Third Quarter Market Update

October 2024

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POWER
WEALTH MANAGEMENT



At PWM, we view independent thinking, as a critical ingredient to investment success. We're also optimistic about technological advances, and their ability to improve productivity, and our lives, over the long arc of history. And while we're confident in the strength of our independent mindset, our artistic skills are lackluster. Accordingly, we've asked Chat GPT to draw a picture that symbolizes our independent mindset. A description of the picture from Chat GPT can be found below.

"Here is a symbolic image of independent thinking, where a single glowing light bulb represents innovation and creativity amidst a sea of dimly lit or unlit bulbs, symbolizing conventional ideas. The bright bulb stands out, radiating clarity and inspiration."

-Chat GPT

Q3'24 Market Performance, Key Drivers, & Go-Forward Outlook

The US stock market generated a total return of 20.6% year-to-date, led by large growth companies. International Developed and Emerging Market stocks returned 12.5% and 20.2%, respectively. The US Aggregate Bond Index returned 4.5%. Emerging Market performance accelerated late into Q3 as Chinese stocks rallied, reacting to a number of stimulative measures announced by Chinese policymakers. As a result, Emerging Market stocks were the best performer in the quarter.

Figure 1. Market Performance, Total Return

	Q3'24	Year-to-Date
Equities		
US Total Market[1]	6.2%	20.6%
International Developed[2]	7.6%	12.5%
Emerging Markets[3]	11.0%	20.2%
Fixed Income		
US Aggregate[4]	5.2%	4.5%

Source: Bloomberg
1. S&P Total Market Index, 2. FTSE Developed ex US Index, 3. FTSE Emerging Index,
4. Bloomberg US Aggregate

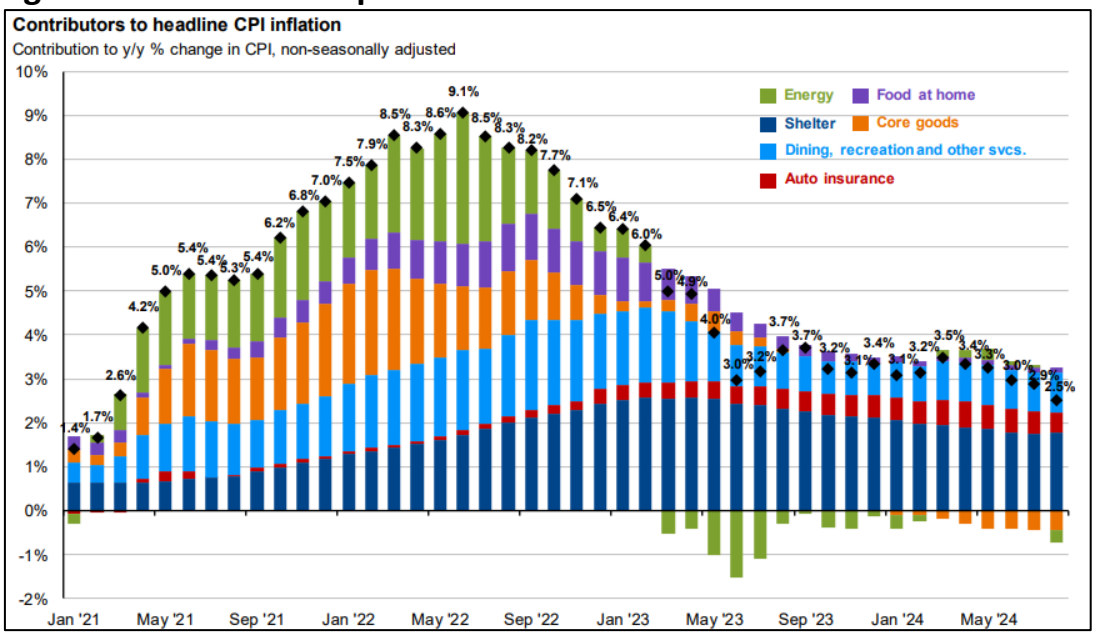
Year-to-date, utilities were the best performing sector within US equities, and have generated a 30.5% total return, driven by a number of factors, including 1) interest rate cuts at the Federal Reserve making income producing equities more attractive, and 2) enthusiasm regarding growth in power-intensive artificial intelligence. While portfolios vary based on unique client needs and risk profiles, we added a utilities sector ETF to many accounts in mid-2023.

