QUARTERLY MARKET REPORT

THIRD QUARTER 2024

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Third Quarter Highlights

FINANCIAL MARKETS ENDED UP, DESPITE VOLATILITY, ON COOLING INFLATION NEWS AND RATE CUTS

Financial Markets

- Quarterly equity returns were strong despite several sell-off periods that even had the Nasdaq index falling into a correction at one point. The rally broadened beyond artificial intelligence related stocks with smaller sized and cyclical stocks posting the best returns. Chinese stocks surged late in September on stimulus news.
- Bond yields declined to lows of the year as prices rose boosted by the prospect of lower interest rates.
- The U.S. dollar moved lower as the interest rate differential between the U.S. and other countries was reduced.
- Oil prices fell to a 16-month low on weak demand before bouncing late in the quarter on China stimulus and geopolitical news.

Overview of the Economy

- Earnings reports for the second quarter were better than expected with the majority of companies beating analysts' forecasts, helped by solid sales growth.
- The U.S. labor market cooled during the quarter with the number of new jobs added less than 150,000 each month, down from over 200,000 per month in the first half of the year. Also, the number of job openings fell to 7.7 million, down from almost 9 million at the start of the year.
- In August, the U.S. consumer price index (CPI) annual growth rate was under 3% for the first time since March 2021. Inflation moved lower to near central bank targets in several countries.
- Surveys still show weak manufacturing activity around the world while services activity remains in expansion.

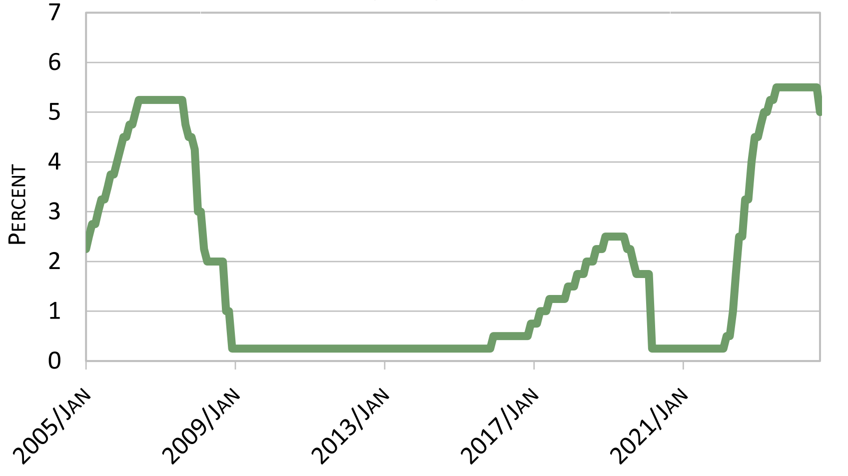
Notable Events

- The Federal Reserve Open Market Committee (Fed) cut the fed funds rate by half a percentage point.
- China announced several stimulus measures including rate cuts, lower reserve requirements for banks, reduced down payment for home purchases, and allowing refinancing of mortgages, but no fiscal stimulus measures yet.

Third Quarter Highlights

The global central bank easing cycle gained momentum as inflation cooled

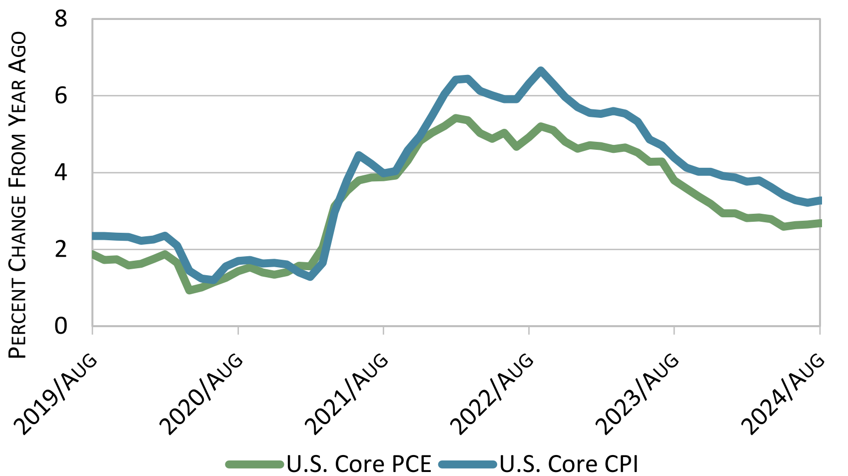
Federal Funds Target Rate[1]



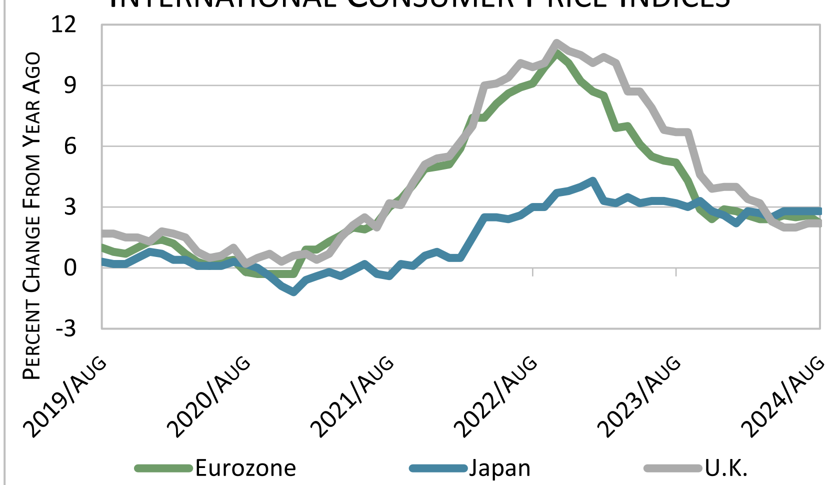
Select Central Bank Actions

Bank	Action
U.S. Fed	Cut rate in Sept. by half a percentage point in first cut since COVID in 2020.
Bank of Canada	Cut rate in July and Sept. after cut in June.
European Central Bank	Cut rate in Sept. after cut in June.
Reserve Bank of New Zealand	First rate cut in four years in August.

U.S. Core Inflation Indices[1]



International Consumer Price Indices[1,2]



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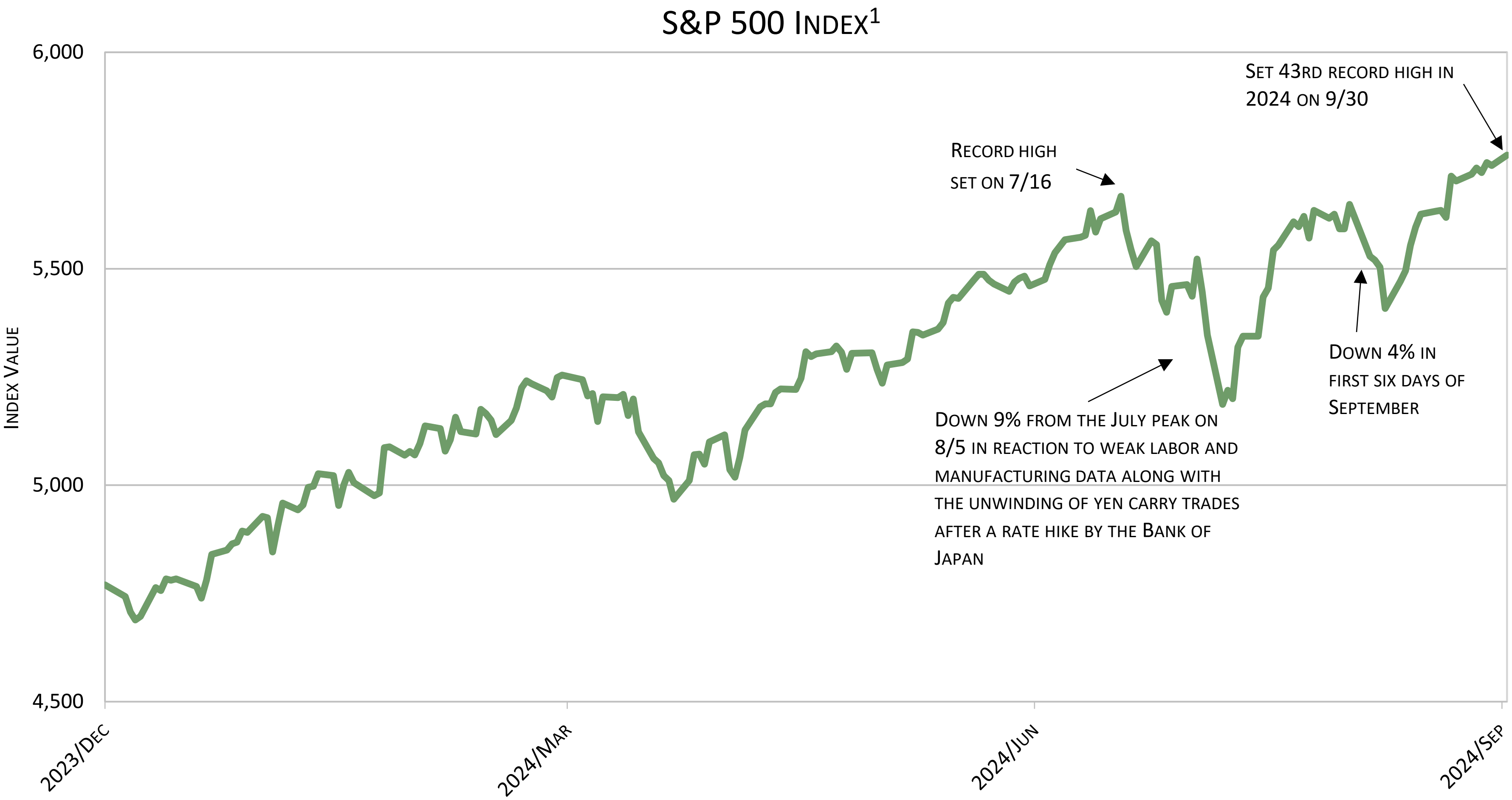
Third Quarter Highlights

Despite significant sell-offs on recession worries, key equity indices set new record highs

Equity markets slumped in late July to early August and again in early September when weak data reports fueled recession worries. Those periods were short and various indices set record highs after better inflation news and interest rate cuts. The S&P 500 and Dow Jones Industrial Average hit several new highs. The Nasdaq set a new high in July. The Europe STOXX 600 and Sensex in India also set new records.



