury issuance calmed as supply-demand dynamics in US Treasury markets remained mostly in check.[1]



	3M	2Y	3Y	5Y	10Y	30Y
9/30/2024	4.63%	3.64%	3.55%	3.56%	3.78%	4.12%
6/30/2024	5.36%	4.76%	4.55%	4.38%	4.40%	4.56%
12/31/2023	5.34%	4.25%	4.01%	3.85%	3.88%	4.03%
Change from 6/30/24	-0.73%	-1.11%	-1.00%	-0.82%	-0.62%	-0.44%
Change from 12/31/23	-0.71%	-0.61%	-0.46%	-0.29%	-0.10%	0.09%

Source: Clearstead, Bloomberg LP, 9/30/2024

Credit spreads tightened in the quarter as solid corporate fundamentals and low default rates continued to underpin corporate credit markets. Investment grade corporate bond markets (Bloomberg US Corporate Index) jumped +5.8%, while high yield bonds (Bloomberg High Yield Index) gained +5.3% in the quarter, respectively.[1]

Bond markets will continue to contend with the potential for technical stresses related to the large US Treasury supply required to fund the deficit in coming quarters. Declining inflation and easing monetary policy have provided some relief to those potential technical stresses, but structural head winds remain given the trajectory of the deficit—therefore, we continue to expect higher than usual volatility for US Treasury markets.

SUMMARY

In summary, our current assessment of the US economy continues to be best characterized by slowing growth while avoiding a recession and, as of now, it looks very possible that the Fed may have achieved its second soft landing of the last sixty years. For the very near term, we continue to expect volatility to be a theme for equity markets as we head into the US presidential elections and tensions in the Middle East worsen. While it would be nice to think that election day (Nov-5) will provide markets with certainty on the policy direction for US economy, unfortunately it is increasingly likely that the final results will take several days or even weeks to sort out. Pennsylvania is a key swing state, and in 2020 it took over four days for Pennsylvania to finish counting absentee ballots. Given how close the polls are in several states, mandatory recounts and even litigation could keep election-oriented volatility in play for the market throughout much of November. That said, markets enter the seasonally strong period of the calendar year in Q4 and, despite the potential for additional election related volatility, we would expect the market's recent positive momentum to continue as we move into the November and December timeframe.

	MTD	QTD	YTD	1 YEAR
DOMESTIC EQUITY				
Russell				
All Cap	2.07%	6.23%	20.63%	35.18%
Large	2.14%	6.08%	21.18%	35.66%
Large Growth	2.83%	3.19%	24.55%	42.19%
Large Value	1.39%	9.43%	16.68%	27.73%
Mid	2.23%	9.21%	14.63%	29.30%
Mid Growth	3.33%	6.54%	12.91%	29.33%
Mid Value	1.88%	10.08%	15.08%	28.98%
Small	0.70%	9.27%	11.16%	26.74%
Small Growth	1.33%	8.41%	13.21%	27.62%
Small Value	0.06%	10.15%	9.21%	25.86%
Micro	-0.47%	8.29%	7.35%	24.66%
S&P				
500	2.14%	5.89%	22.08%	36.33%
400	1.16%	6.94%	13.52%	26.76%
600	0.83%	10.11%	9.29%	25.76%
Other				
DJIA	1.96%	8.72%	13.93%	28.85%
NASDAQ	2.76%	2.76%	21.84%	38.70%
INTERNATIONAL EQUITY				
MSCI				
EAFE	0.92%	7.26%	12.99%	24.77%
ACWI ex USA	2.69%	8.06%	14.21%	25.35%
ACWI ex USA Growth	2.54%	6.92%	14.06%	26.75%
ACWI ex USA Value	2.88%	8.04%	14.07%	23.84%
ACWI ex USA Small Cap	3.01%	8.90%	11.93%	23.25%
EAFE Small Cap	2.55%	10.54%	11.11%	23.48%
World ex US Small Cap	2.71%	10.45%	11.53%	23.36%
Emerging	6.68%	8.72%	16.86%	26.05%
ALTERNATIVES				
NAREIT Developed	3.15%	16.33%	12.64%	30.20%
FTSE Global Infrastructure 50/50	2.81%	13.79%	16.95%	29.94%
GS Commodity	-0.08%	-5.26%	5.23%	-6.06%
Alerian MLP Index	-0.29%	0.64%	18.31%	24.15%
SPDR Gold Shares	5.09%	13.05%	27.14%	41.77%
FIXED INCOME				
Bloomberg US Agg	1.34%	5.20%	4.45%	11.57%
Bloomberg Global Agg	1.70%	6.98%	3.60%	11.99%
Bloomberg US Corporate High Yield	1.62%	5.28%	8.00%	15.74%
Bloomberg Long G/C	2.32%	7.96%	3.54%	17.24%
Credit Suisse Leveraged Loan	0.73%	2.08%	6.61%	9.65%
J. P. Morgan Emerging Markets Bond	1.79%	6.07%	8.02%	18.02%
Bloomberg Municipal Bond	0.99%	2.71%	2.30%	10.37%
Bloomberg 1-3 Year Gov/Credit	0.83%	2.96%	4.38%	7.19%

Source: Clearstead, Bloomberg LP, as of 9/30/2024

DISCLOSURES

Information provided is general in nature, is provided for informational purposes only, and should not be construed as investment advice. These materials do not constitute an offer or recommendation to buy or sell securities. The views expressed by the author are based upon the data available at the time the article was written. Any such views are subject to change at any time based on market or other conditions. Clearstead disclaims any liability for any direct or incidental loss incurred by applying any of the information in this article. All investment decisions must be evaluated as to whether it is consistent with your investment objectives, risk tolerance, and financial situation. You should consult with an investment professional before making any investment decision. Performance data shown represents past performance. Past performance is not an indicator of future results. Current performance data may be lower or higher than the performance data presented. Performance data is represented by indices, which cannot be invested in directly.