September 2024

osaic

MARKET VIEW MONTHLY

Philip Blancato, Chief Market Strategist, Osaic

ECONOMIC REVIEW[1]

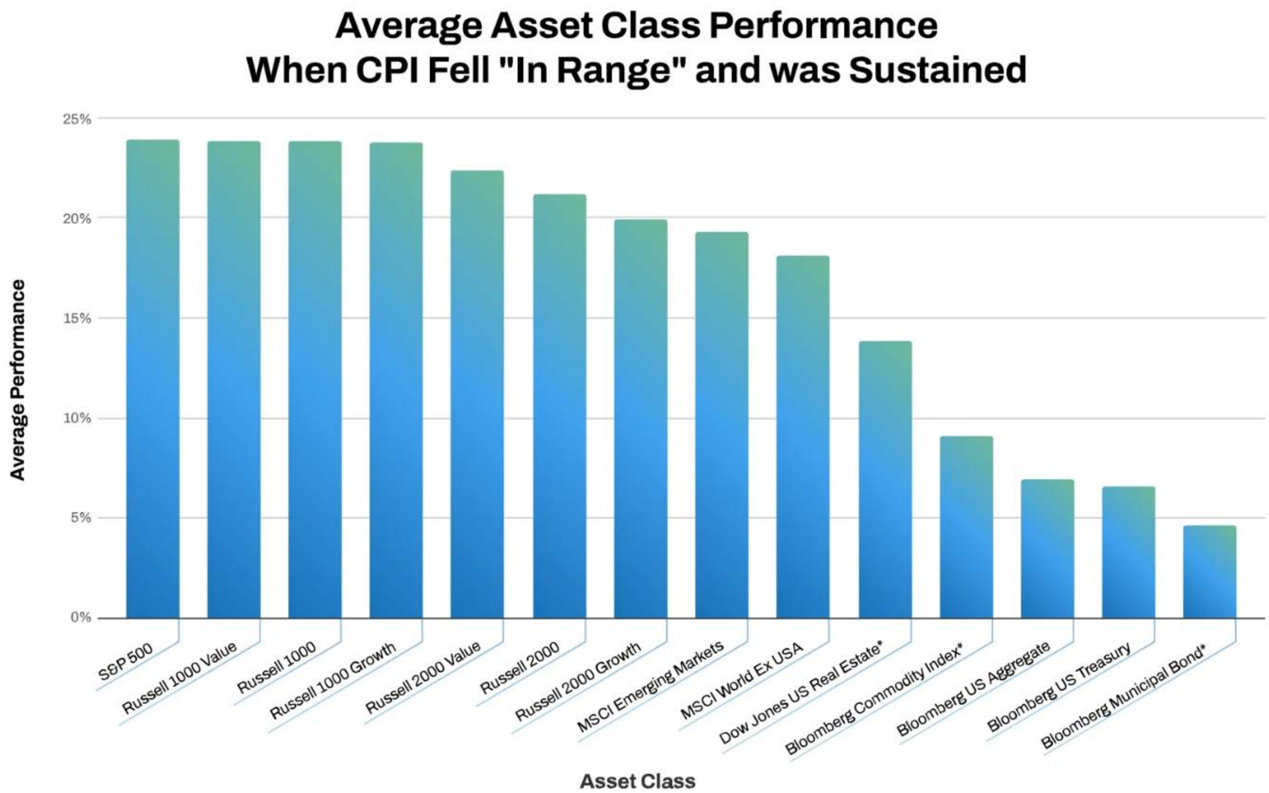
- The nonfarm payrolls figure increased by 142,000 in August, below the consensus of 165,000 jobs expected.
  - The two-month revision for nonfarm payrolls was -86,000; a downward revision also brought last month's figure to 89,000 from the initial 114,000, which spooked markets.
    - The unemployment rate came in at 4.2%, below recent highs but still elevated.
- The ISM Manufacturing index rose from last month's 46.8 to 47.2, slightly missing expectations. (Levels higher than 50 signal expansion; levels below 50 signal contraction).
- ISM Non-Manufacturing (or Services) headline number was 51.5, a slight uptick from the previous month.
  - The latest reading holds the index in expansion territory for the second consecutive month.
- Headline Consumer Price Index (CPI) came in line with expectations on a month-over-month (MoM) basis at 0.2% and slightly lower than projections on a year-over-year (YoY) basis at 2.5%.
  - Core inflation, which excludes food and energy prices, rose 0.3% MoM and remains elevated at 3.2% YoY. The MoM figure was slightly higher than expectations.
- The Producer Price Index (PPI) came in hotter than expected MoM rising 0.2% MoM and 0.3% MoM less food and energy. The YoY figures rose 1.7% and 2.4% for headline and core respectively, both of which were cooler than expected.
  - "Super Core" PPI (less food, energy, and trade) came in above expectations at 0.3% MoM, and 3.3% YoY.
- The August retail sales figure rose 0.1% MoM, which indicated a 2.1% YoY number.
  - Retail sales in July were revised upward slightly to 1.1% month-over-month.
- The Conference Board Leading Economic Index (LEI) for the U.S. fell slightly by -0.2% in August to 100.2.
- The U.S. economy grew faster than expected in Q2 2024, although the second revision was unchanged at 3.0%.
- Personal Consumption Expenditures (PCE) increased by 0.1% in August, down slightly from last month's 0.2% and below expectations.
  - Year-over-year, PCE fell to 2.2% below expectations of a fall to 2.3%.
  - Core PCE increased by 0.2% month-over-month and held at 2.7% on an annual basis.
- The Federal Reserve (Fed) cut interest rates by 50 basis points at their meeting in mid-September saying that the cut was not to shore up economic weakness, but rather to front-run and prevent economic deterioration.
  - The cut concluded a historic Fed rate-hiking cycle that brought interest rates to a multi-decade more rapidly than any tightening cycle in U.S. history.