Additionally, the third quarter saw a meaningful decline in bond yields. Since bond prices and bond yields move inversely to one another, the US Aggregate Bond Index had a particularly strong quarter, generating a total return of ~5.2%. All in, the third quarter, as well as the year-to-date period, presented a favorable environment for well-diversified portfolios.

US Economic Trends

Inflation is continuing to decline towards the Federal Reserve's target of 2%, while the economy has remained resilient, increasing the likelihood of a 'soft landing'. A 'soft-landing' refers to a scenario where the Fed can rein in inflation without causing a recession. See **Figure 1.** for a chart detailing the contributors to changes in the Consumer Price Index (CPI) over the last several years. 'Shelter' has been the largest contributor recently, and real-time measures reflecting slower home price appreciation and slower rent growth on new leases, sets up well for continued progress towards the Fed's target.

Figure 2. Inflation Components



Source: Bureau of Labor Statistics, FactSet, JP Morgan Asset Management

The Federal Reserve has a 'dual mandate' and is focused on promoting price stability and full employment. With inflation moving in the right direction, in September, the Fed was able to cut rates by 50 basis points (i.e., 0.5 percentage points), and shift greater attention to the employment side of their mandate. Shortly thereafter, concerns regarding employment were somewhat alleviated, when the Bureau of Labor Statistics announced that the US economy added 254k jobs in September, well above expectations. While the economic picture currently looks somewhat brighter, there continues to be risks on the horizon, including geopolitical issues, a tenuous agreement among dockworkers in key ports around the country, the pace of future interest rate cuts, and a presidential election. Over the long-run, recessions are inevitable, and it's not a matter of 'if', but 'when'. It's our goal to develop well-diversified portfolios that can perform in a variety of economic environments.

US Stocks

In the year-to-date period, the S&P 500 generated a total return of 21.9%, led by large growth companies. In the third quarter however, performance 'broadened-out', with value stocks outperforming growth stocks, and smaller stocks outperforming larger ones. See **Figure 3.** for total returns by size and style. We believe there are several dynamics at play. First, we believe a healthy dose of skepticism regarding the most speculative AI stocks has crept into investor psychology. While NVIDIA (NVDA) is up 145.3% year-to-date, which is surely an astounding result, the stock was down 1.7% in the third quarter. Increasingly, we're hearing concerns regarding the ability of big tech firms to earn a return on their AI spending, emerging competition, and concerns regarding the energy-intensity of related processes. Additionally, the economy has been surprisingly resilient, benefitting more cyclically-oriented value companies, and lower interest rates are benefitting smaller companies, which tend to have higher debt loads.

Figure 3. Q3'24 Total Return by Size & Style

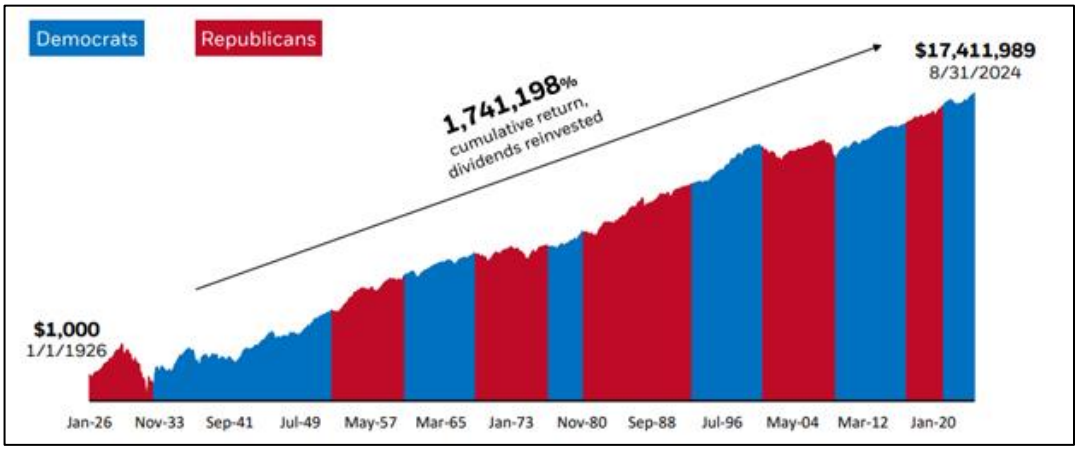
	Value	Blend	Growth
Large	9.0%	5.8%	3.7%
Mid	9.4%	7.0%	4.6%
Small	11.5%	10.1%	8.8%

