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Third Quarter Market Watch

The S&P 500 advanced for the fifth consecutive month through September 2024, bucking the typical seasonal pattern of weakness as it posted its first positive September since 2019. The US Federal Reserve's pivot to easing its monetary policy, lower interest rates, and positive second quarter earnings growth drove the S&P 500 to its 43rd record high, with the index advancing 21% year to date, its best start since 1997. The Russell 2000, the benchmark for US small- and midcap stocks, has also delivered solid performance, gaining 9.3% year to date.

The first half of 2024 saw the surge of mega cap technology and internet stocks, propelled by investors' enthusiasm for artificial intelligence. However, the third quarter saw the broadening of a market rally and a potential shift in market leadership. During the quarter, sectors from financials to industrials and utilities delivered significant outperformance versus big technology stocks. Value stocks outperformed their Growth counterparts in the third quarter after several years of lagging performance.

The reasons for the broadening of the rally have been led by the rate cutting measures by the US Federal Reserve after a series of softer inflation readings. Data recently showed that inflation cooled for a fifth consecutive month in August, hitting a new three-year low. Meanwhile, US job growth rebounded from lower levels the month prior that had sparked fears of an economic slowdown. Many market participants are increasingly confident that the central bank has managed to fight inflation without driving the US into a recession. This, along with signs of economic strength, has led to many investors to believe that a variety of cyclical industries will continue with their recent rally, potentially driving a more sustainable rally.

Within mega cap technology and internet stocks, there was also wide dispersion in performance in Q3. Nvidia pulled back after its torrid advance in the first half, along with shares of Alphabet, Microsoft, and Amazon, partly driven by slower-than-expected future growth and higher spending to meet demand for AI services. Meanwhile, Meta Platforms, Apple, and Telsa ended higher during the quarter.

Markets outside the US also saw a strong rally during the third quarter. Chinese equities surged 22% in the third quarter, after the government announced a wide range of stimulus measures to support the economy, which include lower interest rates, reduced bank reserve requirements, and mortgage relief for households. The euphoria temporarily spilled over to Europe, particularly sectors levered to the Chinese consumer (luxury goods and mining), and pushed emerging market equities to a two-year high.

	Date	1 Quarter Ago		1 Year Ago	
	9/30/2024	6/30/2024	% chg	9/30/2023	% chg
DJIA	42,330.15	39,118.86	8.7%	33,507.50	28.8%
S&P 500	5,762.48	5,460.48	5.9%	4,288.05	36.4%
NASDAQ Composite	18,189.17	17,732.60	2.8%	13,219.32	38.6%
Russell 2000	5,542.04	5,089.03	9.3%	4,436.43	26.8%

	Date	1 Quarter Ago		1 Year Ago	
	9/30/2024	6/30/2024	% chg	9/30/2023	% chg
Japan Nikkei 225	37,919.55	39,583.08	7.7%	31,857.62	34.0%
MSCI EM (Emerging Markets)	1,170.85	1,086.25	8.9%	952.78	26.5%
MSCI EAFE	2,468.66	2,314.63	7.3%	2,031.26	25.4%
MSCI AC World	851.78	802.01	6.7%	656.82	32.3%
FTSE 100	9,079.32	8,916.48	8.0%	8,078.48	32.2%
SSE Composite Index	3,336.50	2,967.40	16.4%	3,110.48	7.0%

US Equity Sector

	Q3	YTD
Consumer Discretionary	7.8%	13.9%
Consumer Staples	9.0%	18.7%
Energy	-2.3%	8.4%
Financials	10.7%	21.9%
Health Care	6.1%	14.4%
Industrials	11.5%	20.2%
Information Tech	1.6%	30.3%
Materials	9.7%	14.1%
Communication Services	1.7%	28.8%
Utilities	19.4%	30.6%

US Equity Style

	Q3	YTD
Russell 1000 Value	9.4%	16.7%
Russell 1000 Growth	3.2%	24.5%
Russell 2000 Value	10.2%	9.2%
Russell 2000 Growth	8.4%	13.2%

Commodity Prices

	Sep 2024	1 Qtr Ago	1 Yr. Ago
Gold	2,659.40	2,339.60	1,866.10
Crude Oil	68.17	81.54	90.79
UD Dollar Index	100.52	105.55	105.82
Commodity Index	100.34	100.99	104.84

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As the US Federal Reserve started cutting rates, the yield on the benchmark 10-year US Treasury note declined to 3.978% from 4.342% at the end of June, snapping a two-quarter streak of rising yields. The decline in bond yields has resulted in a rally in the bond markets, which saw their prices rise when yields fall. Meanwhile, 2-year US Treasurys fell further during the quarter, pulling the shorter-term yields finally below the longer-term levels. This came after years of a yield curve inversion that has been a classic recession signal.

