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MARKET MINUTE

SEPTEMBER REVIEW 2024

This month's Market Minute reflects the views of our Research Team and was composed by
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OVERVIEW

September was dominated by the mid-month Fed meeting, which ushered in a -50 basis point rate cut after nearly a 15 month policy rate pause by the Federal Reserve. The result was four new record high closes on the S&P 500 in the days following the Fed's policy announcement. In short, markets gave the Fed the benefit of the doubt that they were likely to achieve a soft landing for the economy and that the Fed's inclination to "recalibrate" its policy towards the state of the labor market (versus being solely focused on reducing inflation) would likely mean more aggressive cutting in the year ahead. Over the course of Q3, amid a stable economy, easing inflationary pressures, and solid corporate earnings, equities and bonds gained a similar amount. The S&P 500 gained +5.89%, while the US Aggregate Bond Index almost matched the S&P 500 with a gain of +5.20% as yields fell steadily throughout the quarter in anticipation of the Fed's September rate cut.[1]

U.S. EQUITY MARKETS As of September 30, 2024

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	2.0%	8.7%	13.9%	28.8%
S&P 500	2.1%	5.9%	22.1%	36.3%
Russell 2000	0.7%	9.3%	11.2%	26.7%
Russell 1000 Growth	2.8%	3.2%	24.5%	42.2%
Russell 1000 Value	1.4%	9.4%	16.7%	27.7%

September is traditionally a tricky period for equities to navigate. Over the past 80 years, it is almost a coin flip if the S&P 500 is likely to end September either with positive or negative returns. On average, since 1945, September's average return is negative -0.30%, which hints at an environment of heightened volatility that is skewed to the downside.[1] But this year turned out to be much better than average with the S&P 500 gaining +2.1% in September.[1] In fact, the gains were broad based, with four separate record highs achieved and strong gains across most sectors, with only Healthcare and Energy suffering losses in September. Mid-cap stocks (Russell Mid-Cap Index +2.2%) outperformed large cap names (Russell 1000 Index +2.1%), while small caps (Russell 2000 Index +0.7%) were the month's laggards. In contrast to Q2, where the equity market was powered by a small number of mega-cap tech names, Q3 saw the S&P 500 equal weighted index also hit new highs amidst a stable economy and the Fed set to ease financial conditions.[1] For the month, growth stocks generally outperformed value stocks—the Russell 1000 Growth Index performed +2.8% versus the Russell 1000 Value Index at +1.4%.

INTERNATIONAL EQUITY As of September 30, 2024

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	2.7%	8.1%	14.2%	25.4%
MSCI EAFE	0.9%	7.3%	13.0%	24.8%
MSCI Emerging Markets	6.7%	8.7%	16.9%	26.1%
MSCI EAFE Small Cap	2.6%	10.5%	11.1%	23.5%

International equities (MSCI ACWI ex US Index +2.7%) did better than US equities in September led by emerging market equities. International developed market equities (MSCI EAFE Index) gained only +0.9% in September, but the MSCI Emerging Markets Index gained +6.7%. Emerging markets were buoyed in large part by Chinese equities (MSCI China Index) that gained +23.9% in September. Chinese equity markets surged in the final days of September after the Chinese central bank announced several monetary policy easing measures and the Chinese Communist Party Politburo—the highest policy making body in the country head by Premier Xi Jinping—holding an unscheduled meeting to announce their support for the central banks actions and to issue further guidance on new fiscal stimulus measures to amply the policy easing of the Chinese central bank. These aggressive actions were taken amidst a backdrop of sluggish economic growth, mild deflation (falling prices), contracting corporate profits, and abysmal consumer and business sentiment. The net result was a rally in the in Chinese stock market of nearly 27% in the final two weeks of September.[1]

FIXED INCOME As of September 30, 2024

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
Bloomberg US Aggregate	1.3%	5.2%	4.4%	11.6%
Boomberg Global Aggregate	1.7%	7.0%	3.6%	12.0%
Bloomberg US High Yield	1.6%	5.3%	8.0%	15.7%
JPM Emerging Market Bond	1.8%	6.1%	8.0%	18.0%
Bloomberg Muni	1.0%	2.7%	2.3%	10.4%

I know I sound like a broken record, but I'll say it for the third straight month, the overall decline in interest rates generated solid returns across the fixed income universe. U.S. Treasury 10-year yields declined from 3.90% on August 31st and ended September at 3.78%.[1] While interest rates declined, the spread on corporate bonds versus U.S. Treasury securities tightened a bit from 305 to 295 basis points.[1] As such, whether one invested in the lower risk Bloomberg Aggregate index or took some risk on the Bloomberg U.S. Corporate High Yield index, your returns where relatively close (Aggregate 1.34% vs. High Yield 1.62%).[1] Similarly, if you broaden out your perspective from September to the entire quarter, the conclusion would be essentially the same. The Aggregate gaining 5.20% and the High Yield index gaining 5.28% amidst falling yields but stable, tight credit spreads.

CONCLUSION & OUTLOOK

At present, financial markets are riding high on a stable economy, positive momentum, and the prospect that the Fed—like most other global central banks—is poised to further ease financial conditions over the next several months, which may keep the party going well into Q4. But choppier trading days may lay ahead. First, somewhat curiously, U.S. Treasury 10-year yields actually increased after the Fed lowered the Fed Funds rate on September 18th (3.71% to 3.78%).1 While this may be just a "buy the rumor, sell the news" reaction, it may also signal that the markets will be cautious to drive rates lower without evidence of significant economic weakness. Secondly, as the U.S. election approaches, the outcome may not be known for several days or even weeks after election day Tuesday on November 5th due to mandatory recounts, litigation, and absentee ballot counting, which suggests that volatility may persist through much of November. Success in investing has never been easy, but patience and perseverance improves the odds of achieving prosperity.

SOURCES

1 *Bloomberg LP*