Q3 2024

LADENBURG
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MARKET VIEW QUARTERLY

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Traditionally considered a difficult time for equities, this third quarter defied expectations, particularly in September when an unexpectedly bold Federal Reserve interest rate cut fueled a rally in the stock market. Different trends emerged across asset classes — domestic equities, international markets, fixed income, and alternatives — reflecting the comprehensive but differentiated impact of evolving macroeconomic conditions. From the broadening of the U.S. equity market — clear in the outperformance of small- and mid-cap indices over large-cap counterparts — to the strong showing from international stocks fueled by a weakening dollar, investors were reminded of the importance of diversification. Fixed-income markets experienced a resurgence as interest rates fell, and alternative assets, particularly gold, benefitted from geopolitical tensions and central bank purchases.

DOMESTIC EQUITIES

The third quarter can be challenging for investors as quiet summer months and depressed trading volumes normally end abruptly with a sharp increase in volatility each September — historically, the worst month of the year for equity market returns.[1] But a larger-than-anticipated Federal Reserve (Fed) interest rate cut sparked a turnaround resulting in abnormally positive Q3 stock market performance. Long-anticipated monetary policy easing aided overall Q3 performance, which saw the S&P 500 rise 5.89%. Throughout the quarter, weakening economic data fueled expectations for more significant Federal Reserve (Fed) interest rate cuts than previously expected. Those shifting expectations contributed to broadening equity market performance through quarter-end. Both the Russell 2000 (9.27%)[2] and Russell Mid Cap (9.21%)[2] indices outperformed the larger Dow Jones (8.72%)[2], S&P 500 (5.89%)[2], and NASDAQ (2.76%)[2] indices in Q3. Supporting through opposition, the previously dominant information technology sector returned just 1.89%[2] in Q3 — the second worst sector of the S&P 500 over that time. This broadening performance should remind investors that despite impressive rallies in select handfuls of companies (like the 'Magnificent 7'), diversification matters most when you least expect it.

INTERNATIONAL EQUITIES

In the third quarter of 2024, international developed stocks (7.26%)[2] outperformed the market cap-weighted S&P 500 (5.89%)[2] but underperformed the equal-weighted S&P 500 (9.60%).[2] A weakening US dollar drove this strong international performance throughout the quarter. Declining U.S. interest rates encouraged foreign investors to shift capital to higher-yielding economies overseas. Global interest rate policies are diverging; the Fed and European Central Bank (ECB) have begun cutting rates, but the Bank of England (BoE) is holding steady while Brazil and Japan are raising rates. Depressed valuations may entice potential investors, but expected future earnings growth remains in question across developed international markets (particularly given recent escalating geopolitical tensions now bordering on regional conflict in the Middle East).

The MSCI Emerging Markets (EM) Index returned (8.72%)[2] in the third quarter, outpacing the market-cap-weighted S&P 500, but lagging the equal-weighted S&P 500. Much of the performance was derived from the announcement of both fiscal and monetary stimulus from the Chinese government — the largest constituent in the MSCI EM Index. Despite limited valuation expansion and challenging currency fluctuations, emerging markets have grown earnings faster than the U.S. so far this year — a trend expected to continue in 2025.[3] However, concerns over trade tensions, especially with China, could increase emerging market equity volatility as the election draws nearer.

FIXED INCOME

Throughout the quarter, successive Consumer Price Index (CPI) readings — although fitful — generally indicated a continuing trend toward the Fed's 2% target (the August figure clocked in at 2.50% year-over-year).[4] Cooling inflation and increasing concerns over the other half of the Fed's dual mandate — maximum sustainable employment — moved the central bank to ease monetary policy with a 'jumbo' 50 basis-point cut at the September meeting. Although market reaction was muted in response — Treasury yields barely budged on the news — the policy move was largely anticipated by fixed-income investors who forced yields lower throughout the quarter. The yield on a 10-year Treasury fell from 4.40% to 3.79%, and the 2-year Treasury fell from 4.79% to 3.65%.[4] For the first time in more than two years, the yield curve re-established a somewhat normalized term structure, i.e., the yield curve un-inverted. This shift in the yield curve (generally known as a bull steepener) drove strong fixed-income returns both domestically and internationally [U.S. Aggregate Bond Index (5.20%)[2]; Global Aggregate Bond Index (6.98%)][2], rivaling the returns of the S&P 500 (5.89%)[2] for the quarter. In addition to financial market performance, falling interest rates are likely to result in lower mortgage, credit card, and auto loan rates, which should ease financial conditions for consumers in the coming months. How fast and how far rates will fall is still unclear, but the post-Great Financial Crisis, near-0% rate environment is almost certainly a thing of the past.