Turning to commodities, crude oil fell 16% in Q3 from the prior quarter, as the West Texas Intermediate, the benchmark for US light crude oil price ended September at $68.17 from $81.54 at the end of June 2024. However, Benchmark crude oil contracts climbed in the first week of October, gaining more than 9% driven by widening conflicts in the Middle East. This marks the biggest weekly gain since October 2022.

Gold soared 13.7% through the end of September from the second quarter to a new all-time high of $2,694 per ounce following the Fed's 50 bps rate cut. Gold prices have been supported by lower real interest rates, elevated geopolitical risk and increased buying from global central banks. Gold is on pace for its best start to a year since 1986, up 28.4% YTD.

The US dollar suffered its worst quarterly decline since Q4 2022, dropping 4.8%. Narrowing interest rate differentials relative to other trading partners was the key factor driving the US dollar's weakness. The Japanese yen climbed 1.5% in Q3, its best quarter versus the US dollar since 1999 due to the diverging rate outlook of the two central banks.

Overall, the macro environment and fundamentals remain supportive of the equity market over the near- to intermediate term. The tailwinds of Fed rate cuts, positive earnings growth, easing inflation, and a record amount of cash on the sidelines should support the market for risk assets. But to be sure, there remain a number of risks on the horizon, such as signs that lower-income consumers are struggling to pay their bills. Dollar General, the country's largest dollar-store operator, cited economic strain on its customers. Additionally, quick-service restaurant chains have been rolling out more value deals and discounts to lure back customers.

US Treasury Bond Yields

	Sep '24	Dec '23	1 Yr. Ago
90 Day	4.61	5.35	5.46
2 Year	3.64	4.25	5.04
5 Year	3.56	3.85	4.61
10 Year	3.79	3.88	4.57
30 Year	4.13	4.03	4.70

Interest Rates

	Sep 2024	Dec 2023	1 Yr. Ago
Prime Rate	8.00	8.50	8.50
Federal Funds Rates	5.33	5.33	5.33
30 Year Fixed Mortgage Rate	6.12	6.61	7.31

Exchange Rates

	Sep '24	Dec'23	1 Year Ago
Euro per U.S. Dollar	0.896	0.905	0.945
British Pounds per U.S. Dollar	0.746	0.784	0.819
China Renminbi per U.S. Dollar	7.016	7.092	7.304
Indian Rupee per U.S. Dollar	83.801	83.214	83.041
Japanese Yen per U.S. Dollar	143.040	140.980	149.225

Economic Data

	Sep '24	Dec '23	Sep '23
Unemployment Rate	4.10	3.70	3.60
Inflation Rate (12-month CPI)	2.4	3.4	3.7

With the new quarter underway, third-quarter earnings season has come into view. The market is expecting earnings growth of 4.1% in the quarter, which would be the fifth straight quarter of positive year-over-year growth. The first round of large cap companies that have reported include PepsiCo, big money center banks (JPMorgan, Wells Fargo, and Bank of America), followed by Health Insurance heavy-weight UnitedHealth Group, and others. Early results have generally been positive, particularly from the large cap banks, with a few outliers in other sectors tied to individual company performance.

As the race for the White House enters its final weeks, market volatility will likely increase from here. Technical strategists who tracked the average move of the CBOE Volatility Index (VIX) during a presidential election year, have found that volatility tends to spike into early November, which is when Election Day takes place. After that, volatility has historically dropped after the election which tends to coincide with rising equity prices.

Here at 1911 Trust, we are mindful of the knock-on effects of geopolitical uncertainties, economic conditions, as well as on asset valuation and company fundamentals. We remain disciplined in asset allocation, portfolio rebalancing and vigilant in the selection of investment vehicles and securities to safeguard your assets.

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