

Making Sense

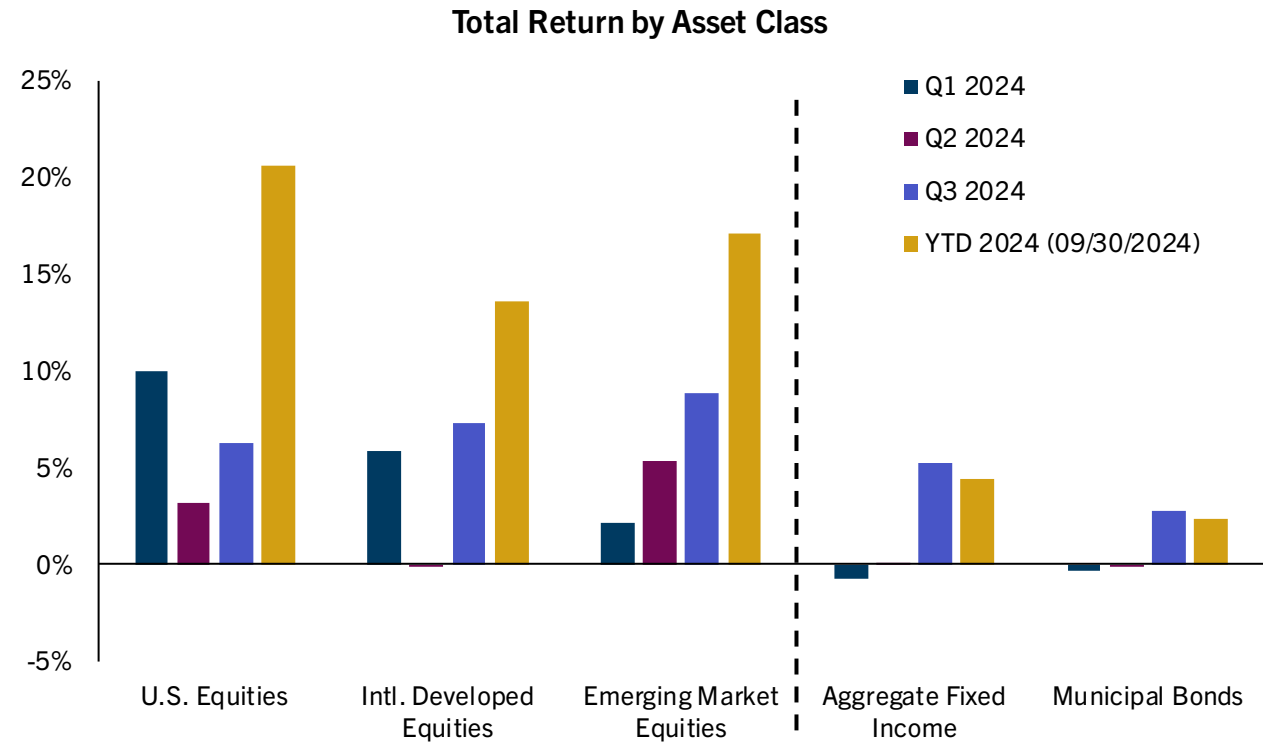
Quarterly Market Review – Q3 2024

Global Markets

The third quarter was defined by the Federal Reserve's September 18th decision to cut the overnight rate by 0.50%, the first reduction since 2020. Fixed income yields fell sharply during the quarter in anticipation of the Federal Open Market Committee action. US equities cheered lower rates, rallying over 6% in the quarter despite an 8.5% drop in August, the largest peak-to-trough drawdown since 2023. At quarter-end, the S&P 500 closed at its all-time-high.

For the quarter, global stocks rallied 6.7% (total return), bringing the year-to-date gain to 19.1%. The US slightly underperformed international developed stocks (+6.2% versus +7.4%), but the US market is still outperforming significantly year to date (+20.6% versus +13.6%; see chart). Emerging markets had a strong quarter, gaining 8.8% and are up 17.1% year to date. Aggregate fixed income and municipal bond performance rebounded in Q3 and has now returned +4.4% and +2.3% respectively year to date.