Source: Bloomberg; returns based on investable State Street S&P 500, S&P 400, and S&P 600 ETFs

Over the longer-term, we continue to be optimistic regarding the ability of artificial intelligence to improve productivity, and thus, contribute to stronger economic growth. While picking winners in the hardware space may prove difficult, to the extent AI helps companies reduce costs and improve profit margins, a wide swath of equities stand to benefit. More specifically, we believe a number of individual stocks in our portfolios could be meaningful beneficiaries, including cloud computing giants, software businesses that leverage AI to improve their product offerings and reduce development costs, and construction-related businesses responsible for the build-out of required infrastructure, among others. However, as always, we will continue to be disciplined regarding the prices we pay for businesses.

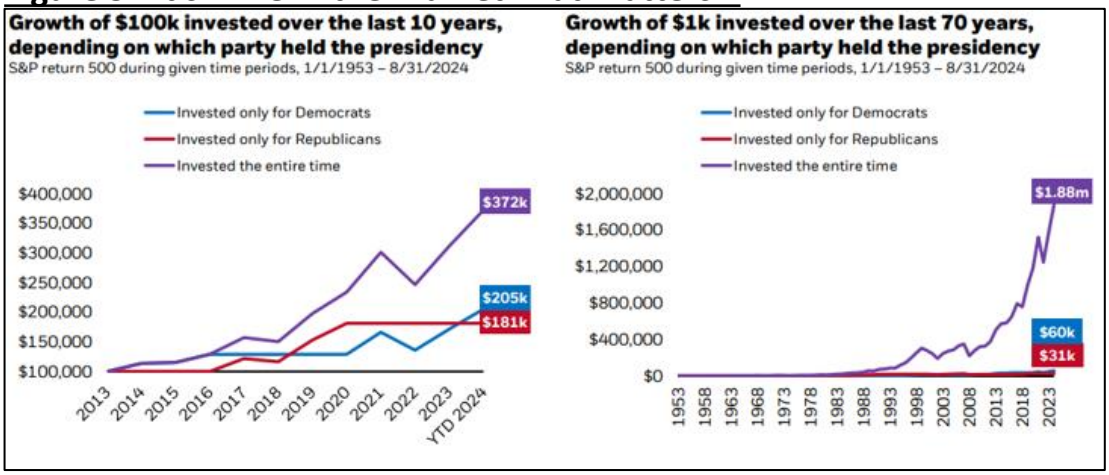
Many have expressed concerns regarding the presidential election. We urge clients to express their political opinions in the voting booth, and not in their investment accounts. **Figure 4.** shows the long-term performance of stocks under Republican and Democratic presidencies. Regardless of which party has been in office, the general trend has been up and to the right. Additionally, **Figure 5.** shows the performance of an investor who only held stocks during administrations that lined-up with their political views vs. an investor who stayed invested the entire time.

Figure 4. Stocks Continued Higher Regardless of Party Holding Presidency



Source: Morningstar as of 8/31/24. Stock market represented by the S&P 500 index from 1/1/70 to 8/31/24 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70; Blackrock; Past performance does not guarantee or indicate future results.

Figure 5. It's Time In the Market That Matters…



Source: Morningstar as of 8/31/24. Stock market represented by the S&P 500 index from 1/1/70 to 8/31/24 and IA SBBI U.S. large cap stocks index from 1/1/54 to 1/1/70; Blackrock; Past performance does not guarantee or indicate future results.