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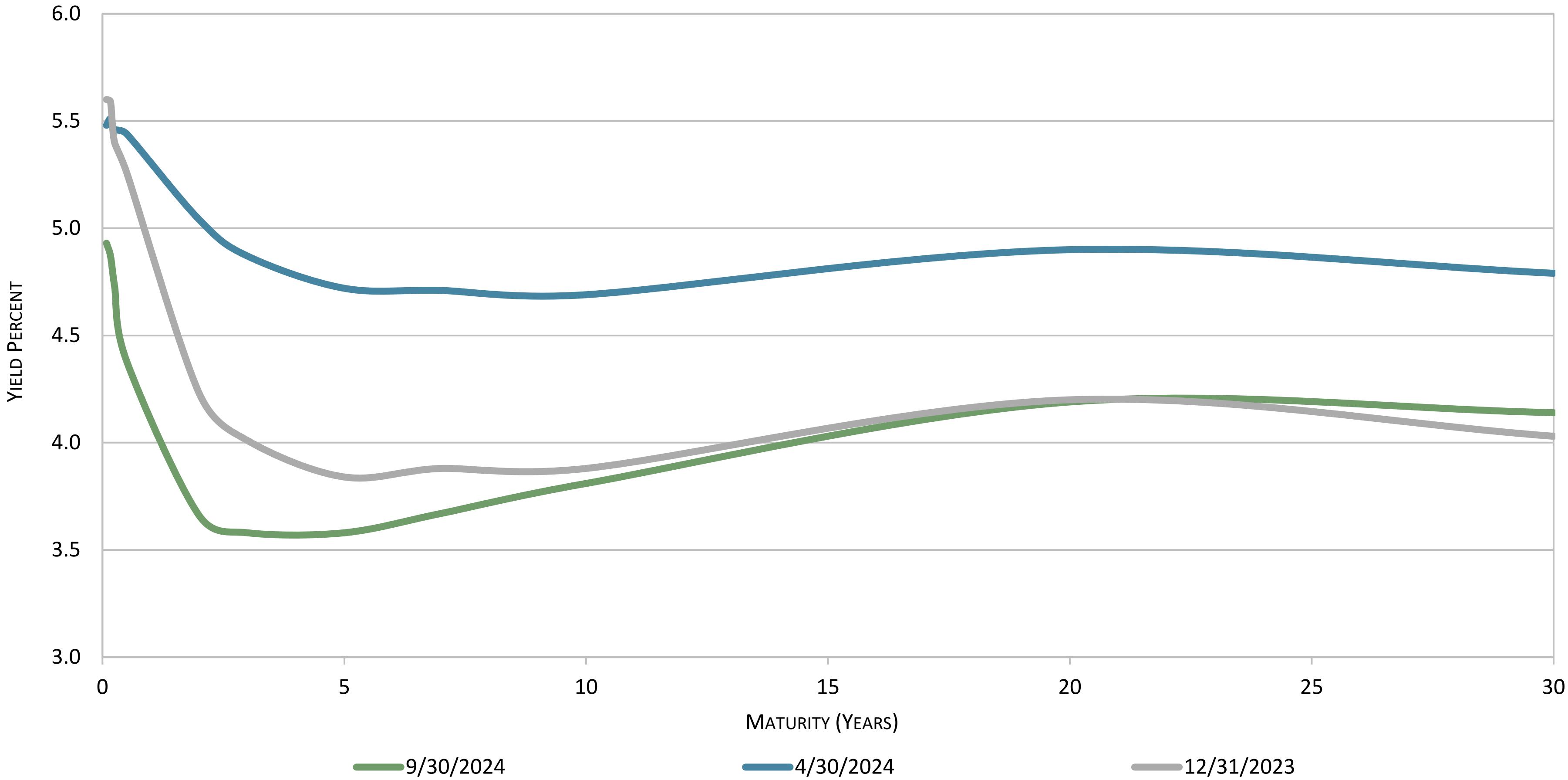
Third Quarter Highlights

Bond yields shifted to lows for the year and the curve disinverted due to a dovish Fed

Bonds rallied on Fed member comments affirming a shift to easier monetary policy and then the actual fed funds rate cut. Treasury bond yields fell sharply from the highs in the spring and most are lower than at year-end 2023. Importantly, the curve has normalized since two-year bond yields now are less than 10-year yields for the first time since July 2022.

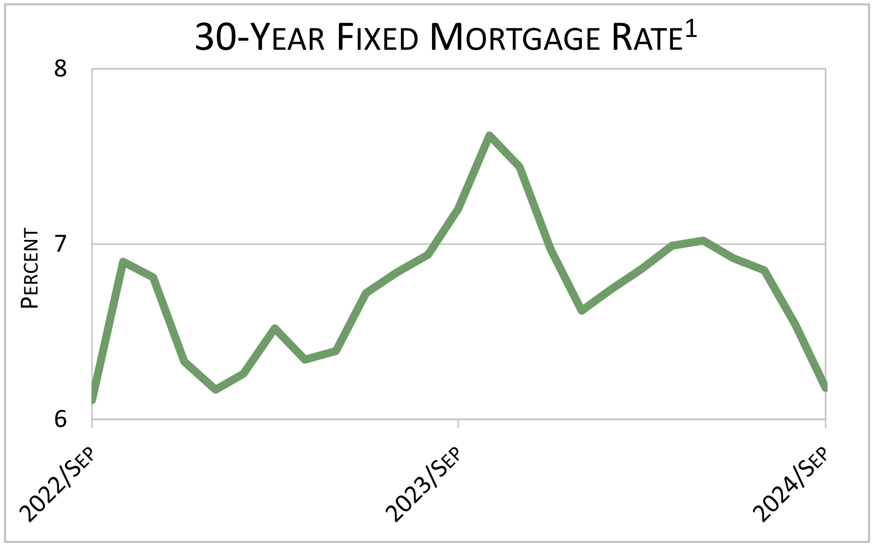
U.S. Treasury Bond Yields[3]

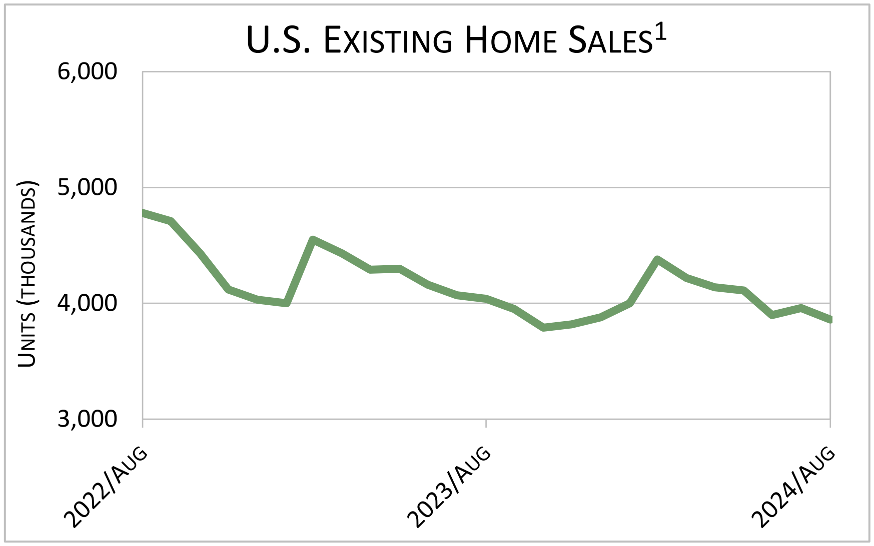


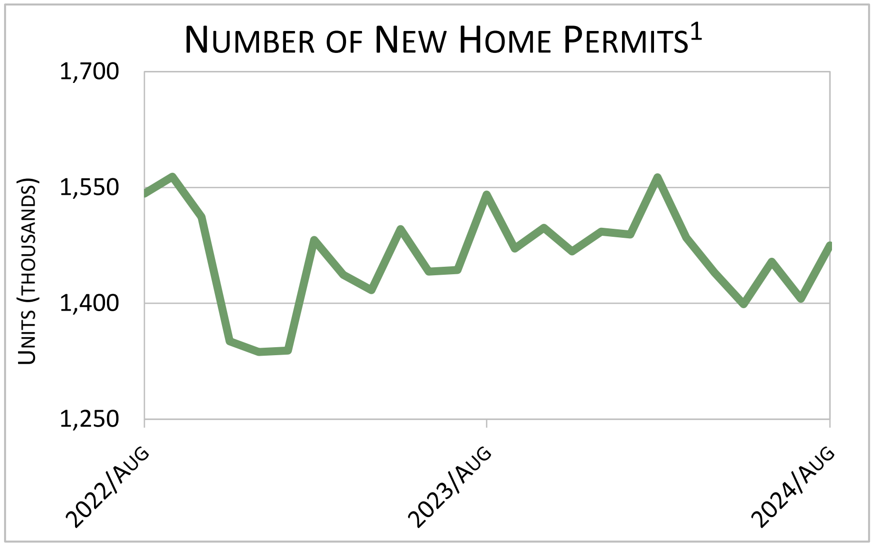
Third Quarter Highlights

Mortgage rates dropped sharply as bond yields declined

Mortgage rates have dropped to a 16-month low on expectations for several interest rate cuts by the Fed in 2024 and 2025. This caused a spike in refinancing applications, but the impact is just starting to be seen in the housing market. The number of housing permits and sales of new homes have been trending higher but at an uneven pace. However, sales of existing homes have been trending down even with lower mortgage rates. High prices could be a limiting factor with a median price of about $420,000 in August for both existing and new home sales.







