



Market Commentary

Third Quarter 2024



RETIREMENT PLAN ADVISORS

THE FUTURE IS BETTER THAN YOU THINK

MARKET SNAPSHOT

The Federal Reserve cut rates by 50 basis points during the quarter, in its first cut since 2020. The Fed has stated this is a “recalibration” of monetary policy, and is expected to conduct 150 basis points’ worth of cuts by the end of 2025.

The first three quarters of the year have produced one of the strongest equity markets in decades, primarily driven by large-cap growth stocks.

Ultimately, the market is driven by economic fundamentals, such as the fed funds rate, corporate earnings, valuations, fiscal imbalances, interest rates, inflation expectations, etc.—not by any single election outcome. Investors are wise to focus on the long term.

For investors still holding cash, a Fed rate cut cycle is typically a strong period for both stocks and bonds.

Investors should remain disciplined in their financial plan and not allow outside “noise” to derail them.

Market Recap

It was far from a quiet summer for the financial markets, which have been volatile as investors parsed through economic data attempting to gauge whether the economy will slow and how much the Federal Reserve would need to lower interest rates to prevent a recession. Toward the end of the quarter, the Fed opted for a bold start to its shift in policy, reducing rates by half a percentage point. This was the first cut since 2020, and Fed Chair Jerome Powell said the larger-than-average cut was intended to show the Fed’s commitment to “maintaining our economy’s strength” in the face of a slowdown in the labor market. Year-to-date, the economy has proven resilient thanks to strong consumer spending, lower inflation, and healthy corporate earnings.

Despite the volatility, the stock market reached new highs, with the S&P 500 gaining 5.9% in the third quarter, pushing its year-to-date return to 22.1%. Notably, there was a rotation out of large-cap growth tech stocks and into a broader range of sectors and styles. The Nasdaq, which led the market higher in the first half of the year, gained 2.8% but lagged other benchmarks in the quarter. Large-cap value (Russell 1000 Value) gained 9.4%, outperforming large-cap growth’s (Russell 1000 Growth) 3.2% gain, and small-caps (Russell 2000) rose 9.3%, outpacing large-caps’ (Russell 1000) 6.1% gain. The equal-weighted S&P 500 index (up 9.6%) easily outperformed the cap-weighted S&P 500 during the quarter. At the sector level, traditional defensive sectors were by far the biggest winners, with utilities, real estate, and consumer staples gaining 19.4%, 17.2%, and 9.0%, respectively.

Outside of the U.S., developed international stocks (MSCI EAFE) gained 7.3%, finishing ahead of domestic stocks for the three-month period. Emerging-market stocks (MSCI EM Index) were relatively quiet for most of the quarter but rose sharply in the last week of the period after China announced their boldest stimulus in years in an attempt to boost their ailing economy. Emerging-market stocks finished the quarter up 8.7% thanks to a 23.5% gain for China during the month of September.

Within the bond markets, returns were positive across most fixed-income segments. The benchmark 10-year Treasury yield declined from 4.36% to 3.81% amid lower inflation and recession concerns. In this environment, the Bloomberg U.S. Aggregate Bond Index

