MARKET UPDATE

Economic Market Update – Third Quarter, 2024

September 30, 2024

- US Equity Markets: U.S. equity markets have posted strong returns through Q3 2024, with every major market index posting positive performance in the year's first nine months.
- International markets: International markets produced solid returns in the first nine months of the year with the MSCI EAFE Index up 13.0%.
- Fixed Income: The bond market delivered robust performance in the third quarter, driven by the Fed's rate cut and improved inflation outlook, as the Bloomberg U.S. Aggregate Bond Index reports a year-to-date increase of 4.4%.
- Economic Outlook: We anticipate that the easing cycle initiated by the Federal Reserve will continue to support both equity and fixed-income markets with geopolitical risks and persistent inflationary pressures posing potential headwinds

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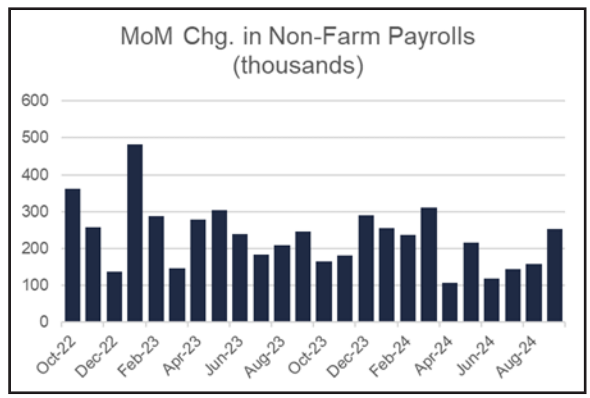
As we approach the final quarter of 2024, the U.S. economy continues to show remarkable resilience despite significant shifts in monetary policy and mixed performance across financial markets. In the third quarter, the Federal Reserve's decision to initiate an easing cycle by cutting rates, continued strong employment growth, and fluctuating commodity prices created a complex but generally positive backdrop for investors. Below, we provide a detailed analysis of the key factors that shaped market performance in the third quarter and our expectations for the months ahead.

In a historic and somewhat unexpected move, the Federal Reserve cut the federal funds target range by 50 basis points to 4.75%-5.00% during the third quarter. This marked the first rate cut since the onset of the COVID-19 pandemic and the beginning of what the Fed hopes will be a non-recessionary easing cycle. The Fed's decision was influenced by signs of easing inflationary pressures and a recognition that while economic momentum remained robust, with no immediate signs of recession, cracks were beginning to emerge in the labor market.
This rate cut reduced the real fed funds rate (i.e., the rate minus inflation) to approximately 2.5%, slightly above the level during the Fed's last rate hike. With this cut, the Fed hopes to maintain economic growth while continuing to gradually reduce inflation to its 2% target. Fed officials have indicated the possibility of additional rate cuts in 2024 and 2025, with the neutral rate forecast revised upwards for 2026.

The U.S. economy grew at an annualized rate of 3.0% in the second quarter, which was in line with expectations, following a stronger-than-expected 1.6% growth rate in the first quarter. This sustained momentum was supported by upward revisions in government spending and inventory levels, although capital expenditures and net exports declined. Real gross domestic income (GDI) also saw a notable upward revision to 3.4%, reflecting strong corporate profits and higher disposable incomes.

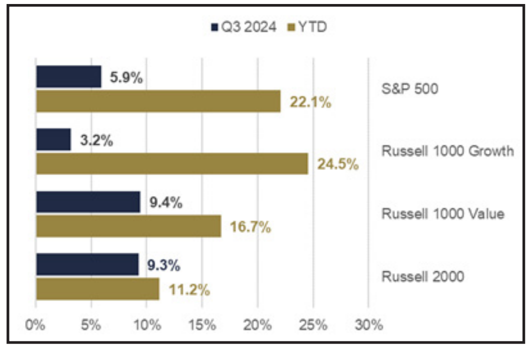


After signs of a weakening trend over the summer that pushed the Fed to lower rates by 50 basis points at the September meeting, the labor market bounced back strongly in the latest report released on October 4th. Employment data for September exceeded expectations, with nonfarm payrolls increasing by 254,000—far surpassing the 150,000 consensus estimate. The labor market experienced a few hiccups over the summer that suggested a weakening was underway; it remains to be seen whether September's gains were a one-off aberration or if the strong report marks a reversal of the trend over the last several months. October's jobs report, which will be impacted by the significant hurricanes experienced in the southeast, will make that harder to discern. Average hourly earnings rose by 0.4% in September, translating to a 4.0% year-over-year increase, which continues to support consumer spending. The unemployment rate fell to 4.1%, down from 4.2%, further highlighting the labor market's resilience.

