MoneyMatters
Market Update

Q4
2024

Navigating Headwinds

ROEHL & YI
INVESTMENT ADVISORS, LLC

Navigating Headwinds

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The third quarter of 2024 saw a resilient stock market with positive performance across asset classes outside the bellwether Magnificent Seven, tech-heavy equities. The S&P 500 increased nearly 6% for the quarter and has delivered 41 all-time highs so far in 2024 (Source: *S&P Global*).

However, the market was not without bumps. Investors likely remember the steep declines experienced in August when the market fell 8% in just 14 trading days. In addition, Japan's Nikkei Stock Average had its worst day since 1987 in August, falling 12% in a frenzy of selling triggered by disappointing economic data in the US and a surge in the Japanese yen (Source: *Sellwood Consulting LLC*).

The economy did not go into a recession in the third quarter, as GDP grew 3.2% as of October 9, 2024 (Source: *Atlanta Fed*). The unemployment rate ticked down for a second straight month, to 4.1% for the quarter, adding 254,000 jobs in September (Source: *Bureau of Labor Statistics*). While certainly positive news, manufacturing employment fell by 7,000 jobs and there is conflicting data on the health of the economy.

Recently, union workers at US ports went on strike, seeking higher wages. Though the strike is now resolved until January 2025, averting damaging supply issues in the near term, this strike shows the inevitable result of years of record-high inflation.

The Federal Reserve lowered interest rates by 50 basis points in September, a sign inflation is being better controlled, with the CPI rising 2.4% for the 12 months ending September (Source: *Bureau of Labor Statistics*), though less of a cooldown than economists were expecting. The interest rate reduction may also indicate that the Fed sees an economy and consumer in trouble, thus requiring a more significant rate cut. Time will tell when and by how much more interest rates come down.

Challenges do lie ahead. Americans are still showing signs of stress as car payment defaults have increased. Several consumer brands have warned of slowing demand. For example, Airbnb shares dropped 14%, missing earnings expectations; McDonald's saw same-store sales fall 1% (Source: *cnbc.com*), and Nike stock was down more than 20% year to date with disappointing sales (Source: *The Motley Fool*).

Internationally, the People's Bank of China recently announced a new stimulus package to help its ailing economy. In a single week, Chinese equities returned 21.2%, pushing emerging markets equities to among the strongest asset classes for the quarter (Source: *Morningstar*).

The upcoming US presidential election will continue to have the potential to be a source of market volatility, as will risks related to recent hurricanes and geopolitical events. As tensions in the Middle East have intensified, oil prices have also spiked. Roehl & Yi will keep a careful watch on developments affecting the US.

In our prior quarter *MoneyMatters* Market Update, Restrained Progress, Roehl & Yi suggested that bonds may be a wise investment. We have seen positive results as bonds delivered a strong performance in the third quarter, as discussed in this update.

Market Recap
Stock Market

Market performance was impressive, with the S&P 500 up 5.89% for the quarter, the Russell 1000 large-cap value index up 9.43%, the Russell 1000 large-cap growth index up 3.19%, and the Russell 2000 small-cap index up 9.27%. Bonds also had a strong showing, with the Bloomberg US Aggregate Bond index up 5.20% and 10-year treasury bonds up 5.59%. Emerging markets stocks also performed well, up 8.72% (Source: *Morningstar*).

The table below is an overview of 2024 market performance for the quarter end, year to date, and a 2023 comparison.

**The MSCI EAFE Index is an equity index that captures large- and mid-cap representation across 21 Developed Markets and countries around the world, excluding the US and Canada.*

YTD 2024 Market Returns (September 30, 2024)