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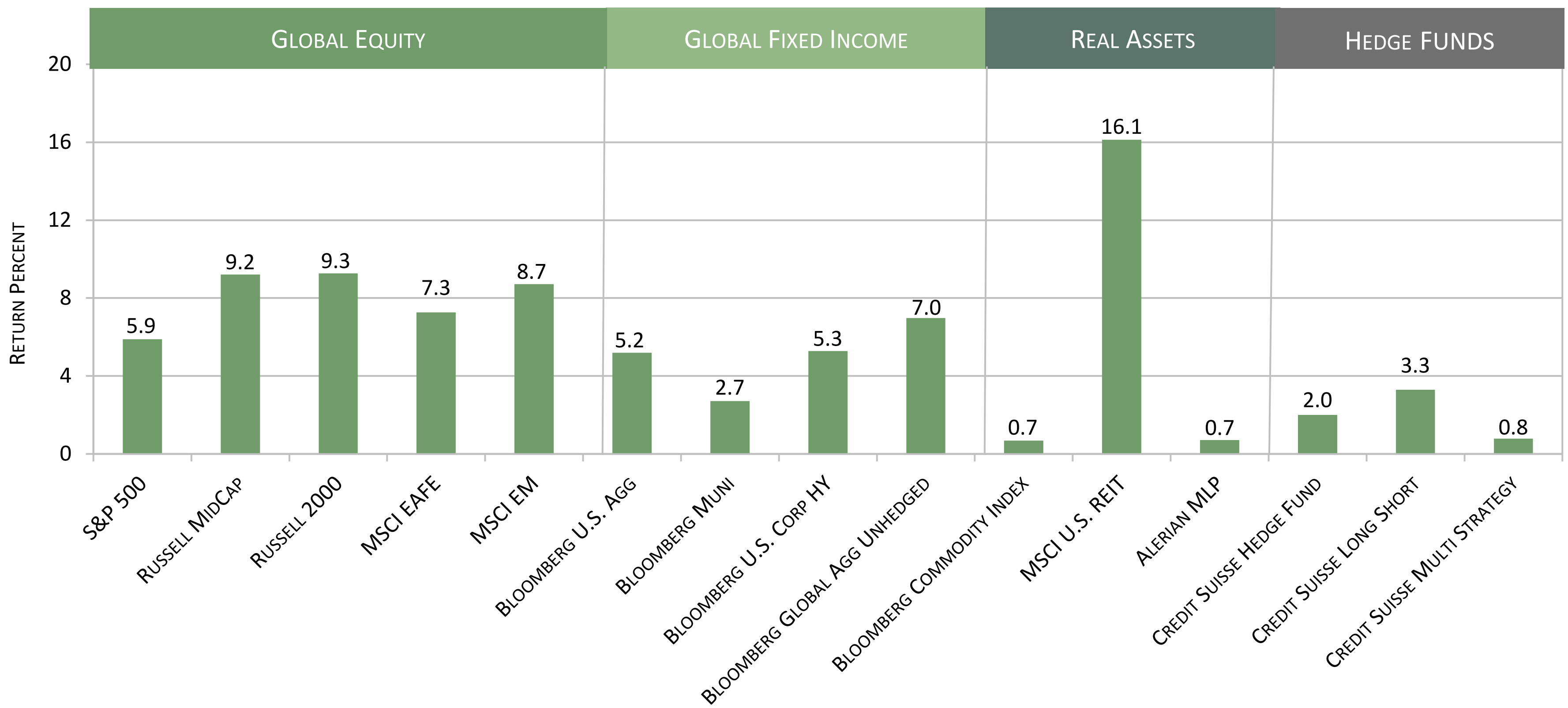
Third Quarter Highlights

Most asset classes earned strong returns for the quarter despite periods of volatility

Assets classes that were previously hurt the most by higher interest rates had the largest gains for the quarter boosted by the start of the Fed's interest rate cutting cycle. Stimulus in China was a boost late in the quarter. Commodities were the laggard hurt by concerns about slowing economic activity around the globe. Those concerns plus geopolitical events sent gold to all-time highs.

Market Returns: Third Quarter 2024[4]

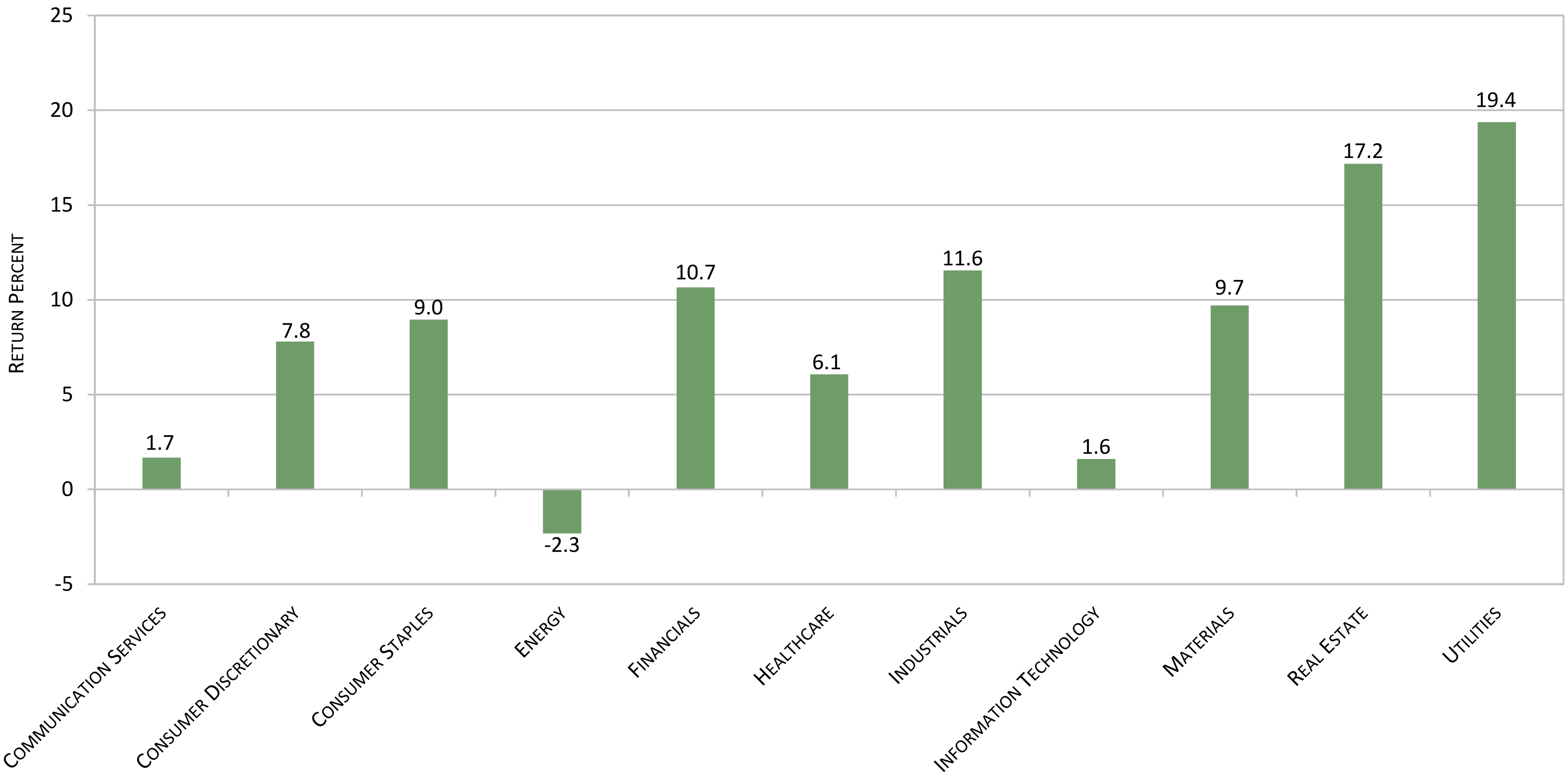


Third Quarter Highlights

The equity rally broadened during the quarter with value sectors outperforming growth

Confidence in a soft landing helped by slowing inflation and the pivot by the Fed to lower interest rates sent interest rate sensitive and cyclical stock prices higher while prior performance leaders lagged. Energy was the only sector with a negative return since the price of oil fell over 12% on weakening global demand.

