Q4 OUTLOOK:
A TALE OF TWO INVESTORS

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July 2001 - Nasdaq 2,000, Dow 10,500

Tech stocks had collapsed, and two old college roommates, Reactive Richard and Long-Term Larry, were left to pick up the pieces—each in their own way.

"It's over, bro," Richard declared. "When my Pets.com stock hit $0.25, I knew it. I bought that garbage at $14! Tech's never coming back."

Larry shrugged. "My broker says 'time in the market beats timing the market.' I'm holding on."

Richard frowned, a sneer creeping in. "That's a very mainstream view. How much time do you spend researching?"

Larry paused. "Two hours or so."

"Daily?"

"No, annually. Just when I meet my broker. I pay him so I don't have to worry."

Richard's eyes widened, then narrowed with disbelief. He chuckled. "Two hours a year? Not gonna make it, bro. I spend two hours a day, minimum. Skipped the gym and dating just to research more." He patted his stomach. "I'd rather have six figures than a six-pack."

Larry smiled, content. **Net worth: $30,000.**

Richard stayed in cash, convinced he'd outsmart the market real soon now. **Net worth: $30,000.**

June 2008 - Nasdaq 2,500, Dow 11,300

Seven years had passed since their last meeting, and the two friends caught up in the wake of the financial crisis.

"It's over, bro," Richard declared. "Housing was an obvious bubble. Wish I'd shorted it. But hey, I'm still in cash from 2001, so I didn't get hit. You must be hurting, though."

Larry shook his head calmly. "I'm staying invested. My broker added some alternatives for volatility, but I'm holding on."

Richard sighed, exasperated, as if he had expected Larry to ignore his wisdom, but felt he had fulfilled his obligations by trying anyway. "Good luck, bro. We're not coming back from this."

Larry shrugged and changed nothing. **Net worth: $50,000.**

Richard kept trading daily, convinced that his research would eventually pay off. **Net worth: $30,000.**

June 2020 - Nasdaq 10,000, Dow 25,000

This meeting, during the pandemic, felt more like a covert op. With the shades drawn, they sat in near darkness, sipping on ten-year-old Pappy. Bad times are a good excuse to open great bourbon. Though they were alone, both spoke in whispers.

"It's over, bro," Richard insisted. "A global pandemic, total lockdowns, and an election year? This is the big one. Stocks are done. We ain't coming back from this."

Larry smiled, raising his tumbler ironically. In the dim light, the whiskey glowed molten amber. He said nothing, preferring to let the markets do the talking.

Later that year, Larry's 401(k) crossed into seven figures. **Net worth: $1,200,000.**

Richard stayed in cash, waiting for the dust to settle. **Net worth: $45,000.**

September 2024 - Nasdaq 14,500, Dow 36,000

Murky waves sloshed against the Long Island City sea wall, blending into the background noise from the sunny outdoor bar. Every table was crammed with people as crowds gathered to bask in the last days of Manhattan's summer. The air was filled with shrieking laughter, screeching gulls, and sizzling meat. The two friends enjoyed cold beers and hot dogs, catching up for the first time in four years.

"It's over, bro," Richard said, this time with a sheepish grin.

Larry raised an eyebrow, a trace smirk appearing. "What's over this time, Richard?"

"Me," Richard admitted, chuckling. "I've got a broker now. Not trading anymore."

Richard braced for the "I told you so." But Larry, genuinely happy, was just glad to talk about something other than the financial markets.

"Congratulations! Fatherhood's been good for you in more ways than one. Tell me, how old is your son now?"

Cynicism is good for sounding smart; optimism is good for long-term compounding. With stocks at all-time highs and many reasons for uncertainty, some traders may be tempted to go to cash. Below, after we recount Q3's highpoints, we talk about the main drivers of the market in Q4 and what the data suggests is the best strategy for handling volatility.

Markets*

	As of 9.30.2024	Q3 Return
S&P 500	5,762.48 pts	5.5%
NASDAQ	18,189.17 pts	2.6%
The Dow	42,330.15 pts	8.2%
Global Equities		2.7%
Emerging Markets		7.7%
Energy		-3.7%
Gas	$3.64/gal	-6.5%
Gold	$2,634.58/oz	13.2%
VIX	16.73 pts	34.5%
10-Yr Treasury	3.781%	-61.5 bps

*See endnotes.

Alternatives*

	Q3 Return
Direct Lending	-1.6%
CLOs	2.4%
Private Equity	11.7%
Hedge Funds	1.0%
Equity REITs	15.9%
Residential REITs	8.1%
Industrial REITs	12.5%
Wine & Cheese	1.5%
Crypto Market	-6.9%
SPACs	-0.9%

*See endnotes.