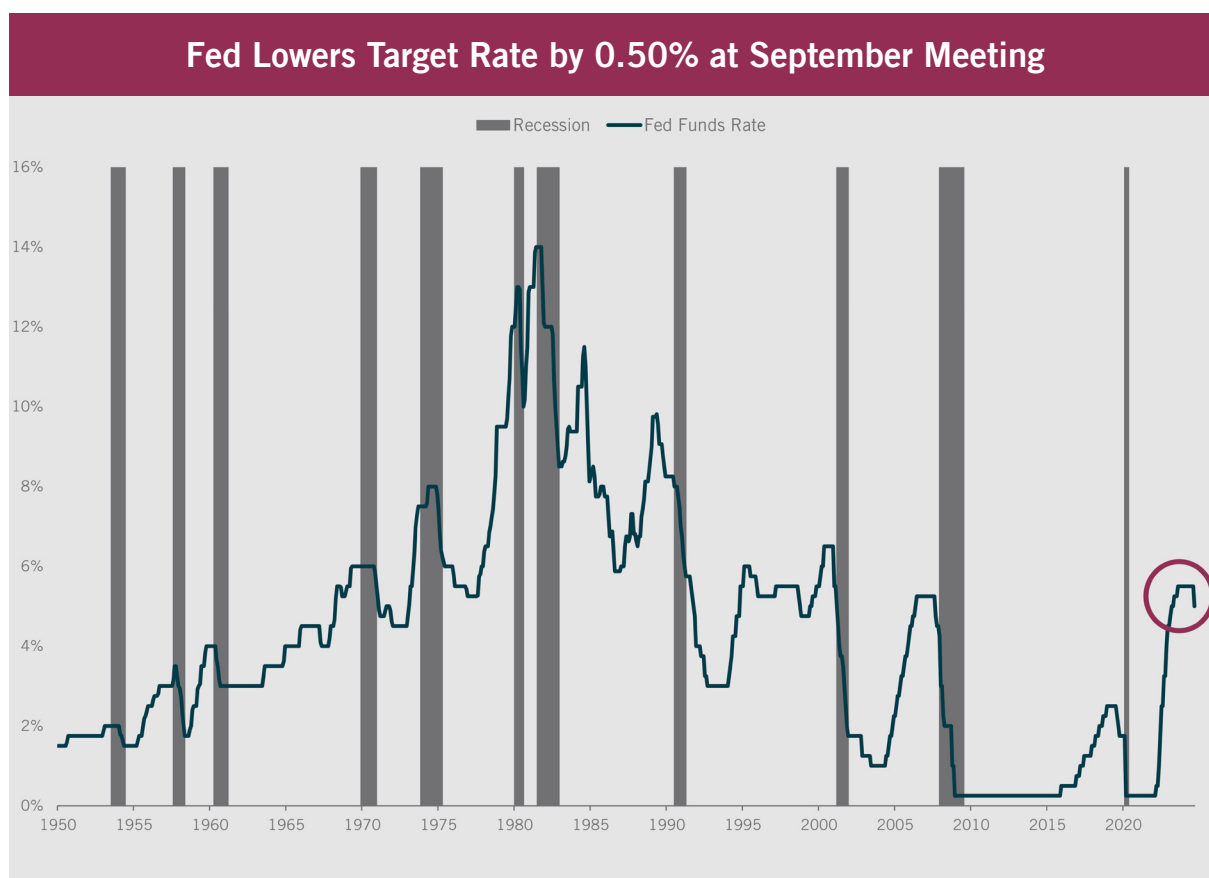
.....
The Market Commentary is mailed quarterly to our clients and friends to share our perspective. Certain material in this work is proprietary to and copyrighted by iM Global Partner Fund Management, LLC and is used by Retirement Plan Advisors with their permission. Reproduction or distribution of this material is prohibited and all rights are reserved.

gained 5.0% and credit performed well as high-yield bonds (ICE BofA Merrill Lynch High Yield Index) gained 5.5% in the quarter.

Overall, domestic economic and corporate fundamentals remained relatively healthy in the quarter, although rich valuations remain a risk. Looking ahead, the expectation is that the Fed will continue to cut rates this year and next in an effort to guide the economy to a soft landing and avoid a recession.

Investment Outlook

The Fed's half-point rate cut in September came after one of the most rapid series of hikes in history, which were an effort to combat the highest level of inflation since the early 1980s. Fed Chairman Powell said this larger-than-usual half-percentage-point reduction—rather than 25 basis points—demonstrates the Fed's commitment to its dual mandate of maintaining a strong job market while keeping inflation in check; balancing these two goals helps ensure a healthy economy. Powell emphasized that the recent cut was a “recalibration” of policy, bringing it in line with the current conditions and ensuring the Fed does not “get behind the curve” in normalizing rates.