S&P 500 Sector Returns: Third Quarter 2024[4]



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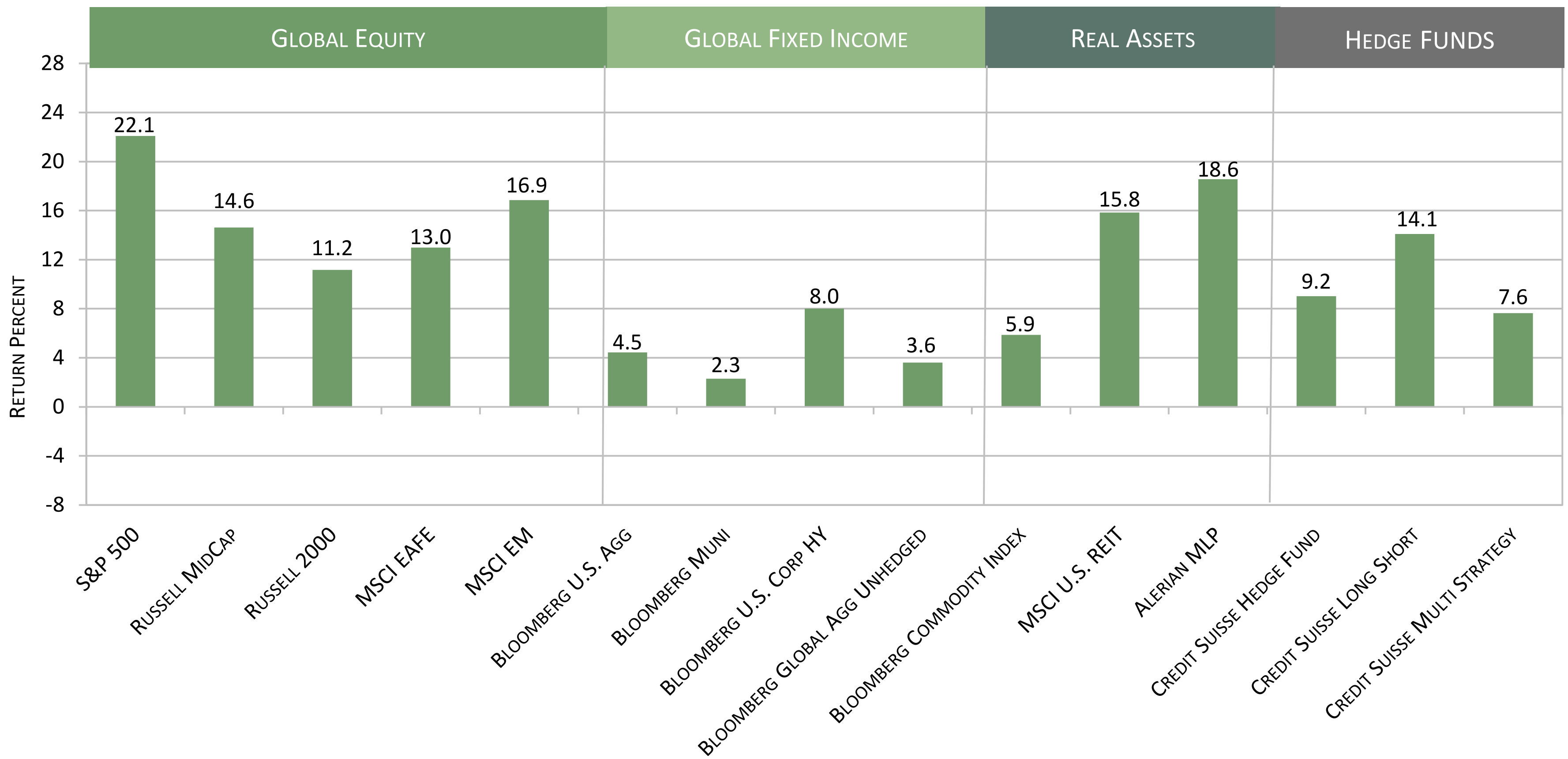
Third Quarter Highlights

Strong returns across asset classes for the first three quarters with double-digit equity gains

Driven by growth in artificial intelligence applications, generally solid corporate earnings, slowing inflation, and central banks shifting to lower interest rate policy, most financial markets rallied to generate strong returns for the first nine months of the year despite a few short sell-offs when growth concerns flared. Gold and several equity market indices around the world set new record highs throughout the year.

Market Returns: First Nine Months 2024[4]



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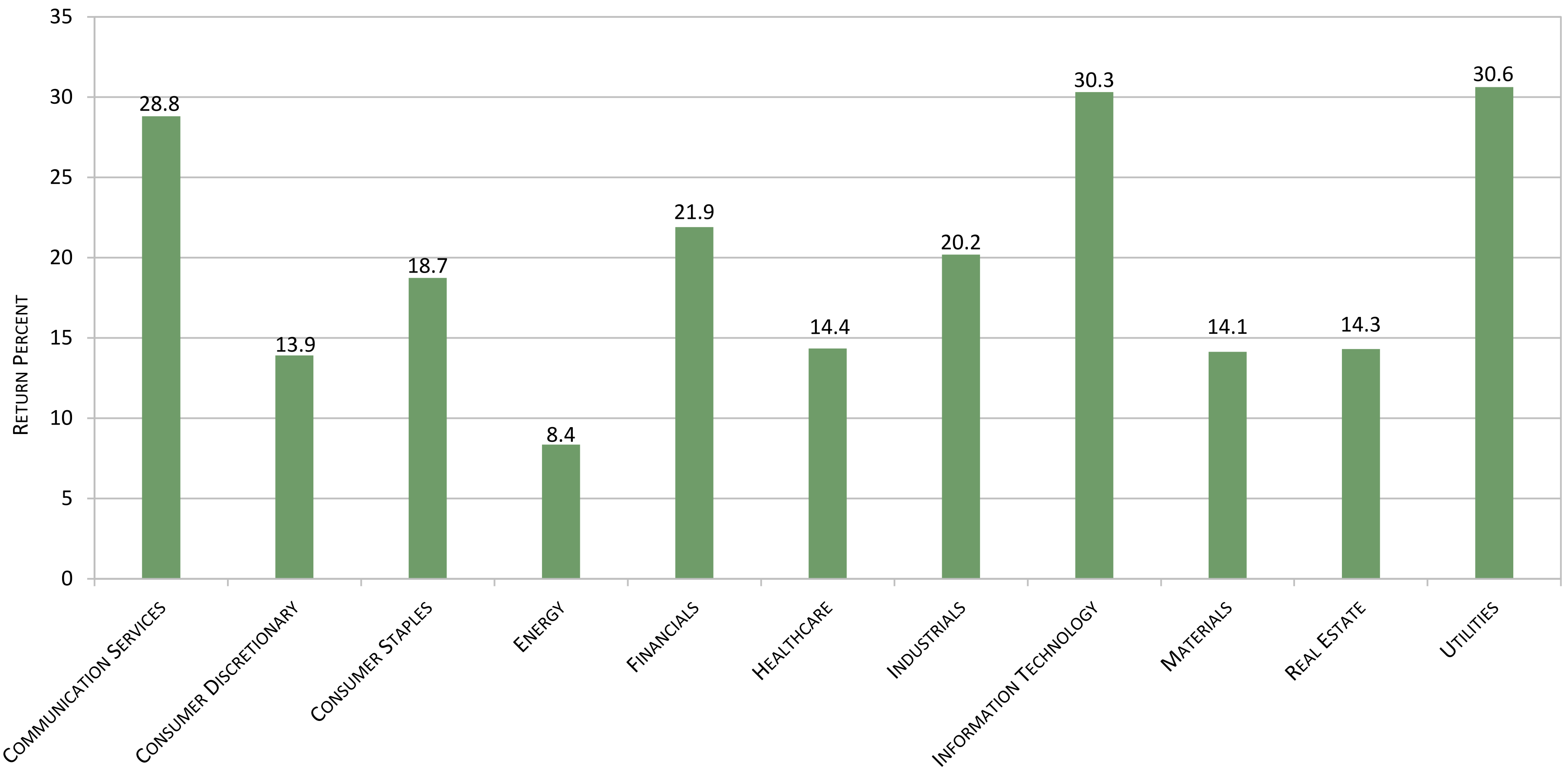
Third Quarter Highlights

Gains by value sectors reduced the dispersion of returns for the year-to-date

The artificial intelligence (AI) heavy communications and technology sectors still top the performance charts for the first three quarters of the year, but the third quarter gains from interest sensitive and cyclical sectors narrowed those leads with utilities surging into the top spot. The energy needs of AI boosted the growth outlook for utilities and forecasts of lower bond yields make their dividends attractive.