US Economic Performance

- No slowdown in sight. Q2 2024 US GDP surged to 3.0% quarter-over-quarter, significantly up from 1.6% in the previous quarter.
- The consumer remained resilient. Consumer spending increased 0.2% in August, while the US personal savings rate was 4.8%.
- Labor market turnaround? The August unemployment rate ticked lower to 4.2%, from 4.3% in July, while wages grew 0.4% m/m.
- US inflation decreased to 2.5% in August 2024, continuing its downward trend from 2.9% in July and 3.0% in June. Shelter drove the bulk of inflation, suggesting that inflation is on a path back to 2%.

Monetary Policy

- Fed's bold move. In a decisive shift, the Federal Reserve slashed interest rates by 50 basis points in September, with the current target rate now 4.75% – 5.00%, marking its first cut in four years and signaling a new era of easing as inflation cools and the labor market shows signs of weakening.
- It's all about the data. Jerome Powell emphasized a cautious approach, stating, "This is not a committee that feels like it's in a hurry to cut rates quickly," indicating that if the economy performs as expected, there may be two more cuts totaling 50 basis points by year-end.

Credit Market Performance

- Private credit continued to shine in Q2 2024, with a total return of 2.1%, outperforming private equity 0.8% return and private real assets 1.1%, according to MSCI index data.
- Dry powder ready to ignite. As of Q2, private debt institutional fund AUM has surpassed $1.6 trillion and funds hold a staggering $520.2 billion in un-deployed capital. As interest rates trend downward, investors eagerly anticipate this capital flood to unleash a wave of lucrative lending opportunities.
- Infrastructure continued its winning streak. Private infrastructure funds showcased their strength in Q2, delivering a robust 2.4% return and outpacing the broader private real assets index's modest 1% gain according to MSCI Index data.

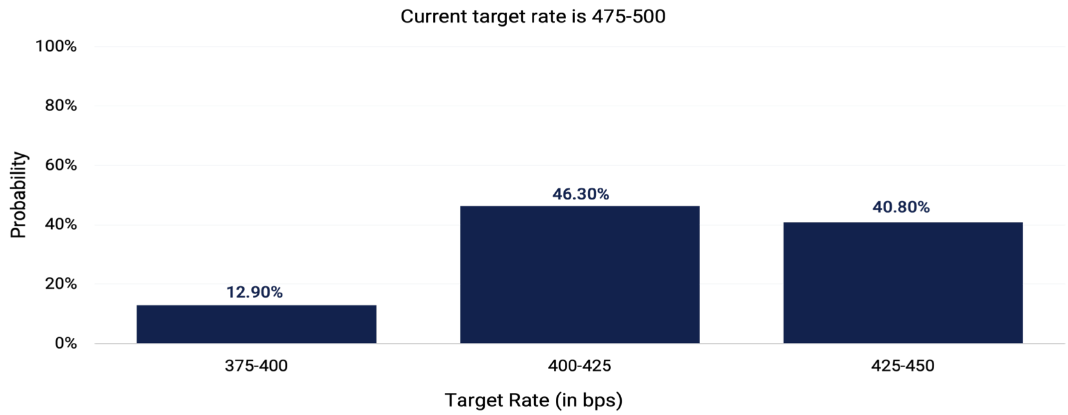
US and Global Market Summary

- One for the record books. The Dow Jones Industrial Average closed at a record high, gaining 8% in Q3. The S&P 500 also reached a record close at 5,762.48, rising 5.5% for the quarter. The Nasdaq Composite added 2.5%, with all three indices marking their fourth consecutive quarterly gain.
- China's CSI 300 Index surged 25% in the last five trading days of Q3 as China unveiled its largest stimulus since the pandemic to revive its economy.
- All that glitters. Gold surged 13% in Q3 as investors wanted an escape from market volatility, geopolitical tension, a looming election, and inflation concerns.

Interest Rates—Escalator Up and Escalator Down

14 months after the last hike, the Fed cut rates by 0.50% in September. The market is pricing in several more cuts this year. CME future data shows a 13% chance of an additional 100bps in cuts by FOMC's December meeting. More likely, at an implied 45% chance, is an additional 50 bps in cuts. In other words, the market believes more cuts are coming, but lacks consensus on the size.

