September 30, 2024

Market Commentary

- All eyes were on the Federal Reserve this quarter. While the Fed held steady at the July meeting, it initiated a rate-cutting cycle with a 50 basis points cut at its September meeting. The inflation backdrop has continued to progress toward the Fed's target (U.S. CPI was 2.4% in September) and the labor market has started to show signs of cooling. The duration and extent of future cuts remain uncertain.

- The U.S. economy remains resilient growing 3% in the second quarter. Despite a cooling in the labor market (the U.S. unemployment rate remains above 4%), the consumer remains relatively healthy and corporate fundamentals are positive. However, rising delinquencies, the dock worker strike, potential tariffs, and other uncertainties may weigh on future growth.

- Market volatility is expected to remain high leading up to the presidential election. Long-term investors who stay invested regardless of political party tend to be rewarded.

Fixed Income

- Rates fell during the third quarter and fixed income markets saw favorable results overall. The U.S yield curve steepened as the Fed cut rates, with the spread between the 2-year and 10-year U.S. Treasury yields turning positive; the first time since 2022. The Bloomberg Agg returned 5.2% during the third quarter. Yields remain attractive but are lower than a year ago due to spread compression and lower rates.

- The corporate credit market remains resilient as well and also had a strong quarter. The Bloomberg U.S. High Yield Index gained 5.3% in the third quarter. Growing investor expectations for the prospect of a soft-landing scenario helped drive performance. Corporate bond valuations remain elevated with tighter spreads, supported by favorable fundamentals and optimism around a soft-landing scenario.

Equity

- Equity markets were strong across regions during the quarter. The Mag 7 took a bit of a breather during the quarter. Areas less exposed to these concentrated names and more sensitive to lower interest rates outperformed. U.S. small-cap led the way, with the Rusell 2000 Index gaining 9.3%, while the large-cap oriented S&P 500 returned 5.9%.

- International markets were also positive, with developing regions (MSCI EM) outpacing developed (MSCI EAFE), returning 8.7% and 7.3%, respectively. Investor optimism surrounding the recent stimulus package in China helped fuel strong performance for the region and easing central bank activity in Europe helped propel those markets.

Real Assets

- REITS had a standout quarter, with the FTSE Nareit Equity REITs Index returning 16.1%. The falling interest rate environment was beneficial to this rate sensitive area of the market. Longer lease assets benefited the most and the office sub-sector had a strong rebound from depressed levels earlier in the year.

- Commodities saw a modest gain in the quarter (+0.7%), with the precious metals sub-component leading, driven by higher gold prices. Energy segments detracted as concerns about a slowing global economy and OPEC+ adding to supply negatively impacted oil prices.

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- **Bloomberg Aggregate Bond Index** covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.
- **Bloomberg US Corporate High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.
- **S&P 500 Index** is a capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
- **Russell 2000 Index** consists of the 2,000 smallest U.S. companies in the Russell 3000 index.
- **MSCI EAFE Index** is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country.
- **MSCI Emerging Markets Index** captures large and mid-cap representation across Emerging Markets countries. The index covers approximately 85% of the free-float adjusted market capitalization in each country.
- **Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification.
- **FTSE Nareit Equity REITs Index** contains all Equity REITs not designed as Timber REITs or Infrastructure REITs.

Material Risks Disclosures

- **Fixed Income securities** are subject to interest rate risks, the risk of default and liquidity risk. U.S. investors exposed to non-U.S. fixed income may also be subject to currency risk and fluctuations.
- **Domestic Equity** can be volatile. The rise or fall in prices take place for a number of reasons including, but not limited to changes to underlying company conditions, sector or industry factors, or other macro events. These may happen quickly and unpredictably.
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- **Real Assets** can be volatile and may include asset segments that may have greater volatility than investment in traditional equity securities. Such volatility could be influenced by a myriad of factors including, but not limited to overall market volatility, changes in interest rates, political and regulatory developments, or other exogenous events like weather or natural disaster.