S&P 500 Sector Returns: First Nine Months 2024[4]



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Outlook

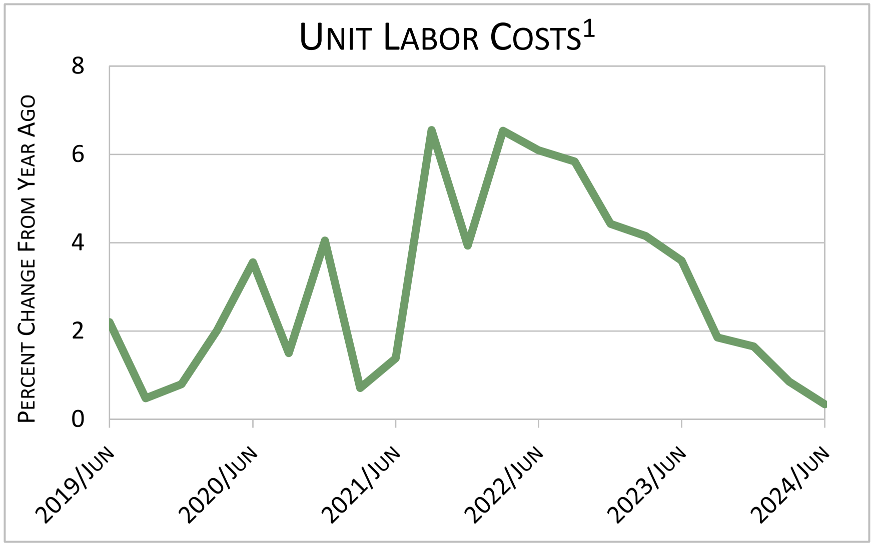
With inflation down, labor markets and consumer spending are the main focus for investors

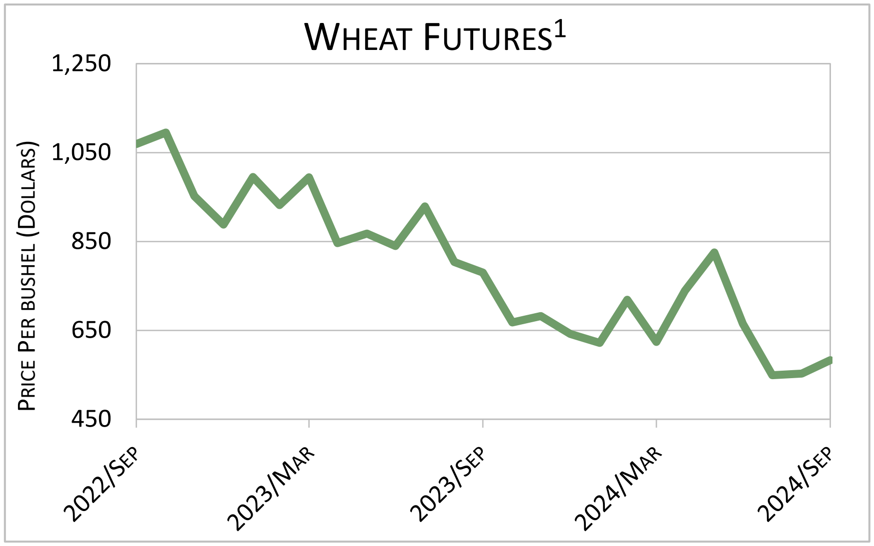
- It is unlikely the U.S. will experience a recession in the near term despite slowing in some economic sectors.
    - The manufacturing sector is slowing. However, the services sector, which is the largest part of the economy, continues to grow fueled by consumer spending which is supported by a still solid labor market. The Fed has said it is focused on maintaining full employment.
    - Forecasts point to continued growth in the broad U.S. economy. Cooling inflation helped by easing labor market pressures and the shift to easier monetary policy are expected to drive that growth. But there is a risk that lagging impacts from high interest rates are still working through the economy and could cause a deeper slowdown than consensus forecasts currently point to.
    - Market participants are likely to be tuned into employment data for any signs of weakness such as an uptick in initial unemployment claims or a sharp drop in new hiring that could result in consumers cutting spending.
- The outlook in Europe and the United Kingdom is mixed with inflation coming down sharply but economic activity on the weak side, particularly in manufacturing. Those conditions could lead to more interest rate cuts than in the U.S.
- China's economy continues to be constrained by debt problems in the property sector that are also dampening consumer sentiment. The recent stimulus moves could be a positive for global growth if the moves spur lending and refinancing activity. More actions on the fiscal policy side may be needed to ramp up Chinese consumer demand that could benefit domestic companies and foreign companies that sell into China.
- Valuations across financial markets are not cheap after recent rallies. This increases the risk of bouts of volatility if earnings reports, central bank comments, or economic data disappoint market participants.
- Geopolitical events seem to be elevated in the near term due to the uncertainty about the impact of the results of upcoming U.S. elections on tax policy and regulation as well as from escalating tensions in the Middle East.

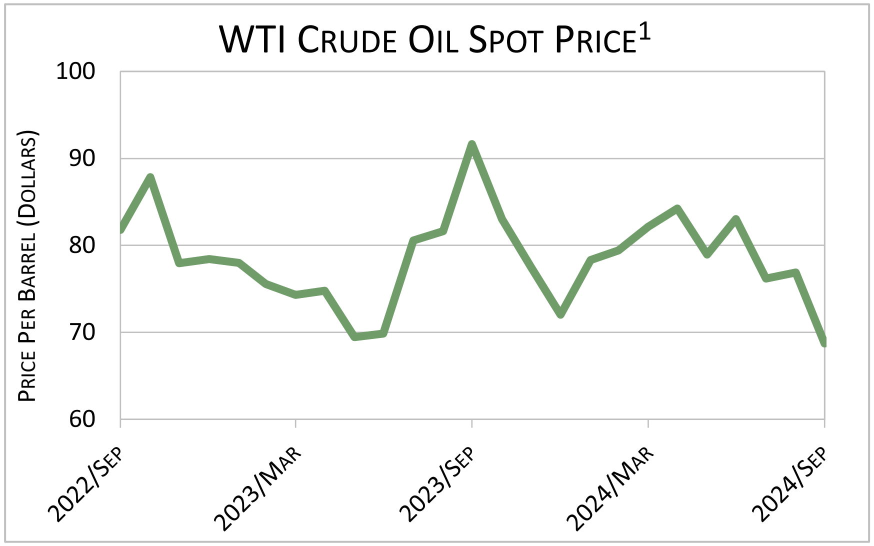
Outlook

Inflation is nearing the Fed's target of 2% helped by cooling labor costs and commodity prices

A slowing rate of increase in labor costs has helped bring the rate of inflation down. A cooling labor market could keep that trend intact. Prices for agricultural commodities and crude oil have also eased due to more supply. Oil prices could continue to be stable to lower since OPEC+ is talking about increasing production. Higher supply has even led to lower prices in certain categories such as furniture, tools, apparel, and cars. However, inflation could be sticky since large price hikes are still occurring in categories such as shelter, medical services, and insurance.







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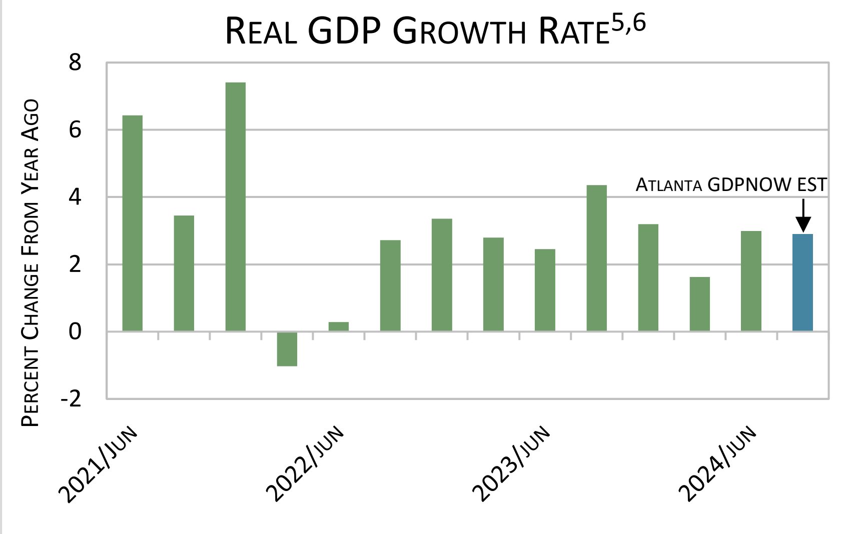
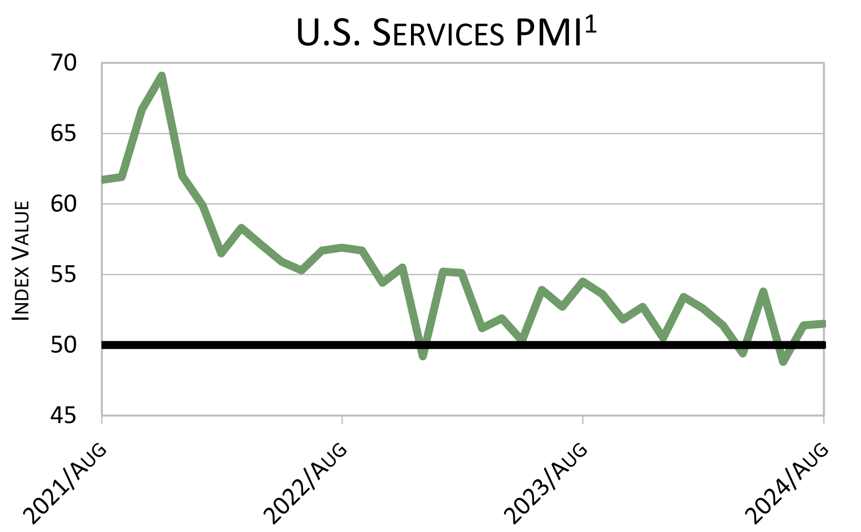
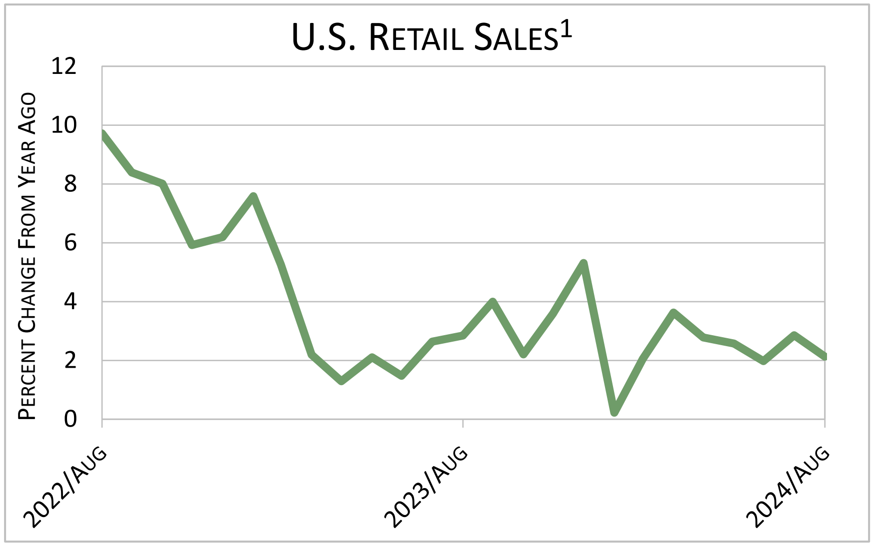
Outlook