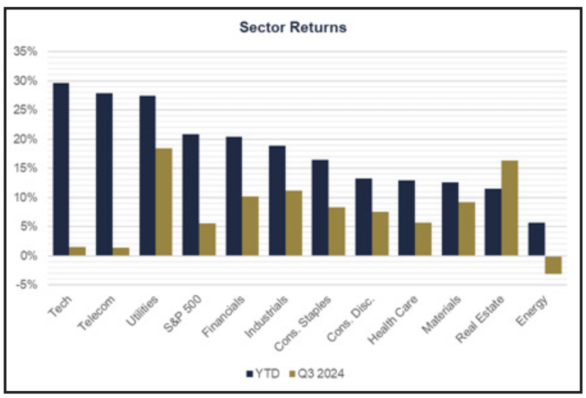
Inflation remained elevated but showed clear signs of moderation throughout the third quarter. The August Consumer Price Index (CPI) report revealed inflation had fallen to 2.6% year-over-year, down substantially from the more pronounced levels seen over the last few years and continuing to inch towards the Fed's target. Core inflation, which excludes food and energy, remains elevated at 3.3% year-over-year, indicating that inflationary pressures persist in some areas, particularly shelter and transportation, areas we have highlighted throughout the year.

The Fed's recent actions signal confidence that inflation will continue to recede over time. The easing of supply chain disruptions and the stabilization of energy prices have contributed to these positive developments. However, inflation expectations remain a key concern, and the Fed's cautious approach to further rate cuts underscores the ongoing uncertainty. As we've previously stated, we believe that the Fed has successfully pulled off a soft landing, but members will remain focused on avoiding a resurgence in inflation like that seen in the 1970s.

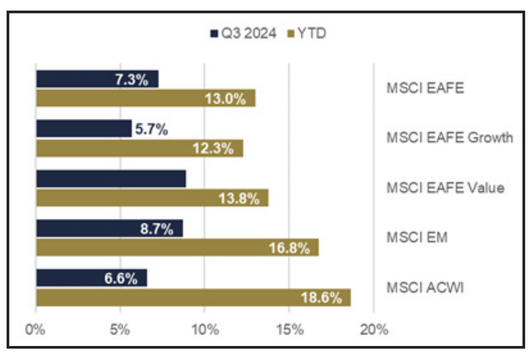
U.S. Equity



U.S. equity markets have posted strong returns through Q3 2024, with every major market index posting positive performance in the year's first nine months. The S&P 500, the bellwether for U.S. stock returns, finished September up 22.1% year-to-date.[1] Small-cap stocks continue to lag their large-cap peers, with the Russell 2000 up just 11.2% through the end of Q3. Continuing the trend of broad-based strength in U.S. equity markets that began in late 2023, all nine Russell style boxes finished the Q3 in positive territory, with small-cap value the only style to fail to hit double digit returns. Growth continues to outpace value, with the Russell 1000 Growth Index finishing September up 24.5% year-to-date. The Russell 1000 Value Index climbed a healthy 16.7% during the same period. Growth has also outperformed in small-cap, with the Russell 2000 Growth Index up 13.2% vs. the 9.2% return for the Russell 2000 Value Index. As usual, performance has varied across sectors, every S&P 500 sector finished Q3 in positive territory on the year so far. Tech stocks have continued to shine, returning 29.6%, coming in as the best-performing sector year-to-date. Communication Services, up 27.9%, and Utilities, up 27.5%, were the only other sectors to outpace the S&P 500 as a whole, but most sectors are up double digits so far this year. Energy was the laggard, though the sector finished in positive territory, up 5.7% for the year so far.



International Equity



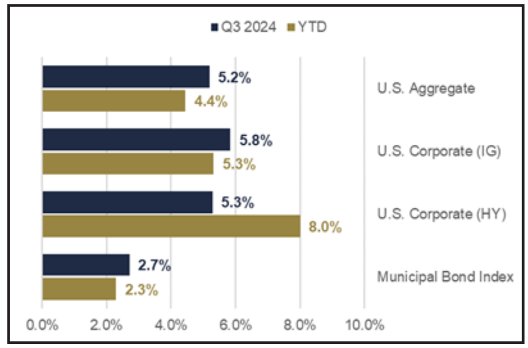
Despite continuing to lag the U.S., international markets also produced solid returns in the first nine months of the year. The MSCI EAFE Index, which tracks developed international markets, finished Q3 up 13.0%. Value outperformed internationally, with the MSCI EAFE Value Index up 13.8% year-to-date compared to the MSCI EAFE Growth's 12.3% return. The MSCI EAFE Index has a value tilt relative to major U.S. indices due to the lack of significant multinational technology firms, most of which are primarily based in the United States. Much of the difference in performance between U.S. and international indices in recent years comes down to the significant differences in sector exposure. After a strong rally in Q3, emerging market stocks are the clear international leader on the year, with stocks in developing countries up 16.8% for the first nine months of 2024. Digging beneath the surface, however, reveals that significant return dispersion