US Equity Market Rallied Again in Q3



Source: Bloomberg. Note: Chart data represents Russell 3000, MSCI EAFE, MSCI EM, Bloomberg Aggregate Bond, Bloomberg Municipal Bond

US Equity Performance

After significant outperformance in the first half of the year, large-cap growth stocks underperformed in Q3, returning +2.8% compared to indices of small- and mid-cap companies, which returned closer to +9% in the quarter.

Since July, the equal-weighted S&P 500 index has returned +9.6%, compared to +5.9% for the conventional market-cap weighted index. We see this broadening in equity market returns among companies other than the largest names as a favorable trend and supportive of our constructive US equity market views.

Equity-Market Returns Broadened in Q3

QTD US Equity Returns As of 09/30/2024			
	Value	Blend	Growth
Large	9.1%	5.2%	2.8%
Mid	10.1%	9.2%	6.5%
Small	10.1%	9.3%	8.4%

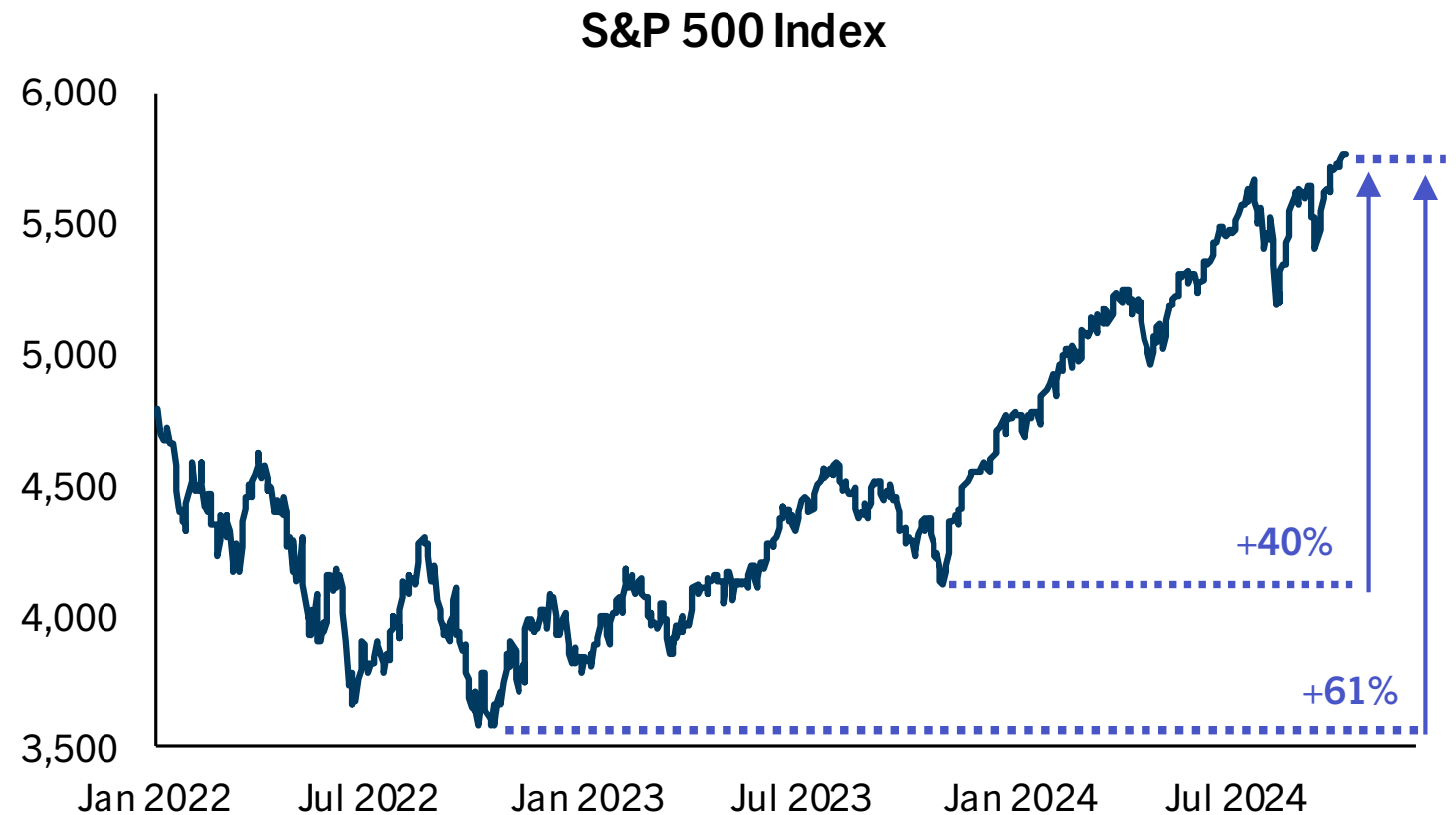
YTD US Equity Returns As of 09/30/2024			
	Value	Blend	Growth
Large	17.6%	23.3%	26.4%
Mid	15.1%	14.6%	12.9%
Small	9.2%	11.2%	13.2%