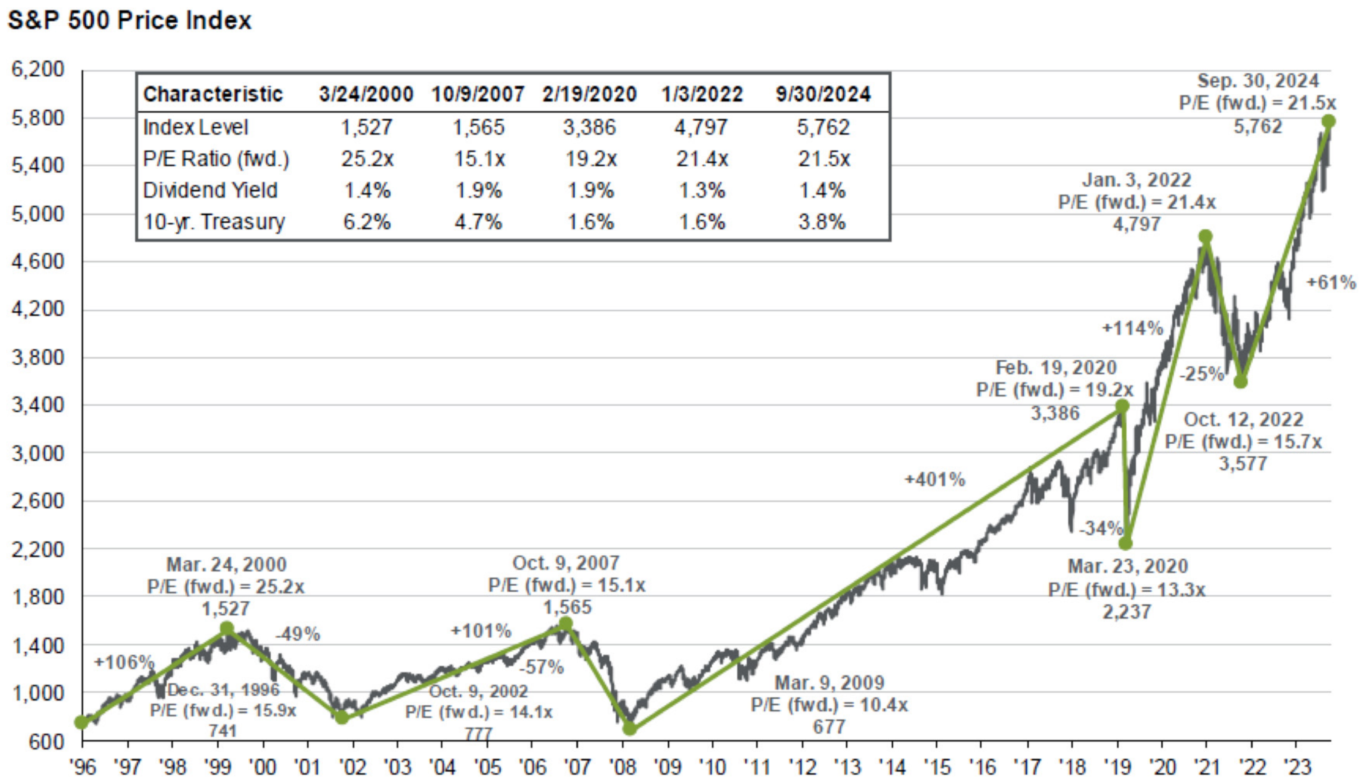
	3Q 2024	YTD 2024	FULL YEAR 2023	CURRENT YIELD	COMMENTS
EQUITIES					
US Large Stocks - S&P 500	5.89	22.08	26.29	1.30	*So far, another exceptional year for U.S. stocks.*
US Large Value - Russell 1000 Value	9.43	16.68	11.46	2.03	*Stock rally has broadened to include cheaper value shares.*
US Large Growth - Russell 1000 Growth	3.19	24.55	42.68	0.62	*Large technology stocks did not lead the way in Q3.*
US Small Stocks - Russell 2000	9.27	11.17	16.93	1.31	*Recent interest rate cut especially favorable for small cap stocks.*
Int'l Developed Stocks - MSCI EAFE	7.26	12.99	18.24	3.02	*Many foreign markets at new record highs.*
Emerging Markets Stocks - MSCI EM	8.72	16.86	9.83	2.51	*Tremendous rally in China shares at very end of Q3.*
FIXED INCOME					
Cash - US 3-Month Treasury Bill	1.37	4.03	5.01	4.73	*Cash yields have modestly declined following Fed rate cut.*
Core Bonds - Bloomberg US Aggregate	5.20	4.45	5.53	4.29	*With interest rates declining, bonds are positive again this year.*
US 10-Year Treasury Bonds	5.59	3.69	3.80	3.81	*The 10-year closed the quarter at 3.81%, down from 4.48% on July 1.*
Bloomberg Municipal Bonds	2.71	2.30	6.40	3.08	*Solid quarter for municipal bonds despite lagging taxable bonds.*
Bloomberg US TIPS	4.12	4.85	3.90	3.77	*Inflation-proteced bonds continue on well.*
Bloomberg US High Yield	5.28	8.00	13.45	6.97	*Riskiest bonds still best for the year.*
Int'l Bonds - FTSE World Gov't Bond	6.95	2.72	5.19	3.18	*Weaker U.S. dollar in Q3 helped non-US bond returns.*
ALTERNATIVES/MISCELLANEOUS					
US Public Real Estate - DJ US Select REIT	15.56	14.92	13.96	3.55	*Public real estate led all asset classes for the quarter.*
Bloomberg Commodity	0.68	5.86	-7.91		*Mixed year for commodities - oil down but rest mainly up.*
Gold - LBMA Gold Price	12.83	26.54	14.59		*Gold has continued a steady march higher.*
Oil - West Texas Crude	-17.00	-10.32	6.41		*Aside from geopolitics oil price has been declining.*
Bitcoin - S&P Bitcoin	5.86	51.05	153.69		*Bitcoin has so far posted another exceptional year.*
Consumer Price Index, 12 Mo Change	2.50	-	3.10		*Inflation slowing noticeably again this year.*