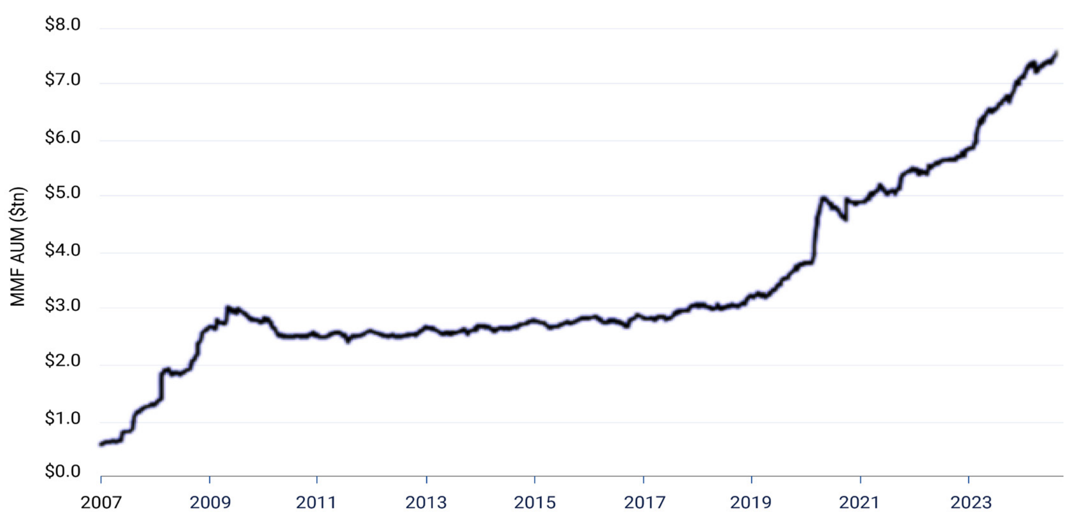
Target Rate Probabilities For 18 Dec 2024 Fed Meeting



Fed rate moves are about expectations. Fed officials guide expectations using speeches, dot plots, and messaging through preferred financial reporters. The idea is to avoid surprising the market. An expected cut will already be priced in, and will have little market impact. A surprise suggests an error in messaging or an emergency in the markets. Neither one is good for investors.

Like Aesop's turtle, the Fed has been content to move slowly and deliberately. With inflation near the Fed's 2% target and no recession imminent, the Fed seems close to having achieved a miracle. They've navigated geopolitical turmoil, a pandemic, and bank failures. If Powell can bring inflation back to near 2% without causing a recession, he will have earned his spot in the Monetary Hall of Fame.

A secondary effect of rate cuts is the amount of cash that will likely be redeployed into risk assets from money market funds (MMFs).



Expect the Fed to continue to "make haste slowly" as any large or surprise rate moves would be bad omens for the market.

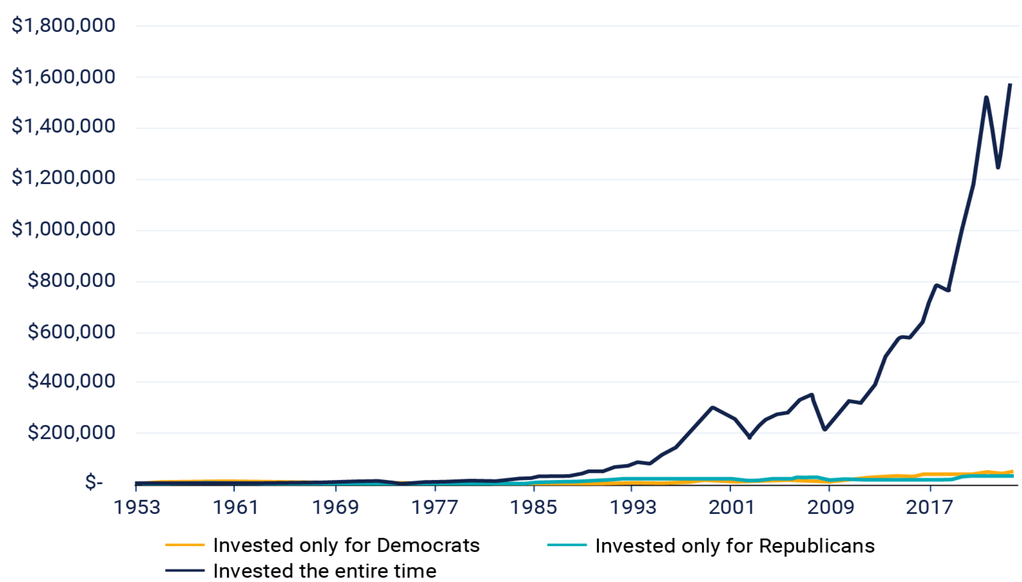
Elections Have Consequences—But Not For the Equity Market

Elections bring increased volatility. That uncertainty has showed up on the VIX, the volatility index, also known as the fear index. It has been trending up since the year started but has generally remained below historic long-term averages. Uncertainty surrounding the election and foreign policy may keep volatility rising even after the November election. Most market analysts expect the VIX to rise, but that shouldn't impact how to invest. Investors concerned with volatility continue to seek out alternatives as a way to get non-correlated returns.

Investing based on which party is in power has not proven profitable. Despite the folk wisdom about one party being better for the market, the most successful long-term strategy has been to stay invested. Regardless of the election outcome, spending on infrastructure and on-shoring to address tariffs and supply chain issues is likely to continue. Both trends will allocate more capital domestically and provide opportunities for investors.