US Equity Performance

At the end of Q3, the S&P 500 had rallied 40% (price return) since its October 2023 low and 61% from its October 2022 low. The index finished the quarter at 5,762 – a record-high level.

Investors continue to price in favorable expectations for several fundamental factors including economic resilience, declining interest rates, continued earnings growth, sustained margin expansion, and lower inflation.

The S&P 500 Pressed Higher Through Q3 Volatility

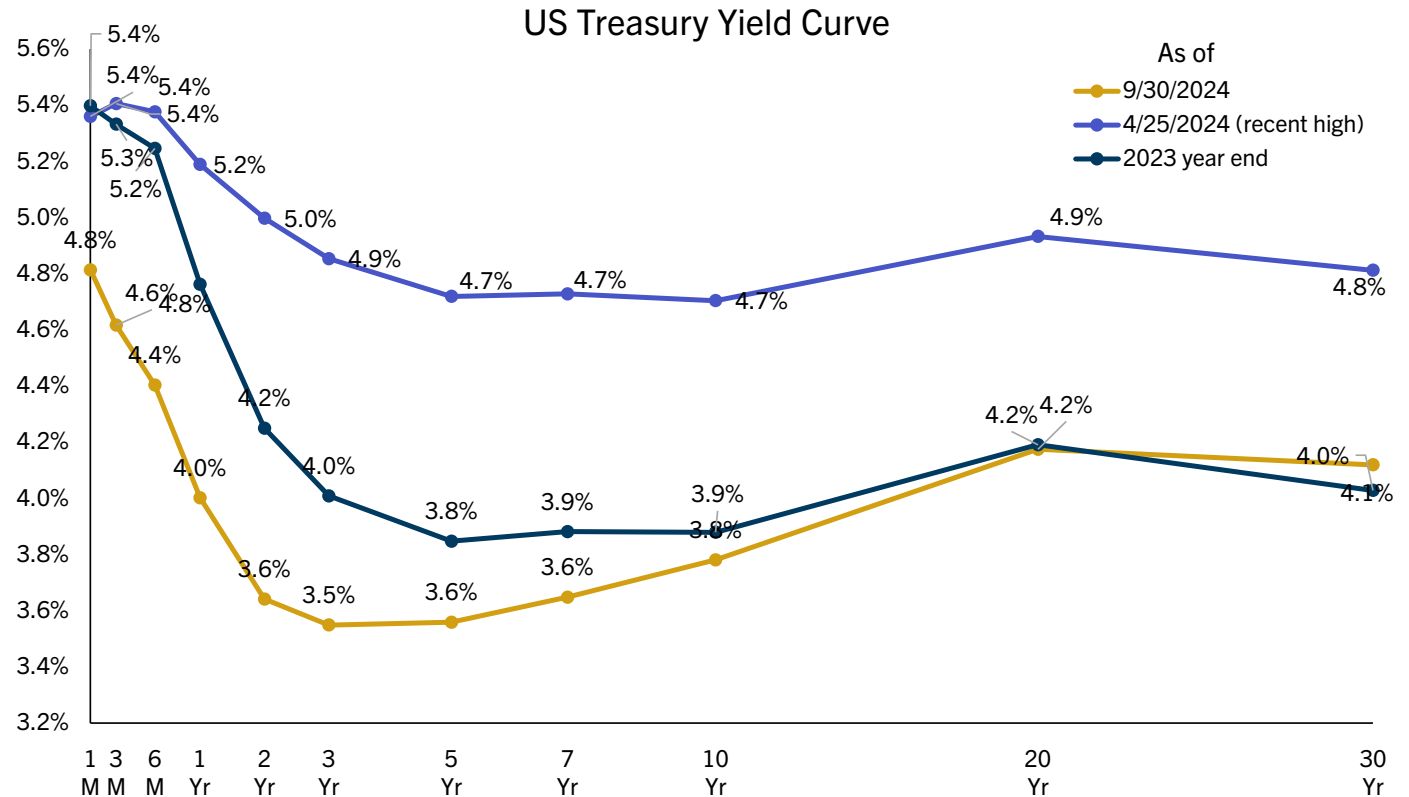


Fixed Income

US Government bond yields finished the quarter sharply lower as investors priced the impact of FOMC interest-rate cuts. The 2-year Treasury yield move was particularly notable, falling 111 basis points to 3.64%. While the 10-year Treasury yield fell 62 basis points to 3.78%, its decline was not as sharp as the move in the 2-year. This differential resulted in the yield curve, as measured by the 2-year/10-year spread, finally un-inverting for the first time in 794 days.

Following the Federal Reserve's 0.5% reduction to the federal funds rate, futures markets were, at quarter-end, pricing another two to three 0.25% rate cuts this year. This pricing indicates the potential for another half-point cut by the FOMC at either the November or December meeting. The Fed's monetary policy path will remain dependent on both labor-market and inflationary trends.

US Yield Curve Has Partially Un-Inverted



Source: Bloomberg

Fixed Income

Even accounting for the sharp decline in bond yields during the third quarter, yields remain attractive compared to levels as recently as late-2021. As the table shows, this is true across Treasuries, investment grade, high yield, and municipals bonds.

The aggregate bond index yielded 4.23% at quarter-end, 2.4 times higher than its 1.75% yield at the end of 2021. Yields might be lower than earlier this year, but investors continue to generate yield from risk-managing assets.