INSIGHT:

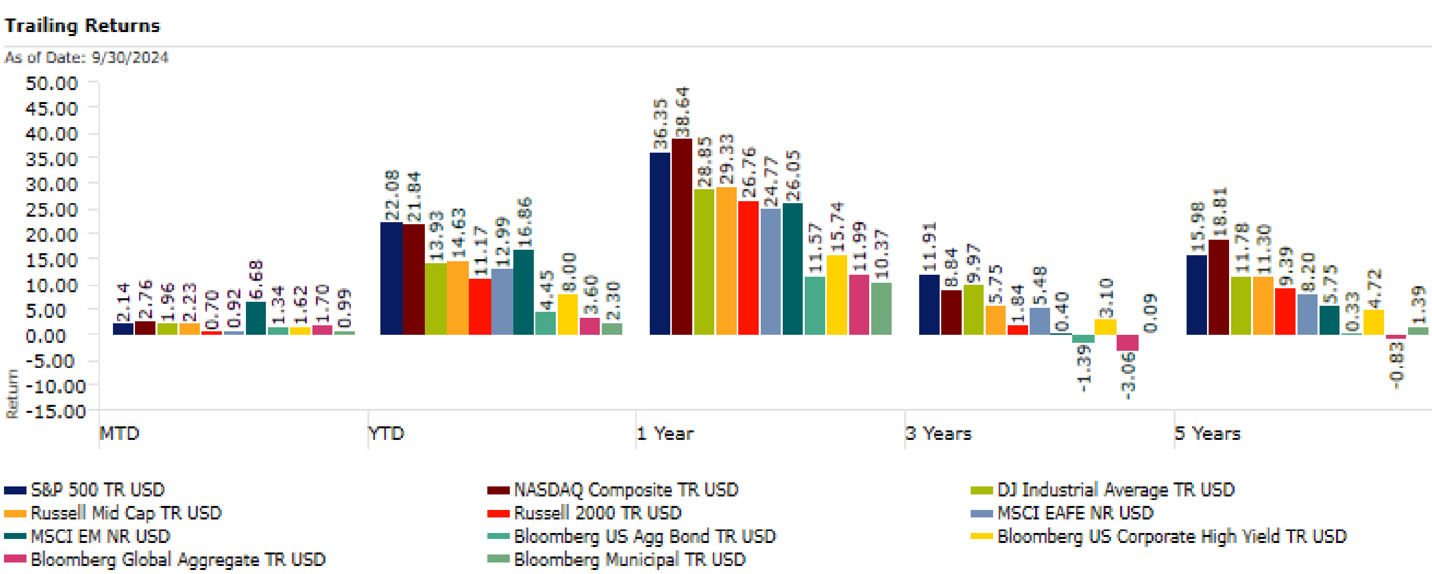
September, which tends to be the worst month of the year for markets, started with another tepid labor report, continuing August job market weakness and leading to a market sell-off. Stocks gradually found their footing in the weeks that followed as economic data in other areas besides labor were resilient. The ISM Services and Manufacturing Indices rose versus the prior month and retail sales proved more robust than anticipated, so investor concerns over a potential economic rough patch were at least temporarily assuaged. All eyes then turned to the Federal Reserve and the all-important 'policy pivot' meeting, at which the central bank cut interest rates by 50 basis points, surprising many economists and market participants who had anticipated a more traditional, quarter-point cut. Lower inflation (as measured by PCE) and solid GDP growth (unchanged from the 3.0% figure reported in the first revision) rounded out the month's major economic data points. On the back of robust economic data, markets finished the month positively.