Sources: Morningstar, S&P Global, FTSE Russell, MSCI, Bloomberg. Past performance is no guarantee of future returns.
Current yields are based on forward dividend yields for equities and yield to maturity for bonds.
Data as of 9/30/2024

Inflection Points Signal a Potentially Overzealous Market

The stock market has rallied 61% since reaching a low point on October 12, 2022. The current stock market price-to-earnings ratio of 21.5 aligns with the prior peak of 21.4 on January 3, 2022 (Source: *JP Morgan*).

S&P 500 Index at Inflection Points



Characteristic	3/24/2000	10/9/2007	2/19/2020	1/3/2022	9/30/2024
Index Level	1,527	1,565	3,386	4,797	5,762
P/E Ratio (fwd.)	25.2x	15.1x	19.2x	21.4x	21.5x
Dividend Yield	1.4%	1.9%	1.9%	1.3%	1.4%
10-yr. Treasury	6.2%	4.7%	1.6%	1.6%	3.8%

Source: Compustat, FactSet, Federal Reserve, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price-to-earnings ratio is a bottom-up calculation based on IBES estimates and FactSet estimates since January 2022. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.

Guide to the Markets – U.S. Data are as of September 30, 2024.

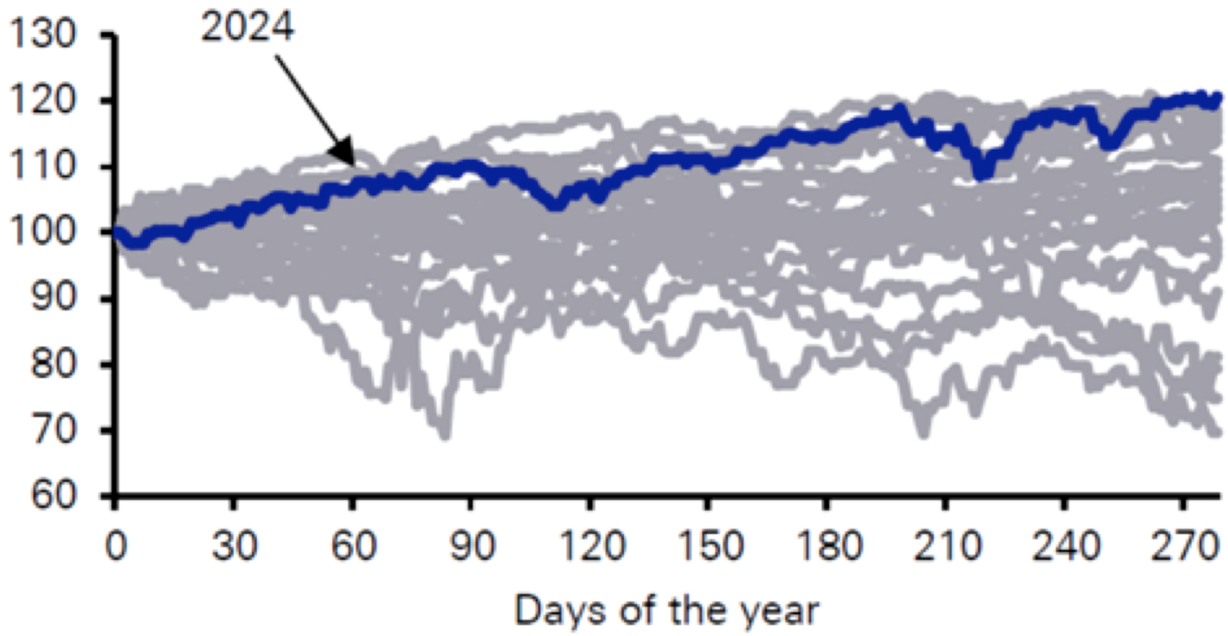
S&P 500 Delivers Strongest Performance of the 21st Century