Investors' focus has shifted to the resiliency of the economy as the key to the earnings outlook

Forecasts, such as the Atlanta Fed GDPNow forecast, point to solid economic growth. Certain data, particularly on the service side of the economy, support those forecasts. Though it varies from month to month, the ISM Services Purchasing Managers index (PMI) continues to be above 50, which indicates expansion in the largest part of the economy. Retail sales growth has come off post covid peaks but is still solid at 2% year-over-year growth in the latest report.







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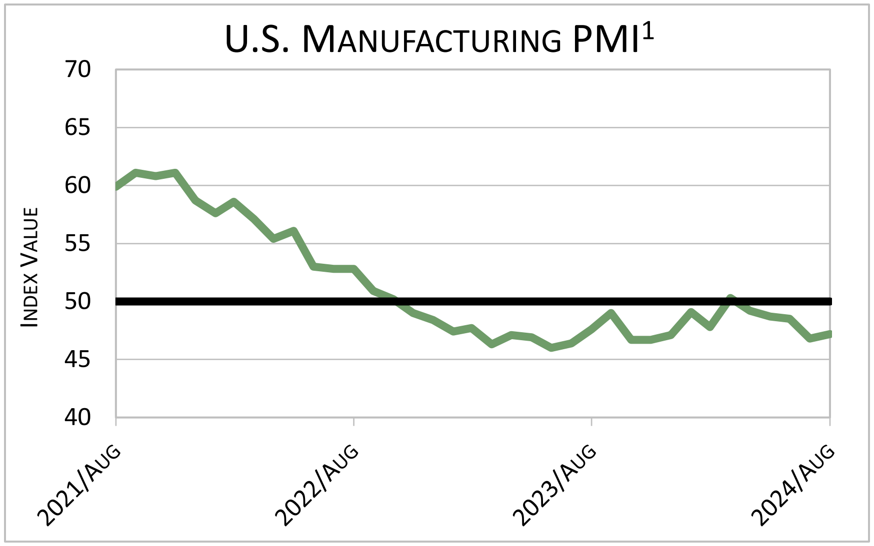
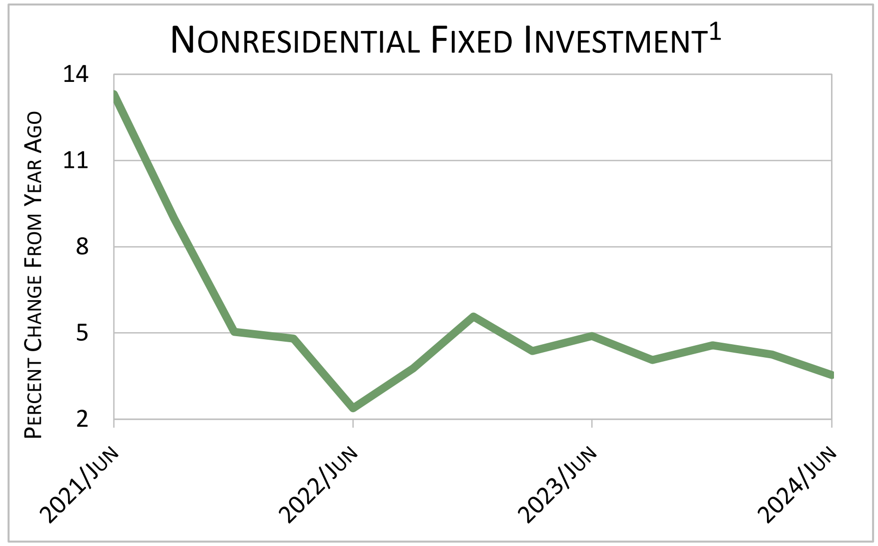
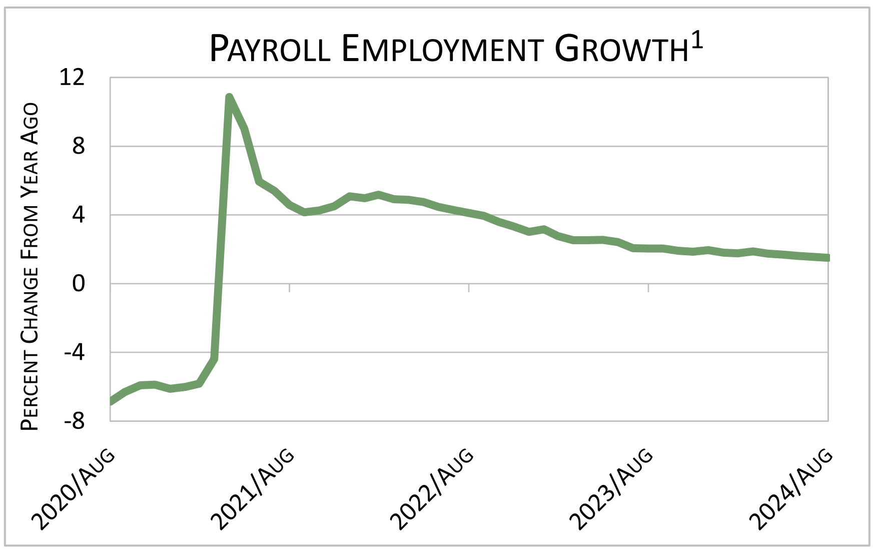
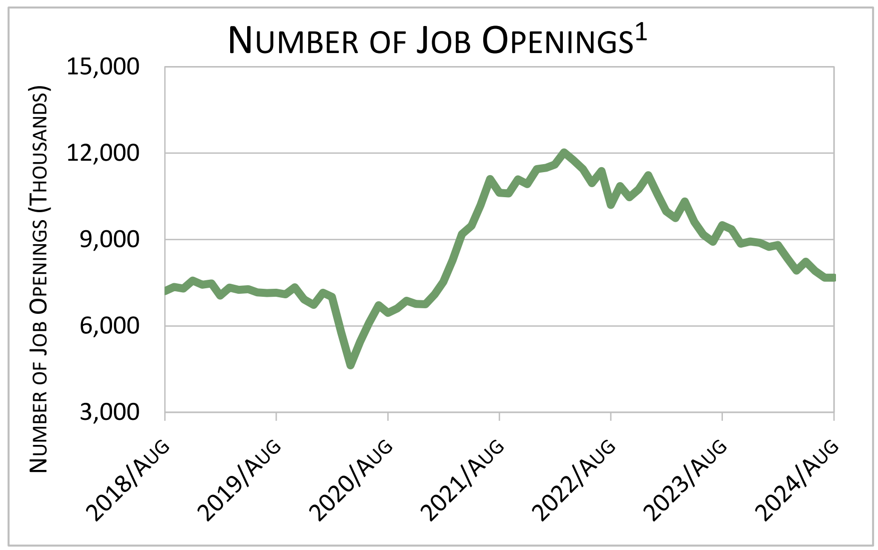
Outlook

Softening data in manufacturing, investment, and the labor market are key risks to growth