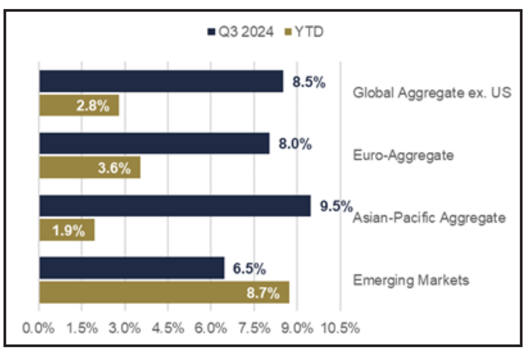
[1]Return figures for U.S. indices are on a total return basis; international returns are net returns in U.S. dollars unless otherwise stated.

across countries continues to be a prominent feature in the developing world. Chinese stocks have rebounded after a challenging year in 2023, surging 20.7% in Q3, with most coming in the last few days on the back of the announcement of significant stimulus measures by the Chinese Communist Party, and is now up 25.3% year-to-date. As we've previously highlighted, though the weight of Chinese firms in the MSCI Emerging Markets Index has fallen from a peak of around 45% to around 27.5% today, the performance of the Chinese market still has a significant impact on the return of the overall index. India, which has the second highest weight in the index after China, continues to perform well, up 25.5% over the first nine months of 2024. Taiwan, with significant exposure to semiconductor manufacturing, was the standout performer in the Asia Pacific region, up 31.8% year-to-date. Summing up the global stock market in the first nine months of 2024, the MSCI All Country World Index, which tracks the global stock market, was up 18.6%.

Fixed Income

After treading water for the first half of the year, most major fixed-income markets reversed course in Q3, as yields fell across the yield curve in anticipation of the rate cut that was finally delivered by the Fed in September. The bond market delivered robust performance in the third quarter, driven by the Fed's rate cut and improved inflation outlook. The easing cycle and declining inflation expectations have reignited demand for fixed-income securities, with investors now able to lock in more attractive yields relative to previous years. The Bloomberg U.S. Aggregate Bond Index, a broad measure of the performance of investment-grade fixed-income markets in the U.S., is now up 4.4% year-to-date. Investment-grade corporate bonds fared slightly better, with the Bloomberg Investment Grade Corporate Index up 5.3%. Riskier areas of the credit market continued to outperform, with floating-rate securities up 6.6% and high-yield corporate bonds up 8.0% for the first nine months of the year. Cash continued to post competitive returns relative to longer-dated fixed-income instruments, with short-term U.S. Treasury Bills finishing Q3 up 4.1%. Returns for municipal bonds followed a similar pattern, with high-yield municipal bonds outperforming their investment-grade peers. Developed International fixed-income returns were slightly weaker than returns in the U.S., with the Bloomberg Global Aggregate Bond ex-USD Index finishing Q3 up 2.8%. Developed Europe was the slightly weaker region, with the Bloomberg European Aggregate Index up 2.5%. The Asia-Pacific region, which is dominated by Japan, was up 3.4%. Emerging markets performed well in the first nine months relative to developed markets, with the JPMorgan Emerging Market Global Core Index finishing September up 8.7% year-to-date. **Summing up the global fixed income market year-to-date, the Bloomberg Global Aggregate Bond Index was up 3.6% over the first nine months of the year.**





Q4 2024 Outlook

Looking ahead to the fourth quarter of 2024, we anticipate that the easing cycle initiated by the Federal Reserve will continue to support both equity and fixed-income markets. However, geopolitical risks, particularly in Eastern Europe and the Middle East, alongside persistent inflationary pressures, pose potential headwinds. Corporate earnings remain a key focus, particularly as we enter a more seasonally volatile period for markets. With earnings growth expected to stabilize, especially in cyclical sectors like Industrials and Consumer Discretionary, the broader market could continue its upward trajectory. For fixed income, the outlook remains positive as inflation moderates and yields stay elevated. As always, we recommend maintaining a globally diversified portfolio tailored to your specific goals and risk tolerance across equities, fixed income, and alternatives. As the market adjusts to the evolving monetary policy landscape, the key to navigating this environment will be staying nimble and focusing on quality investments that can weather potential volatility through a tight election season and several geopolitical uncertainties.

We remain committed, as always, to focusing on your long-term financial goals and priorities and constructing portfolios designed to reach those goals while minimizing risk. The volatility environment experienced over the last several years demonstrates the value of disciplined professional management. Our clients' interests always come first, and our goal is to continue to separate the signal from the noise and focus on what truly matters to the economy and markets to help you achieve your investment goals.

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Matthew is the Chief Investment Strategist and Director of Institutional Investments for Fulton Private Bank and Fulton Financial Advisors. He was a National Merit Scholar at the University of Chicago, where he graduated with a B.A. in Political Science. He is a Chartered Financial Analyst (CFA®) charterholder and is a member of the CFA® Institute and the CFA® Society of Philadelphia.

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