Yield Levels Still Attractive

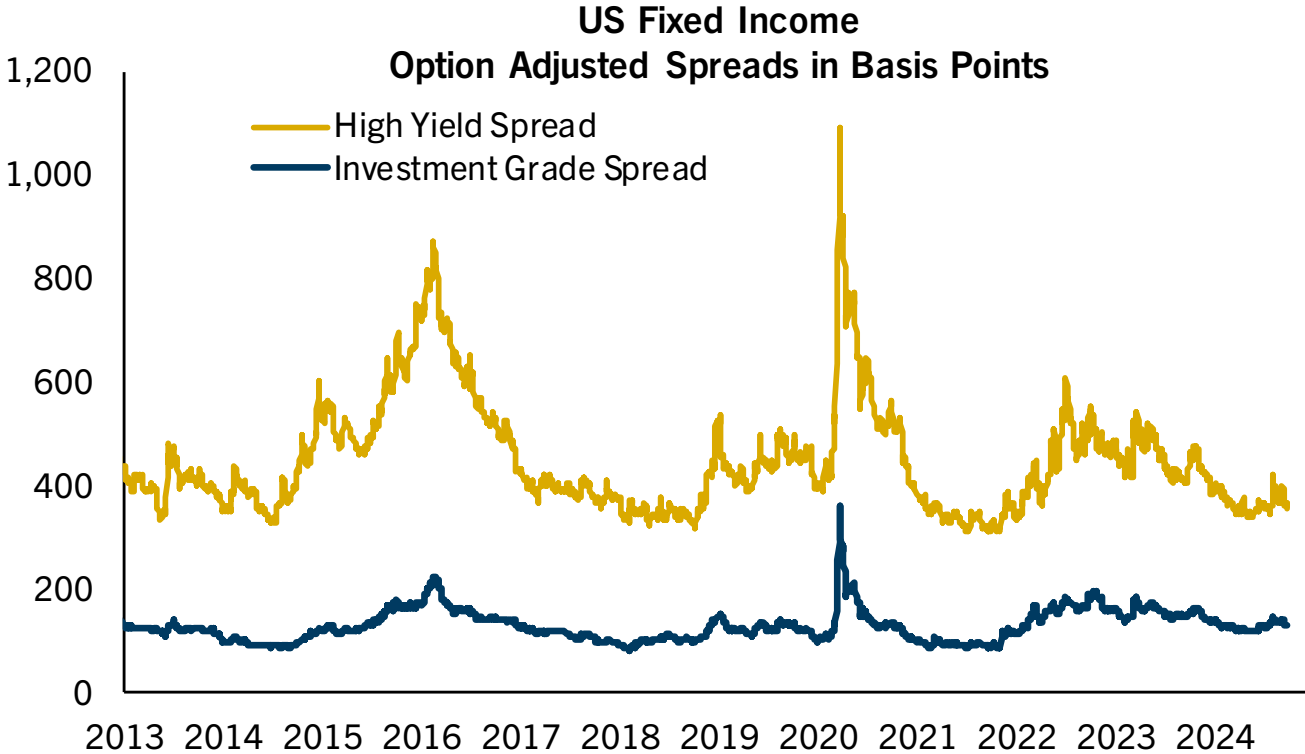
US Fixed Income Indices		
Yield-to-Worst		
Index	12/31/2021	9/30/2024
2-Year Treasury	0.73%	3.64%
10-Year Treasury	1.51%	3.78%
Aggregate Bond	1.75%	4.23%
Intermediate Government/Credit	1.30%	3.92%
Municipal Bond	1.11%	3.32%
Investment Grade Corporate Bond	2.33%	4.72%
High Yield Corporate Bond	4.21%	6.99%

Fixed Income

Credit spreads for investment grade and high yield corporate bonds widened during the equity volatility of late-July through early-August, but again narrowed and were relatively unchanged on the quarter.

Credit spreads are a good proxy for perceived risk, and fixed income markets are not currently pricing an imminent dislocation. We would expect to see a widening of spreads before any severe economic downturn.

Corporate Credit Spreads Remain Tight



Source: Bloomberg

Authors

Phillip Neuhart | SVP, Director of Market & Economic Research

Capital Management Group | First Citizens Bank
8510 Colonnade Center Drive | Raleigh, NC 27615
Phillip.Neuhart@firstcitizens.com | 919.716.2403

Blake Taylor | VP, Market & Economic Research Analyst

Capital Management Group | First Citizens Bank
8510 Colonnade Center Drive | Raleigh, NC 27615
Blake.Taylor@firstcitizens.com | 919.716.7964

Brent Ciliano, CFA | SVP, Chief Investment Officer

Capital Management Group | First Citizens Bank
8510 Colonnade Center Drive | Raleigh, NC 27615
Brent.Ciliano@firstcitizens.com | 919.716.2650

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