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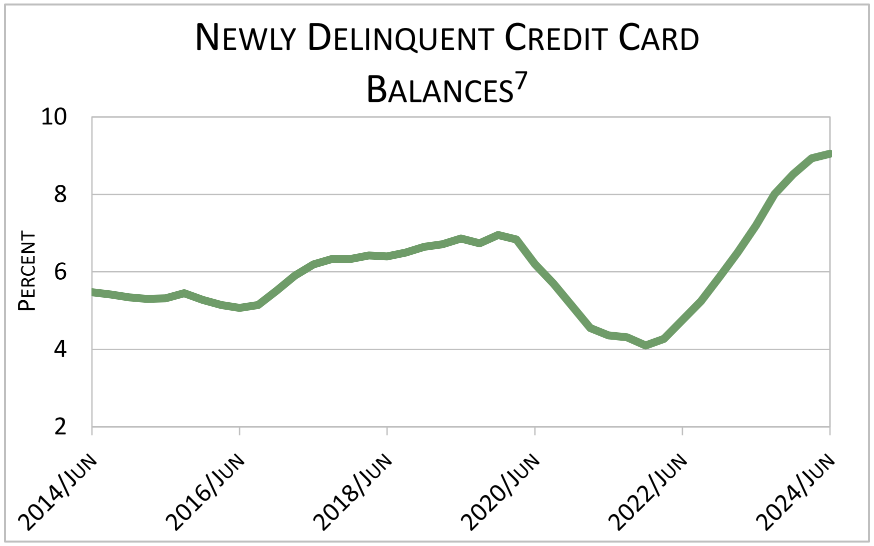
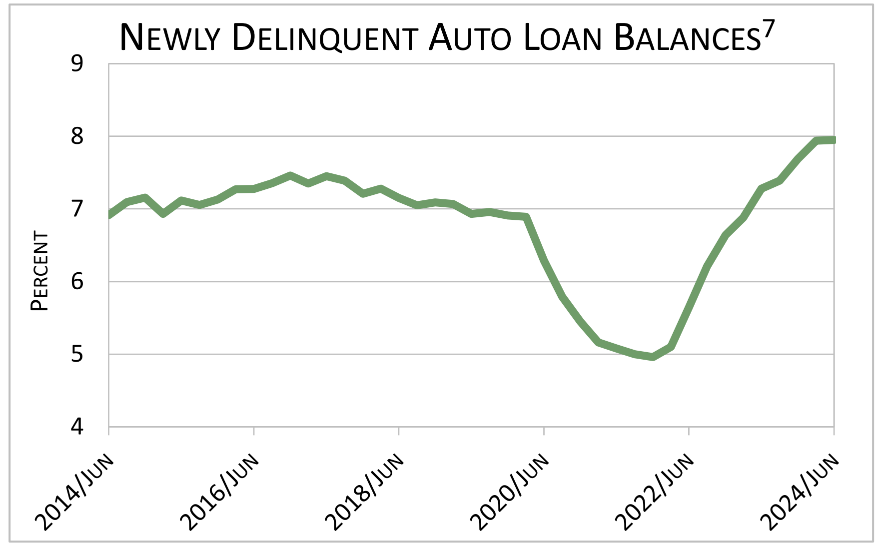
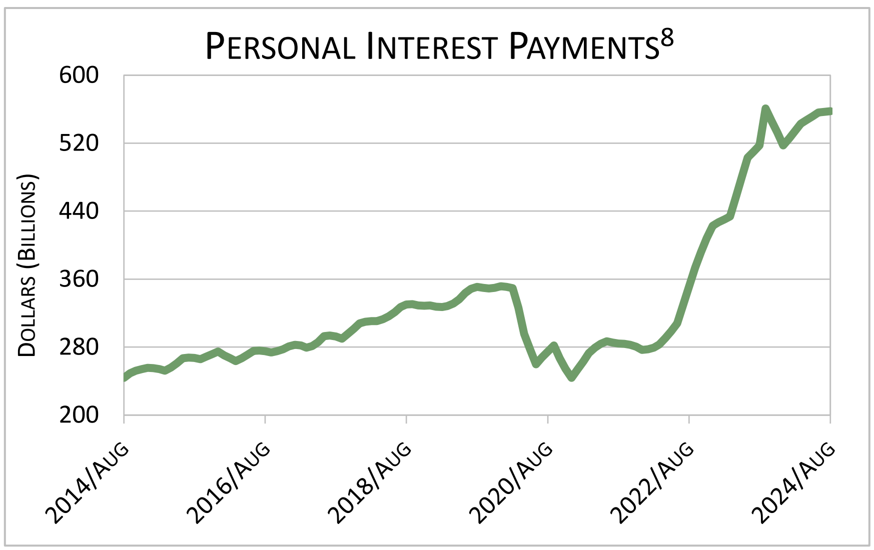
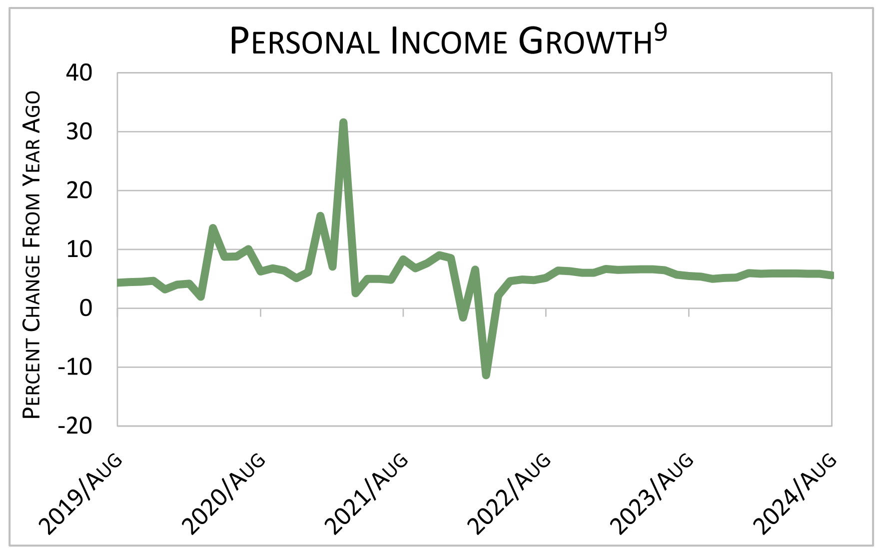
Outlook

Interest payments are rising and delinquencies are high but personal income growth is flat









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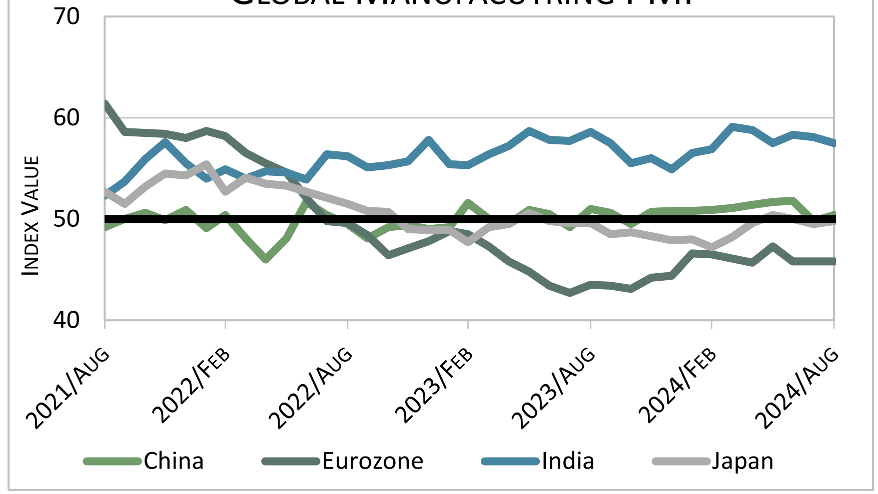
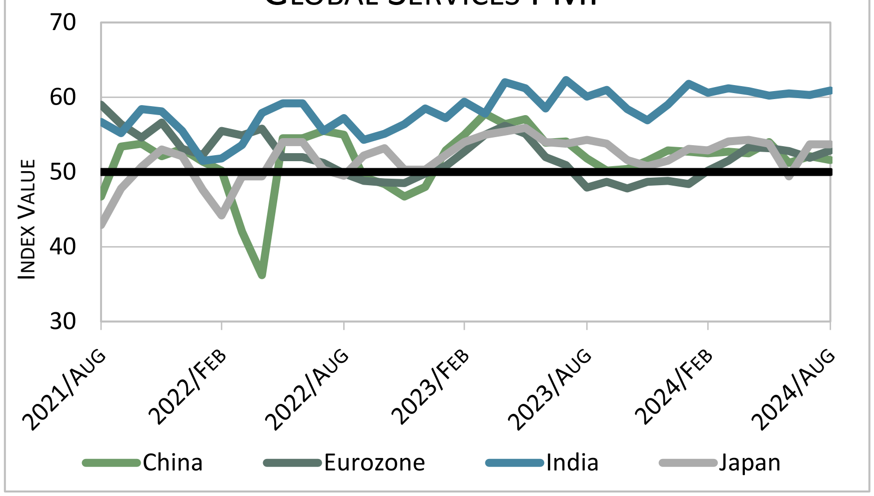
Outlook

Economic data outside U.S. is mixed

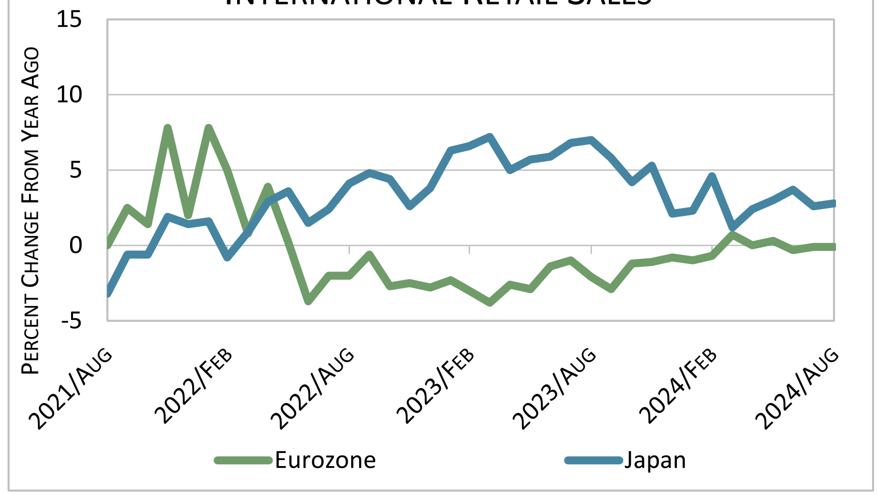
Manufacturing is generally weak around the world with the exception of India. Just as in the U.S., the services sector is stronger in major economies. However, retail sales growth has been flat to down in Europe. It is too early to see a boost to the Chinese economy or other economies that export into that market from the recent Chinese government stimulus actions, but that could be a source of growth in coming months.