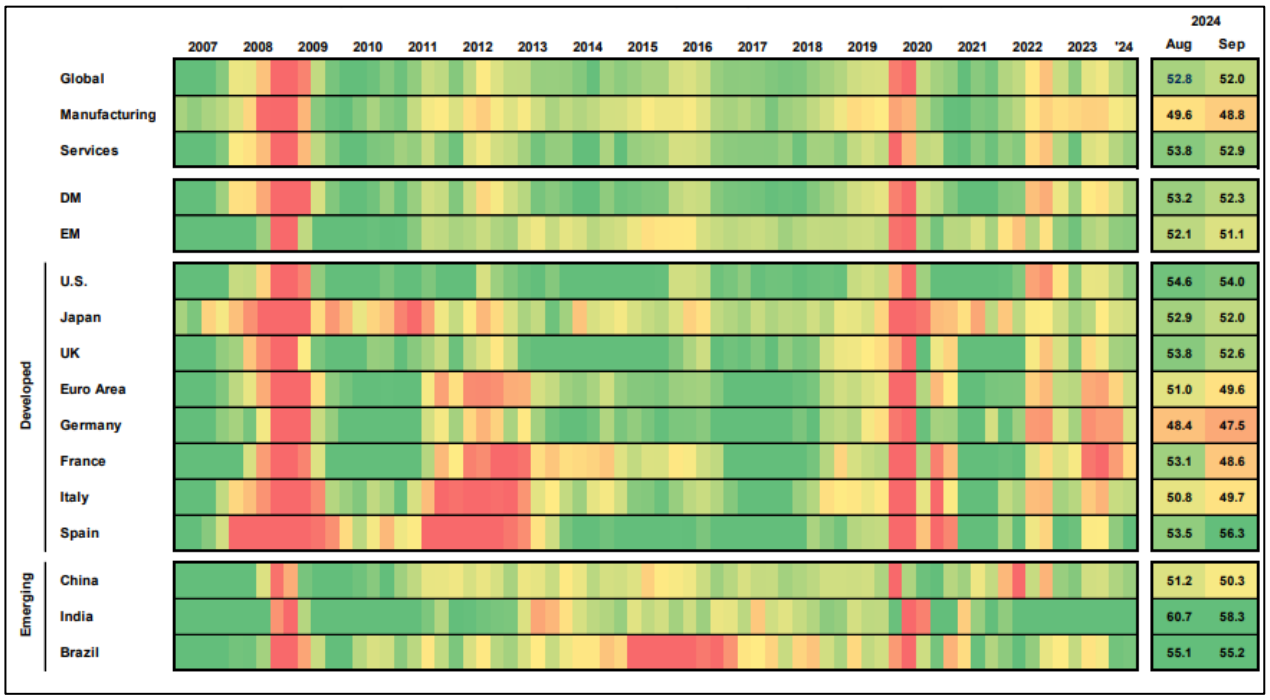
We'd also point out that stock performance can be influenced by countless factors outside of politics, and as a result, even more 'micro' forecasts can be highly uncertain. For example, counter-intuitively, green energy did better under the Trump administration than the Biden administration, and oil & gas did better under the Biden administration than the Trump administration. In large part, we attempt to tune out political noise from our investment process.

International Stocks

In the third quarter, International Developed and Emerging Market stocks generated total returns of 7.6% and 11.0%, respectively. Between September 23rd and September 30th, the MSCI China Index surged an astounding 21.3%, after policymakers announced a series of stimulative measures, focused on the housing market, domestic consumption, and the stock market. This was the largest stimulus in China since 2015, and Chinese stocks started out cheap, which amplified returns. To the extent the Chinese economy accelerates, we think this sets-up positively for international equities. China's weight in emerging market indices is meaningful, and for example, the **Schwab Emerging Markets Equity ETF (SCHE)**, is nearly 30% China. Additionally, many Asian economies, and even European economies are relatively more exposed to China.

We continue to monitor the performance of economies around the globe. See **Figure 6.** for a heat map of global economic activity. We continue to be particularly excited about growth in India, buoyed by shifting supply chains and stronger demographics. Importantly, the tailwind of lower interest rates is also playing out abroad, with further cuts expected at the European Central Bank (ECB), the Bank of England (BoE), and many other central banks. Thematically, we continue to believe international stocks are an important part of a well-diversified portfolio.