A recent chart published by BlackRock is a picture worth a 1,000 basis points:

Last 70 years, $1,000 invested in 1953 depending on which party held presidency

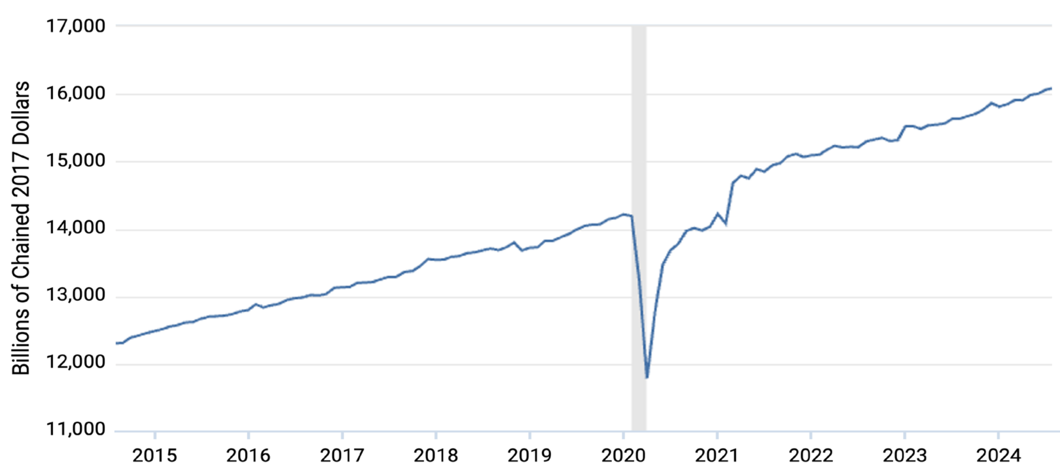


Source: BlackRock, Morningstar, as of December 31, 2023. Party presidency period determined by party presidency inauguration to next opposing party presidency inauguration. Stock market represented by the S&P 500 Index from 1/1/54 to 12/31/23. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. You cannot invest directly in an index.
Chart description: Line chart depicting $1,000 invested in 1953 depending on which party held presidency. The chart shows investing regardless of the party far outpaced investing for only Democrats or Republicans.

The Economy Remains Robust

US GDP is driven by consumer spending, and consumers are continuing to spend. Personal Consumption Expenditures hit an all time high in August, according to Fed data.

Real Personal Consumption Expenditures



Source: U.S. Bureau of Economic Analysis

As of the latest estimate, GDP increased at a rate of 3.0% in Q2 2024, up from 1.6% in Q1. With monetary conditions easing, and relatively strong saving rates, financial markets continue to have room to run. Of course, with geopolitical uncertainty from conflicts mushrooming, and an upcoming US election, anything can happen. But financial market history says to stay the course—it's a fool's errand to try to outsmart the market.

Financial markets are inherently unpredictable, with each new crisis seemingly "the big one." Those who adopt a measured, long-term perspective—like Larry—tend to come out ahead. Whether it's the dot-com collapse, the 2008 financial crisis, or the uncertainty of a global pandemic, the strategy that wins isn't about outsmarting market. It's about staying the course, staying invested, and understanding that enduring the bumps along the road is how you eventually reach your destination. Those who ignored the "big ones" over the last twenty years have come out far ahead of the market timers. It's a good bet that the next twenty years will be the same.

Endnotes

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"Crypto Market" represented by the Bloomberg Galaxy Crypto Index. "NASDAQ 100" represented by the NASDAQ 100 Index. "S&P 500" represented by the S&P 500 index. "Private Equity" represented by the Invesco Global Listed Private Equity ETF. "Direct Lending" represented by the DLX Direct Lending Index. "US Residential REITs" represented by the MSCI US Residential REIT Index. "CLOs" represented by the Palmer Square CLO Debt Index. "Leveraged Loans" represented by the S&P/LSTA Leveraged Loan Total Return Index. "High Yield Bonds" represented by the Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged. "Gold" represented by the SPDR Gold Shares. "Emerging Markets" represented by the iShares MSCI Emerging markets ETF. "Investment Grade Bonds" represented by the Bloomberg US Corporate Bond Index. "Hedge Funds" represented by the Bloomberg All Hedge Fund Index. "Equity REITs" represented by the MSCI World Equity REIT Index "Financials" represented by the Financial Select Sector SPDR Fund. "Telecom" represented by the iShares US Telecommunications ETF. "Utilities" represented by the Utilities Select Sector SPDR Fund. "Commodities" represented by the Invesco DB Commodity Index Tracking Fund. "Oil" represented by the United States Oil Fund LP. "VIX" represented by the Chicago Board Options Exchange's CBOE Volatility Index. "Natural Gas" represented by the United States Natural Gas Fund LP.