The S&P 500 posted a return of 22.08% in the first nine months of the year, the strongest start since 1997 (Source: *Bloomberg*).

The grey bars in the chart below represent every year since 2000 and how performance compares to 2024.

Strongest YTD Performance in 21st Century

S&P 500 YTD performance since 2000 – 2024 has seen the strongest YTD performance of the 21st Century



The gray bars represent S&P 500 Index returns for each calendar year, 2000 – 2023, from January through September.

Source: Bloomberg Finance LP, Deutsche Bank
Data as of September 30, 2024

After such an impressive rally, we have some concerns that the market has gotten ahead of itself. We would expect more volatility and advise investors to remain cautious and diversified going forward. That said, 2024 may be a good reminder that sticking to your long-term investment plan and avoiding market timing could reap long-term benefits. Very few experts were predicting the market to rise to these levels at the beginning of the year.

The Economy

September Delivers Strong Jobs Performance, Requiring Prudence

September jobs data suggest that the US might skirt deeper job losses. Employers added 254,000 jobs in September 2024, surpassing the 150,000 economists expected (Source: *Wall Street Journal*). We remain optimistic that these job gains will not need to be revised down, as occurred in August of 2024 (Source: *Bureau of Labor Statistics*).

Labor Market Trends

THE WALL STREET JOURNAL WEEKEND | WSJ. MAGAZINE

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Hiring Blows Past Expectations

September jobs data suggest U.S. might be headed toward soft landing

By Harriet Torry

The U.S. labor market strengthened in the weeks before Election Day, as job growth accelerated in September and the unemployment rate ticked lower.

Employers added 254,000 jobs last month, the Labor Department said Friday. That was significantly more than the 150,000 economists expected, and marked the largest monthly increase since March. The unemployment rate slipped to 4.1%.

Friday's bumper payrolls report is likely to close the door on another half-percentage-point rate cut by the Federal Reserve at its next meeting in November. It should keep officials on track to lower rates by a quarter point.

The Fed is trying to engineer what is called a soft landing, in which inflation moves down without major deterioration in the labor market. Though Friday is just one data point, it suggests that the U.S. is headed in that direction.

"It puts another set of wheels under the plane in terms of assuring a soft landing," said Gregory Daco, chief economist at EY-Parthenon.