Source: Board of Governors of the Federal Reserve System. Data as of 9/30/2024.

The question now is the pace of cuts going forward. According to the Fed's so-called “dot plot,” which indicates where various members of the Federal Reserve expect the fed funds rate to be over the next few years, the Fed expects another 150 basis points' worth of cuts by the end of 2025 and more modest cuts in 2026. As is typical, the farther the outlook, the wider the range of estimates, meaning there is less consensus on rate cuts for 2025 and 2026. Powell emphasized that the Fed remains “data dependent,” meaning that any future policy decision will be based on economic data, and he was reluctant to commit to any level of cuts saying decisions will be taken “meeting by meeting.”

Overall, economic data remains generally healthy. For example, real GDP for the second quarter was 3.0% and the estimate for the third quarter (according to the Atlanta Fed) is currently 3.2%. Meanwhile,

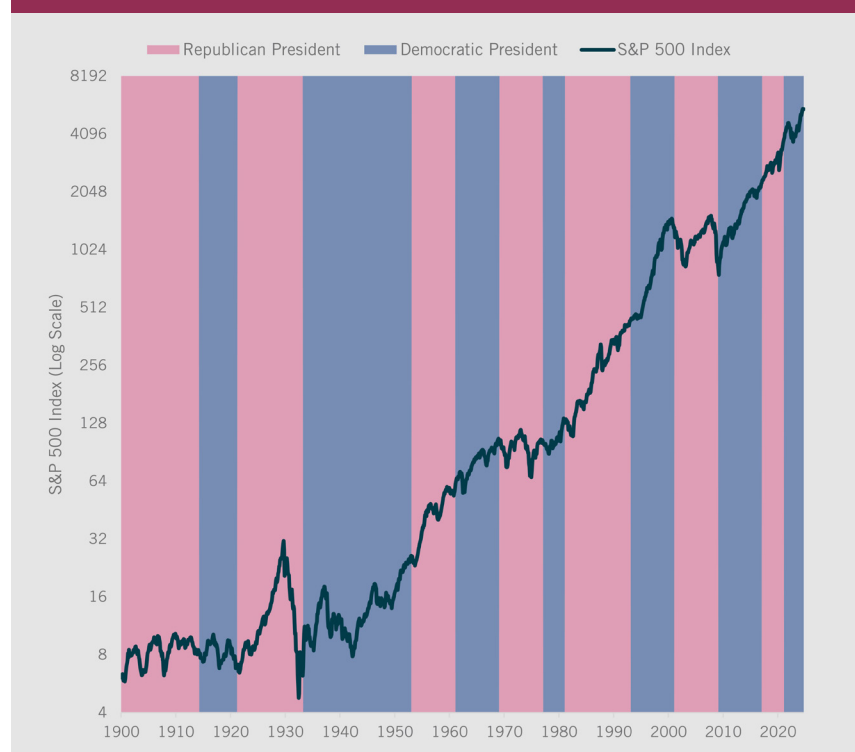
inflation continues to moderate, corporate earnings remain relatively strong, corporate defaults remain low, consumers (and the government) continue to spend, and interest rates are heading lower albeit at a questionable pace. Our base case view is that achieving a soft landing and avoiding a recession is more likely today than it looked six to 12 months ago, and that current conditions should be positive for both bonds and stocks. However, we expect the pace of gains to slow and volatility to remain elevated.

We believe the Fed's recent shift puts us at a turning point in the fixed-income market, and its more accommodative stance will start a new chapter for bonds. As the Fed lowers short-term rates, yields will move lower and reinvestment risk comes into play for short-term instruments. Investors will increasingly start to look for higher returns elsewhere.