Chart of the Month:[2]

Inflation is again trending back towards the 2% target set by the Federal Reserve as their rate hiking cycle ends. As rates begin to move down, many investors look to move cash from the sidelines and deploy into return-generating vehicles. The following chart breaks down the returns of various asset classes following a monetary easing cycle once inflation has fallen back into the normal range. The chart shows that while inflation and interest rates are low, equities, particularly domestic equities, tend to shine.



MARKET UPDATE[3]



Investments (as of 9/30/2024)	Trailing Returns MTD	YTD	1 YR	3 YR	5 YR	Equity Evaluations P/E Ratio	P/B Ratio
S&P 500	2.14%	22.08%	36.35%	11.91%	15.98%	26.82	4.67
NASDAQ	2.76%	21.84%	38.64%	8.84%	18.81%	31.29	6.27
Dow Jones Industrial Average	1.96%	13.93%	28.85%	9.97%	11.78%	24.46	4.56
Russell Mid-Cap	2.23%	14.63%	29.33%	5.75%	11.30%	21.08	2.86
Russell 2000 (Small Cap)	0.70%	11.17%	26.76%	1.84%	9.39%	17.05	1.97
MSCI EAFE (International)	0.92%	12.99%	24.77%	5.48%	8.20%	16.75	1.85
MSCI Emerging Markets	6.68%	16.86%	26.05%	0.40%	5.75%	14.15	1.71
Bloomberg Barclays US Agg Bond	1.34%	4.45%	11.57%	-1.39%	0.33%	—	—
Bloomberg Barclays High Yield Corp.	1.62%	8.00%	15.74%	3.10%	4.72%	—	—
Bloomberg Barclays Global Agg	1.70%	3.60%	11.99%	-3.06%	-0.83%	—	—
Bloomberg Barclays Municipal	0.99%	2.30%	10.37%	0.09%	1.39%	—	—

MARKET REVIEW[1]

Equities:

September is historically the worst month for equities, with the S&P 500 declining on average -1.2% and only earning positive returns 44.3% of the time. The first two weeks of September seemed to advance that narrative, as the S&P 500, Dow Jones, and NASDAQ all fell in tandem on the back of weakening economic data and concerns the Fed policy tightness would drive the economy into a recession. On September 18th, however, the Fed announced it would be cutting interest rates by 50 bps in an attempt to maintain the strength of the economy as inflation continues to moderate. By the market close on that day, the S&P 500 had turned positive and continued to rally through the end of the month. The tech-dominated NASDAQ led the way for the three major U.S. equity indices, finishing the month up +2.76%. Developed international markets finished the month positive (+0.92%) and Emerging Markets (EM) rallied +6.68%. This was largely concentrated in the last 10 trading days of September as China's government unveiled sweeping new stimulus measures that markets hope will lift the economy through its recent hardships. China is the largest constituent of the EM index, and the CSI 300 alone (the Chinese equivalent of the S&P 500) rallied over 25% in those final days.