ALTERNATIVES AND REAL ESTATE

Gold continued its upward momentum throughout the third quarter, closing at $2,659 — a 13.67% quarterly return.[4] The shiny metal was supported by central bank purchases and easing monetary policy, particularly interest rate cuts from the Fed which increased gold's attractiveness relative to interest-bearing securities. Additionally, geopolitical tensions, including uncertainties in the Middle East, encouraged safe-haven buying. Meanwhile, weakness in global economic growth and increasing jewelry demand, both particular to China, ironically, drove the value of a Troy ounce to all-time highs.

Pessimism spread across the U.S. oil and gas industry in Q3, and WTI crude prices fell from $84.70 at the start of the quarter to $68.75 at the end of September.[4] Numerous operators curtailed drilling in response to persistently low natural gas prices and oil price volatility. The potential impact of the upcoming U.S. presidential election on energy policy weighed heavy on the industry at large, with multiple firms delaying planned exploration and growth projects until after the results are clear.

Despite a slight increase in housing inventory, affordability continues to hamper the US housing market. Existing home sales remain near historic lows with the annualized rate hovering around 3.86 million in August 2024 — down 4.2% from a year ago.[5] Mortgage rates have declined but remain elevated — the 30-year fixed mortgage rate held steady above 6% — limiting affordability for many buyers.[6] Despite lower mortgage rates, which typically boost demand, the median existing-home sales price declined by $10,200 to $416,900.[4]

CONCLUSION

The third quarter of 2024 was anything but predictable. The Fed's shift in monetary policy, marked by falling interest rates, set the stage for global economic changes, but investors continued to buy with confidence. While international stocks grabbed attention, the real standouts were small- and mid-cap stocks, which outperformed all other major indices, potentially signaling a new wave of opportunity. A broadening U.S. market only reinforced the case to stay invested in equities. Fixed income made a strong comeback as falling rates restored bonds' role as diversifying portfolio stabilizers — a benefit that's been elusive in recent years. Although presidential elections inherently inject uncertainty into financial markets, which concerns investors and increases volatility, once the ballots are cast that source of uncertainty no longer exists, and, regardless of the result, markets move on and refocus on the fundamentals.[7] Importantly, with a significant cushion of surprisingly positive equity *and* fixed income returns year-to-date, most investors should comfortably handle any short-term volatility ahead of the election and subsequently benefit from still strongly positive economic growth, falling interest rates, and expanding earnings growth expectations. With the landscape evolving fast, a well-balanced, long-term strategy will be essential to navigating the risks and seizing the opportunities that will arise as the year wraps up.

Economic Definitions

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Existing Home Sales: This concept tracks the sales of previously owned homes during the reference period. Total existing home sales include single-family homes, townhomes, condominiums and co-ops. All sales are based on closings from Multiple Listing Services. Foreclosed homes are only counted in the inventory if the bank is working with a realtor. Foreclosed homes that sell via auction (or other closings outside of the Multiple Listing Services) are not included.

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

West Texas Intermediate (WTI): West Texas Intermediate (WTI) is crude stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams and which is traded in the domestic spot market at Cushing, Oklahoma.

Unemployment Rate: The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

Labor Force Participation Rate: The labor force participation rates is calculated as the labor force divided by the total working-age population. The working age population refers to people aged 15 to 64. This indicator is broken down by age group and it is measured as a percentage of each age group

Mortgage Rate: A mortgage rate, or mortgage interest rate or interest rate, is part of what it costs to borrow money from a lender. Instead of paying your mortgage lender a lump sum, the interest is paid as part of your monthly payment for your home loan.

US Dollar: The U.S. Dollar Index is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" when compared to other currencies.

Index Definitions

S&P 500®: The S&P 500 is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

DISCLOSURES

1 September Market Seasonality: Why This Month Is Historically The Toughest For Investors - SPDR S&P 500 (ARCA:SPY) - Benzinga

2 Data Obtained from Morningstar as of 9.30.2024

3 Guide to the Markets | J.P. Morgan Asset Management (jpmorgan.com)

4 Data Obtained from Bloomberg as of 9.30.2024

5 Existing-Home Sales Dipped 2.5% in August (nar.realtor)

6 Mortgage Rates - Freddie Mac

7 2024 Election Insights | J.P. Morgan Asset Management (jpmorgan.com)

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