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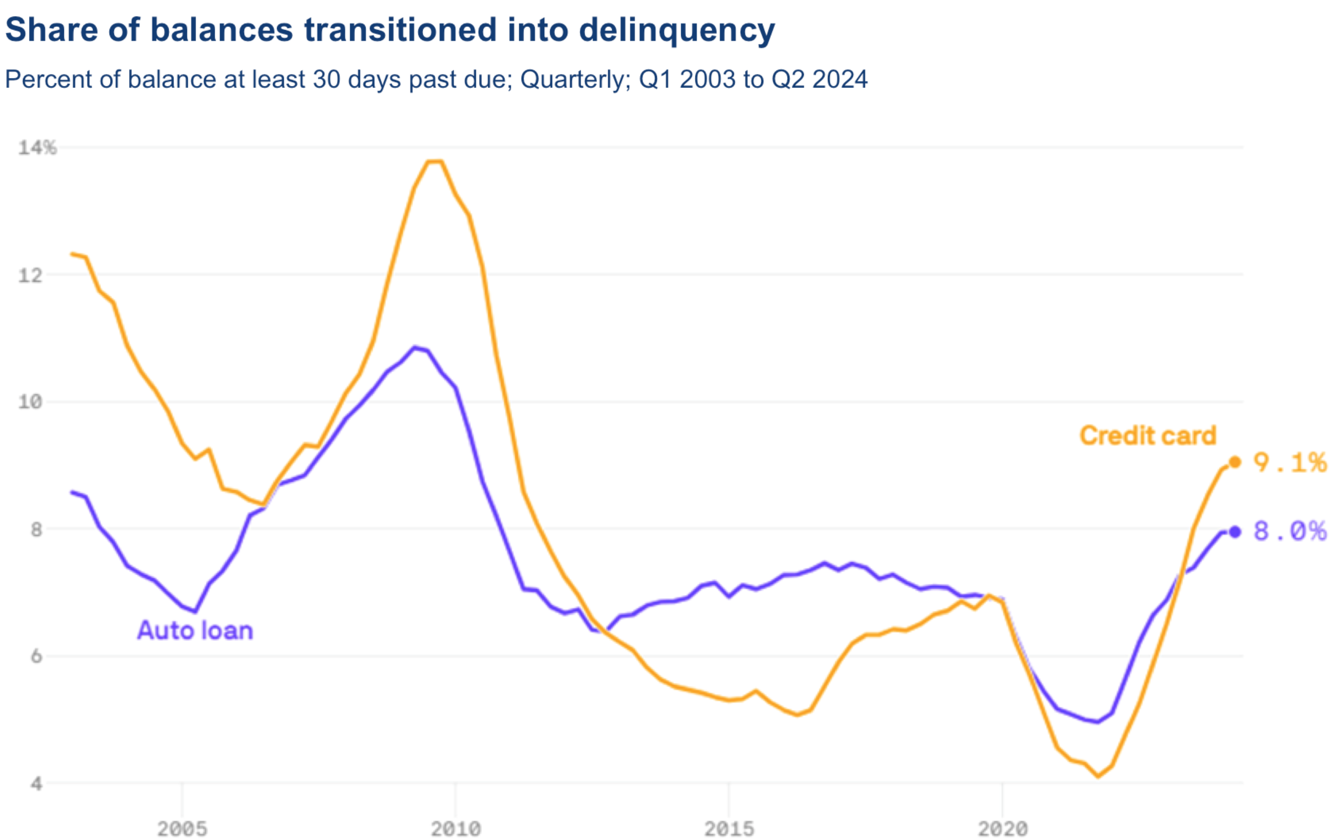
Source: Wall Street Journal
October 5, 2024

Stretched Consumers See Higher Delinquency Rates

Consumers continue to look more financially stressed as many fell behind on loan payments. Roughly 8% of auto loan balances were newly delinquent in the second quarter, with payments at least 30 days late, and credit card delinquencies reached 9.1% (Source: *Federal Reserve Bank of New York*). Both percentages are the highest since the financial crisis of 2007.

Credit Card and Auto Loan Delinquency



Source: Federal Reserve Bank of New York, Axios Visuals

Roehl & Yi's Final Thoughts

While positive economic indicators are present, there remains considerable uncertainty about whether the US can achieve a “soft landing” and avoid a recession. It remains to be seen if the markets heed the warning signs.

Consider these suggestions:

- Rebalance back to your long-term strategic allocation. If you are overweight in stocks, the opportunity may be ripe to take some profits and add to your fixed income allocation.
- If you have significant investments in cash and short-duration fixed-income assets such as treasury bills and money market funds, now may be an excellent time to consider stretching duration and allocating some of those assets to core intermediate or municipal bonds.
- Keep enough cash on hand to meet your short-term goals.
- Think about adding international stocks to your portfolio if you are currently underweight in global assets.
- Adding exposure to tangible assets such as infrastructure or private real estate investments may be beneficial. These investments may offer the dual benefits of potentially holding up well amid prospects of slowing economic growth and weathering still-sticky inflation.

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As always, we are grateful for your continued trust in Roehl & Yi. Please call us first with any questions or concerns about your investments or other financial matters. May you and your family experience happiness and good health.

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