Fixed Income:

Bond markets had a strong month despite continued interest rate volatility. The Fed lowering interest rates had a similar impact on fixed income markets as it did with broad equities, spurring a decline in rates, which move inversely with bond prices. Yields on the short end of the curve fell more significantly as they are more closely tied to the Federal Funds Rate. Longer duration rates fell marginally. The 2-year yield fell 28 bps, while the 10-year Treasury yield fell just 12 bps. Markets had already priced in most of the jumbo, 50-bp cut before the Fed meeting even occurred, so price action was limited. Credit spreads, which measure the compensation investors receive for taking on default risk, continued to decline, further underlining the strong fundamentals that companies bearing debt are showing. The decline in credit spreads also drove strong monthly performance from the high yield portion of the market. The global Aggregate index posted strong returns, as well, as a plethora of central banks began to cut interest rates.

Economic Definitions

Bank of England (BoE): The Bank of England (BoE) is the central bank of the United Kingdom. The BoE oversees the nation's monetary policy and issues its currency. It also regulates banks, financial institutions, and payment systems. It is the U.K. equivalent of the Federal Reserve in the U.S.

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.

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

European Central Bank (ECB): The European Central Bank (ECB) is the central bank responsible for the monetary policy of the European Union (EU) member countries that have adopted the euro currency.

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.

ISM Manufacturing Index: PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc.

ISM Services Index: PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc. Target Audience: supply management professionals Sample Size: 300 individuals Date of Survey: through the month The Services Index is a composite index of four indicators with equal weights: Business Activity, New Orders, Employment and Supplier Deliveries. An index reading above 50% indicates an expansion and below 50% indicates a decline in the non-manufacturing economy. Whereas per Supplier Deliveries Index, above 50% indicates slower deliveries and below 50% indicates faster deliveries.

Nonfarm Payrolls: This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Producer Prices - PPI (headline and core): Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e. prices received by domestic producers for their outputs either on the domestic or foreign market).

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.

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.

S&P 500® Equal Weight Index (EWI): The S&P 500® Equal Weight Index (EWI The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

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 Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

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).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

Disclosures

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect again loss. In general, the bond market is volatile; bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed-income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Vehicles that invest in lower-rated debt securities (commonly referred to as junk bonds or high-yield bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. International investing involves special risks not present with U.S. investments due to factors such as increased volatility, currency fluctuation, and differences in auditing and other financial standards. These risks can be accentuated in emerging markets.

The statements provided herein are based solely on the opinions of the Osaic Research Team and are being provided for general information purposes only. Neither the information nor any opinion expressed constitutes an offer or a solicitation to buy or sell any securities or other financial instruments. Any opinions provided herein should not be relied upon for investment decisions and may differ from those of other departments or divisions of Osaic Wealth, Inc. or its affiliates. Certain information may be based on information received from sources the Osaic Research Team considers reliable; however, the accuracy and completeness of such information cannot be guaranteed.

Certain statements contained herein may constitute "projections," "forecasts" and other "forward-looking statements" which do not reflect actual results and are based primarily upon applying retroactively a hypothetical set of assumptions to certain historical financial information. Any opinions, projections, forecasts and forward-looking statements presented herein reflect the judgment of the Osaic Research Team only as of the date of this document and are subject to change without notice. Osaic has no obligation to provide updates or changes to these opinions, projections, forecasts and forward-looking statements. Osaic is not soliciting or recommending any action based on any information in this document.

[1] Data obtained from Bloomberg as of 9/30/2024.

[2] Which Asset Classes Perform Best as Inflation is Driven Lower? (ycharts.com)

[3] Returns obtained from Morningstar Direct as of 9/30/2024.