Global Manufacutring PMI[1]



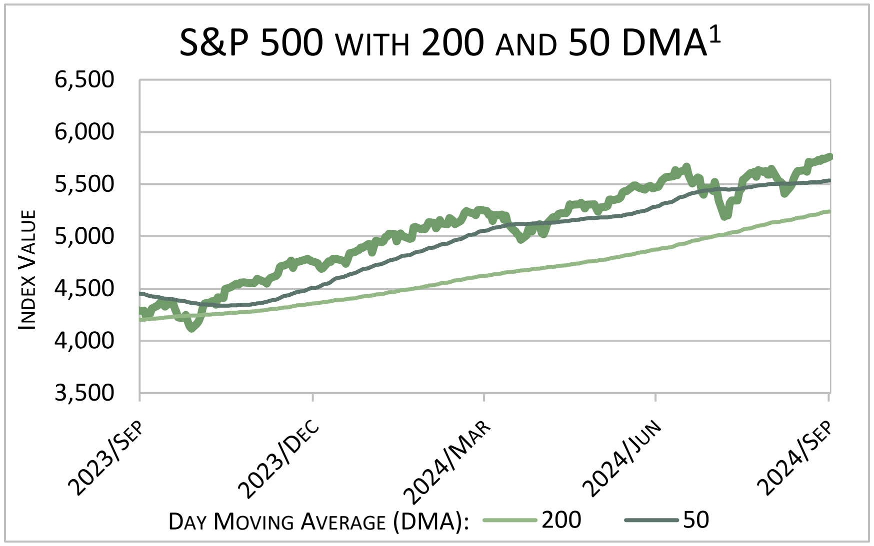
Global Services PMI[1]

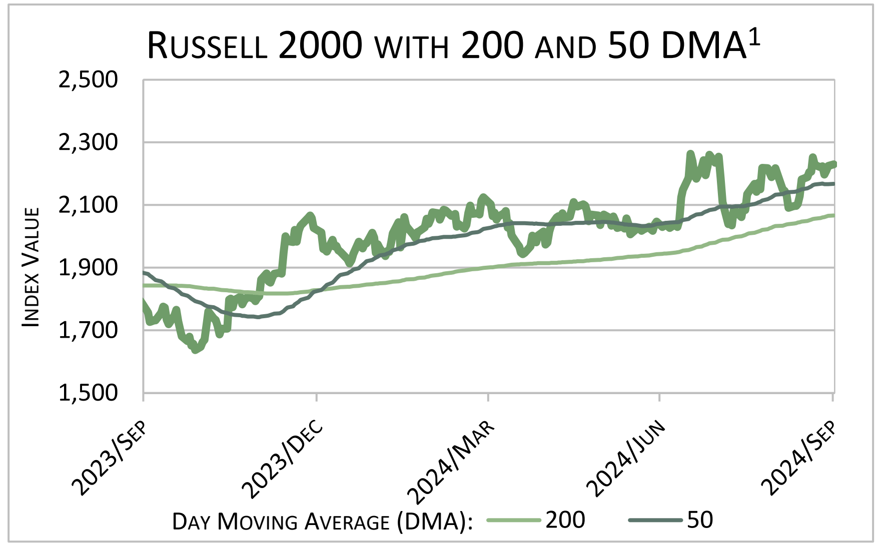


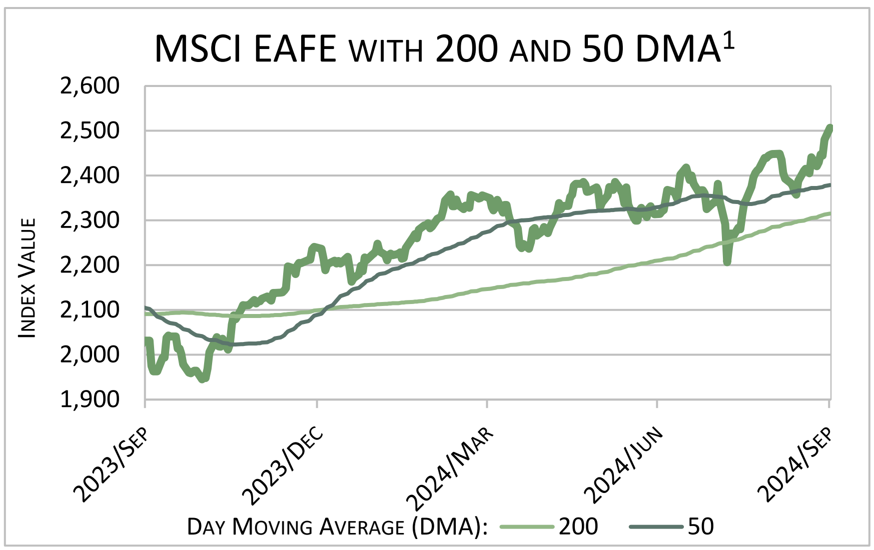
International Retail Sales[1]

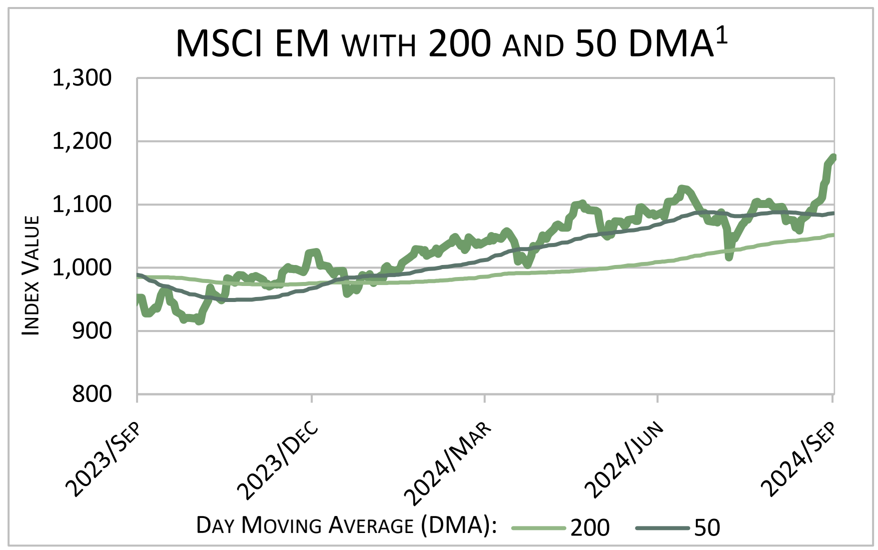
Outlook

Technical indicators above key support levels but some signs of stocks being overbought









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Vogel Tactical Recommendations

Favor U.S. over foreign equities. Overweight cash.

Asset Class	Action	Commentary
Domestic Large-Cap Equity	Equal weight	Solid earnings growth and resilient economic activity support the uptrend in equity prices but a risk remains that the impact of previously tight monetary conditions and stretched consumers fuel a slowdown. Valuations are high in certain sectors.
Domestic Mid-Cap Equity	Equal weight	Solid earnings growth and resilient economic activity support the uptrend in equity prices but a risk remains that the impact of previously tight monetary conditions and stretched consumers fuel a slowdown. Valuations are high in certain sectors.
Domestic Small-Cap Equity	Equal weight	Sales and margins could benefit from easing monetary policy. Risk of wider price swings for small-caps than large-caps on disappointing earnings or economic reports.
International Developed Equity	Underweight	Inflation is slowing so rate cuts have begun. Valuation discount to U.S. stocks. Concerns remain about weakness in exports and manufacturing. Currency impacts could be moderating as the U.S. cuts interest rates.
International Emerging Market Equity	Underweight	Valuations are attractive and rate cycles have peaked with certain countries cutting rates. However, growth outlooks are mixed by country with technology centric economies set for stronger growth. A weak Chinese economy continues to be a risk but that government is moving more aggressively to stimulate activity.
Fixed Income	Equal weight	Even though yields likely peaked they are the highest in several years so are a source of income and diversification. Corporate fundamentals are still solid so default risk is low. Could be some price appreciation as the Fed cuts rates.
Hedge Strategies	Underweight	The flexibility to position for various risk scenarios can provide return opportunities, but rapid and sharp market swings can be challenging for some strategies.
Real Assets	Equal Weight	High income potential for real estate assets is attractive in the declining interest rate climate. Demand is driving prices for precious metals but valuations are high. Stimulus moves in China have potential to lift demand for industrial commodities.
Cash	Overweight	Yields are off peaks but still attractive. Cash still provides a hedge against macro risks.

Quarterly Market Report

Disclosures

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Sources: *Number below corresponds to the superscript notation in chart titles and text blocks*

Sources:

1. Telemet America, Inc.
2. https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23
3. Daily Treasury Yield Curve Rates, retrieved from U.S. Department of Treasury; https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield, October 1, 2024.
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6. U.S. Bureau of Economic Analysis, Real Gross Domestic Product [GDPC1], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GDPC1, October 1, 2024.
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8. U.S. Bureau of Economic Analysis, Personal interest payments [B069RC1], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/B069RC1, October 1, 2024.
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