Stocks have posted one of the strongest year-to-date returns through September since the 1990s, with the majority of S&P 500 return attributed to expanding valuations. While it is normal for short-term equity returns to be driven by valuation expansion or contraction, we believe that earnings growth is the more reliable driver of long-term returns. With valuations now near historic highs, earnings growth will need to do the heavy lifting in order for investors to realize similarly strong returns as they have in recent years. While it is not out of the realm of possibility, such an outcome will be harder to come by given historically high profit margins and valuations.

With the U.S. presidential election one month away at the time of this writing, we want to reiterate our long-held view that portfolio positioning should be guided by an analysis of longer-term risks and rewards, not election outcomes. We recognize that it's natural for investors on both sides of the aisle—especially in today's polarized environment—to believe that an election outcome could have a big impact on the financial markets. This intuition, however, is not supported by the historical data; we provide some evidence below that stocks have historically trended higher regardless of the political party of the President.

S&P 500 vs. Presidential Political Party



Ultimately, the market is driven by economic fundamentals, such as the fed funds rate, corporate earnings, valuations, fiscal imbalances, interest rates, and inflation expectations, among other factors. Undoubtedly, headlines will influence short-term market fluctuations, but longer-term fundamentals are what drive market performance. Our intention is not to minimize the significance of the election, but rather to point out that the gears of the economy are not overhauled based on an election outcome.

As for market performance around elections, there have been elections that resulted in stock market volatility and declines, notably when incumbents lose (a result that begs the question of whether a bad economic backdrop is what led the incumbent to lose). While technically there is no incumbent in this election, markets typically see a strong rebound in the year

following any post-election declines. This shows that historically elections have not had a meaningful or long-lasting effect on investment performance. Investors are wise to remain focused on the longer-term drivers of markets and even be prepared to take advantage of any post-election market declines.

Closing Thoughts

We remain cautiously optimistic about the current investment landscape. While there are promising signs in the economy, we are also acutely aware of the potential risks that could impact market stability. Investors should focus on remaining disciplined in their saving and financial plans so as not to allow outside “noise” to derail them. By staying disciplined and opportunistic, investors can better navigate the complexities of the market and position themselves for long-term success.

As always, thank you for your continued confidence and trust.

Best regards,

Retirement Plan Advisors



RETIREMENT PLAN ADVISORS

www.retirementplanadvisors.com

29 E. Madison St., Suite 500 | Chicago, IL 60602 | 312.701.1100

Investment Advisory Services offered through Retirement Plan Advisors, LLC, a Federally Registered Investment Adviser.



