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Market Flash Report

September 2024

Key Takeaways

- Market Rotation: The first rate cut of the cycle boosted markets and sparked a significant rotation. Interest-rate sensitive and previously overlooked assets gained favor, with small caps, international markets, and value stocks outperforming. REITs and infrastructure saw substantial gains, while longer-term bonds outpaced short-term bonds.
- International Equities: Lower rates and a weakening US Dollar led to impressive gains in international markets for Q3. Developed markets showed strong performance as European and Japanese equities were up +6.6% and +5.7%. Small caps were the standout performers, posting a remarkable 10.7% gain. Emerging markets also thrived, with Chinese equities soaring 23.5% due to expansionary monetary and fiscal policy measures.
- Commodities: Gold reached new highs in Q3, climbing 13% for the quarter and an impressive 42% over the past year. Oil and natural gas prices, however, declined by 12% and 10% respectively, leading to lower consumer energy costs but potentially signaling weakening demand, especially in China.
- Bond Market Revival: The lower yield environment in Q3 breathed new life into bond markets. Emerging Market debt, High Yield, Investment Grade Corporates, and Treasuries, all posted gains exceeding 5% for the quarter. Over the past year, these sectors have delivered double-digit returns, marking a significant turnaround in fixed income performance.

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Index Performance (as of 9/30/2024)

Equity	Q3 2024	One-Year	Three-Year
U.S. Large Cap	5.9%	36.4%	11.9%
U.S. Small Cap	9.3%	26.8%	1.8%
Developed Non-U.S.	7.3%	25.4%	6.0%
Emerging Markets	8.9%	26.5%	0.8%
Real Assets			
Real Estate	16.8%	34.8%	3.5%
Infrastructure	13.8%	29.9%	7.6%
Fixed Income			
Core Plus			
U.S. High Yield Debt	5.3%	15.7%	3.1%
Emerging Market Debt	5.8%	16.9%	-0.2%
Core Bonds			
U.S. Aggregate Bonds	5.2%	11.6%	-1.4%
U.S. Treasuries	4.7%	9.7%	-1.8%
U.S. Municipal Bonds	2.7%	7.4%	0.5%

Month-End Values/Yield	Current	Prior Month	One-Year
CBOE Volatility Index	16.7	15.0	17.5
10-Year Treasury Yield	3.8%	3.9%	4.6%

Sources: Bloomberg, Pathstone, as of 9/30/2024

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved. Returns over one year have been annualized. Details of all indices reflected are described in the Disclosure page.

Quarterly Commentary

- Monetary Policy: The Federal Reserve cut its benchmark interest rate by 50 basis points to 4.75-5%, signaling the start of an easing cycle. Most officials expect further cuts by year-end, with the benchmark rate potentially falling to 4.25-4.5%. This larger-than-usual reduction typically would suggest concerns about economic weakness. However, in the Fed's Summary of Economic Projections (SEP), they made very small revisions to their estimates of real GDP, inflation, and unemployment, which would indicate that they are fairly confident that a "soft landing" scenario could play out, where the US economy avoids a recession and inflation moderates to more normal levels.
- Inflation: The Consumer Price Index (CPI) cooled to 2.5% YoY in August, with core CPI steady at 3.2%. The Fed's preferred measure, PCE, fell to 2.2%, nearing the 2% target, while Core PCE rose slightly to 2.7%. These figures, following the Fed's recent 50 basis point rate cut, suggest favorable conditions for further interest rate reductions at upcoming meetings. However, towards year-end, we should anticipate the YoY figures to potentially rise slightly due to a variety of factors including very low readings from 2023 dropping off the calculation, a small acceleration in shelter costs, and a normalization of energy costs which have been deflationary over recent months.
- Labor Market: The US job market is showing signs of cooling, though not uniformly. August saw moderate job growth, surpassing the previous month but falling short of predictions and job openings have decreased significantly, reaching lows not seen in years. However, initial claims for unemployment as well as continuing claims have decreased, suggesting ongoing resilience in parts of the labor market. These trends paint a picture of a job market in transition back to normal as the unemployment rate continues to be very low, potentially influencing the Federal Reserve's decisions on interest rates in the near future.
- Economic Growth: The American consumer remains resilient, as retail sales continue to defy expectations. From bustling restaurants to packed theaters, spending has rebounded to—and in some cases surpassed—pre-pandemic levels. Buoyed by a strong economy and easing inflation, consumers are increasingly comfortable leveraging credit for purchases. This renewed confidence is breathing some life into the housing market, with mortgage applications, housing starts, and building permits all ticking upward as yields decline. While existing home sales linger near historic lows, a potential dip in mortgage rates could be the catalyst needed to reinvigorate this crucial economic sector.

Q3 Brought the Long-Awaited Reversion of the Yield Curve

10-year Treasury Yield – 2-year Treasury Yield, Basis Points, 9/30/2024

Sources: Bloomberg, Pathstone, as of 9/30/2024

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Disclosures

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U.S. Large Cap Equity is represented by the S&P 500 Index, with dividends reinvested. U.S. Small Cap Equity is represented by the Russell 2000 Index. Developed Non-U.S. Equity is represented by the MSCI EAFE Index. Emerging Market Equity is represented by the MSCI EM Index. Real Estate is represented by the FTSE NAREIT Index. Infrastructure is represented by the FTSE Global Core Infrastructure 50/50 Index. U.S. High Yield Debt is represented by the Bloomberg Barclays U.S. Corporate High Yield Index. Emerging Market Debt is represented by the Bloomberg EM USD Aggregate Index. U.S. Aggregate Bonds is represented by the Bloomberg Barclays U.S. Aggregate Bond Index. U.S. Treasuries is represented by the Bloomberg Barclays U.S. Treasury Index. U.S. Municipal Bonds is represented by the Bloomberg Barclays Municipal 1-10yr Index.

Sources: Bloomberg, Pathstone, as of 9/30/2024

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