Figure 6. Global Composite (Manufacturing & Services Combined) Purchasing Managers Index, Quarterly

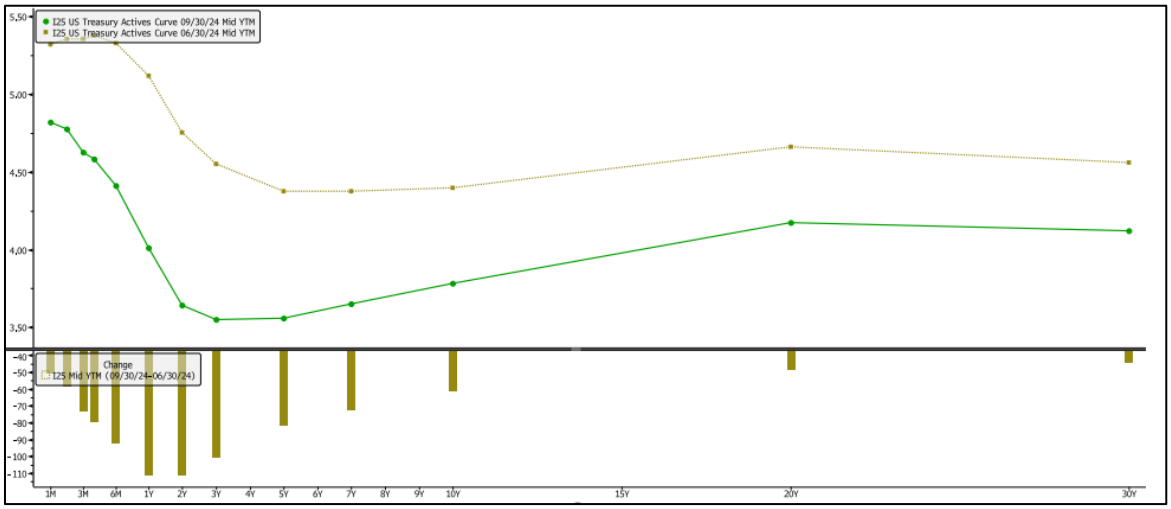


Source: JP Morgan Economic Research, Standard & Poor's. Heat map colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration; JP Morgan Guide to the Markets

Fixed Income

In the third quarter, the US Aggregate Bond Index generated a total return of 5.2%. As a reminder, bond prices and yields move inversely to one another. See **Figure 7.** for a line chart of Treasury yields across maturities ranging from 1-month to 30-years, graphed at the beginning and end of the quarter. As seen below, yields declined across the curve, benefitting bond portfolios. Additionally, yields declined more on the front-end, causing the curve to 'normalize' (i.e., 2-year yields are now lower than 10-year yields). As a reminder, the yield curve had been 'inverted' for over two years, and inverted yield curves have historically preceded recessions. To the extent the Fed can navigate a 'soft-landing', the inversion of the yield curve is increasingly looking like a 'false' recession signal.

Figure 7. US Treasury Curve, June 30th & Sept 30th



Source: Bloomberg Terminal

Going forward, our expectations for fixed income continues to be positive, especially given higher yields relative to several years ago. Additionally, with lower inflation, the negative correlation between stocks and bonds has historically been stronger, making fixed income a more useful diversifier. In regard to risks, we continue to have concerns about budget deficits and the trajectory of federal debt as a percent of GDP. On the other hand, the United States continues to be viewed as ultra-safe, has a higher yield than other developed countries, and benefits from our status as the world's reserve currency. Of course, credit-sensitive fixed income (e.g., high yield corporate bonds) also carry the risk of further economic weakness, though we believe we are positioned conservatively in that regard. As always, our goal is to be responsible stewards of your capital and maximize return per unit of risk, consistent with your unique needs. All in, we think fixed income currently offers a higher prospective return than recent history and should be more effective at reducing volatility. In combination with equities, we view fixed income as an attractive space.

As always, we continue to monitor financial markets and invest on your behalf, with a long-term orientation, consistent with the PWM investment philosophy. We continue to emphasize financial planning, and take a holistic approach to helping you manage your wealth. We consider it a privilege to help our clients reach their financial goals.

Thank you for your continued trust, and as always, we remain available to address any questions or concerns.

Sincerely,

Power Wealth Management

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