Market Indicators

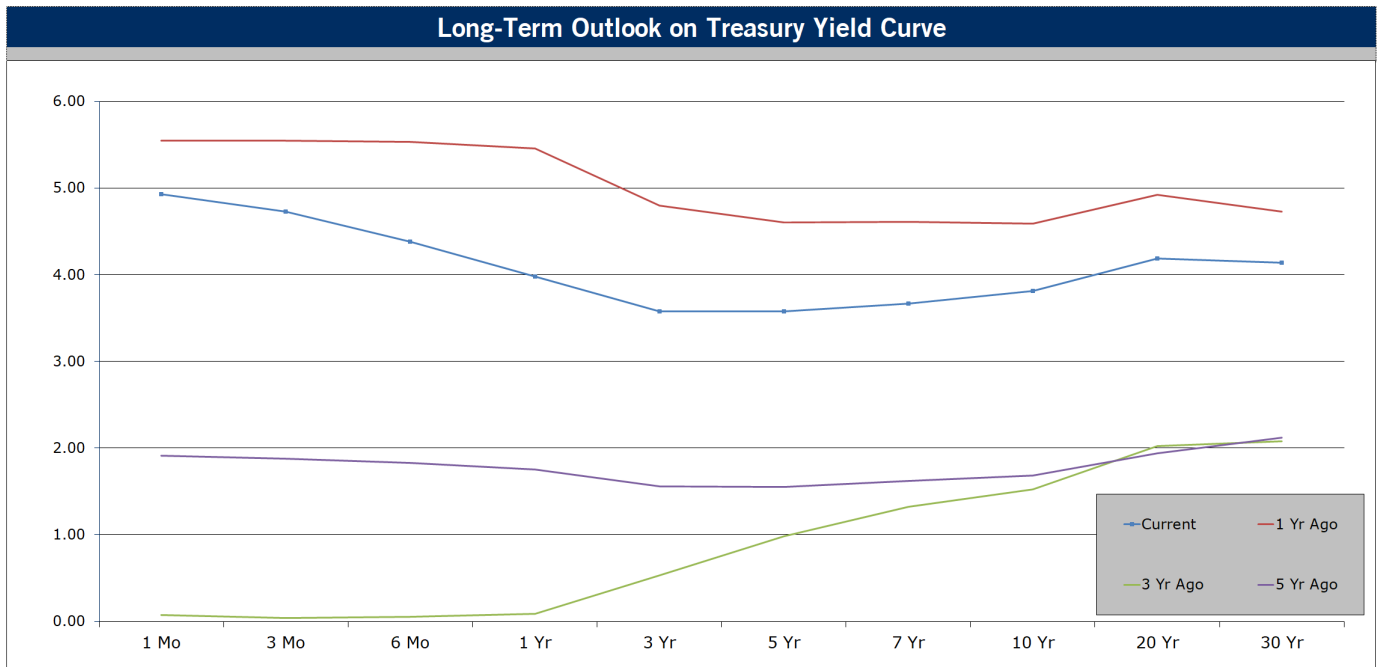
Third Quarter 2024

S&P Sectors				
	QTR	YTD	1Y	5Y
S&P Technology Select Sector TR USD	0.02	18.03	38.93	24.20
S&P Financial Select Sector TR USD	10.66	21.91	39.01	12.39
S&P Consumer Disc Select Sector TR USD	10.22	12.91	25.71	11.76
S&P Health Care Select Sector TR USD	6.07	14.35	21.69	13.36
S&P Industrial Select Sector TR USD	11.55	20.20	35.89	13.76
S&P Cons Staples Select Sector TR USD	9.05	17.79	24.23	9.20
S&P Energy Select Sector TR USD	-2.88	7.40	0.58	13.84
S&P Utilities Select Sector TR USD	19.37	30.63	41.82	7.99
S&P Real Estate Select Sector TR USD	17.17	14.31	35.83	6.19
S&P Materials Select Sector TR USD	9.70	14.25	25.31	12.95
S&P Telecom Select Industry TR USD	29.37	26.50	42.86	9.68

Market Returns					
	QTR	YTD	1Y	5Y	10Y
S&P 500	5.89	22.08	36.35	15.97	13.38
Russell Mid Cap	9.21	14.63	29.33	11.29	10.19
Russell 2000	9.27	11.17	26.76	9.38	8.78
MSCI EAFE	7.26	12.99	24.77	8.20	5.71
MSCI Emerging Markets	8.72	16.86	26.05	5.75	4.02
BBgBarc U.S. Agg Bond	5.20	4.45	11.57	0.33	1.84
High Yield	5.28	8.00	15.74	4.72	5.04

Value / Growth Returns						
	YTD			Previous Calendar Year		
	Large	Mid	Small	Large	Mid	Small
Value	15.36	10.01	4.20	22.23	15.39	12.30
Growth	28.16	16.87	12.57	30.03	17.49	17.10

Index Characteristics					
	LTM P/E	NTM P/E	Div Yld	Earn Yld	
S&P 500	27.50	21.56	1.22	4.64%	
Russell Mid Cap	21.40	17.39	1.30	5.75%	
Russell 2000	17.14	14.98	1.16	6.68%	
MSCI EAFE	15.74	13.88	2.78	7.21%	
MSCI Emerging Markets	15.18	12.48	2.26	8.01%	



Source: Morningstar