Q3 2024 Market Update

THE QUARTER IN BRIEF

Market participation extended to a broader cohort of stocks during the 3rd quarter, easing concerns over a rally that has been concentrated in a handful of giant technology names for much of 2024. More than 60% of S&P 500 components outperformed the index in Q3, compared to around 25% in the first half of the year. The equal-weight version of the S&P 500 – a proxy for the average index stock – has gained almost 9.5% in the quarter, outperforming the S&P 500 cap-weighted index, which is more influenced by the heavily weighted shares of mega caps (NVDA, AAPL, MSFT, META, etc.). The broadening rally is an encouraging sign for stocks, following concerns that the market could be vulnerable to a reversal if the cluster of tech names propping it up fell out of favor. This is a healthy development for risk assets.

	1M	QTD	YTD	1-YR	3-YR	5-YR	10-YR
S&P 500	2.14%	5.89%	22.08%	36.33%	11.90%	15.96%	13.36%
NASDAQ	2.76%	2.76%	21.84%	38.70%	8.88%	18.86%	16.20%
Dow Jones Industrial	1.96%	8.72%	13.93%	28.85%	9.97%	11.78%	12.02%
MSCI EAFE	0.96%	7.35%	13.55%	25.45%	6.11%	8.82%	6.32%
MSCI EM	6.68%	8.82%	17.13%	26.41%	0.75%	6.09%	4.40%
Bloomberg US Agg Index	1.34%	5.20%	4.45%	11.57%	-1.39%	0.33%	1.84%
U.S. Small Caps	0.71%	9.25%	11.02%	26.55%	1.71%	9.27%	8.73%
Investment Grade Bonds	2.07%	6.62%	5.35%	15.82%	-1.72%	1.01%	3.09%
High Yield Bonds	1.64%	5.38%	7.78%	15.55%	3.04%	4.07%	4.52%

Source: Bloomberg, Data as of 9/30/2024. Returns Include Dividends. Returns over 1YR are annualized. Past performance is not indicative of future results.

DOMESTIC MARKETS

U.S. economic momentum has remained strong in recent months, supported by resilient consumer spending. While valuations at over 21x earnings remain a risk, the richest parts of the market have some of the strongest fundamentals. Moreover, other parts of the market remain depressed relative to the broader index, providing active investors plenty of opportunities across sectors. With few excesses building across cyclical sectors of the economy, the risk of a recession is low and moderate consumer spending should support trend-like growth into 2025. However, with the U.S. election just over a month away, monetary policy at a critical turning point and geopolitical tensions still elevated, external risks to the current expansion remain.

The unemployment rate has trended higher in recent months, sparking fears the labor market and broader economy are cooling too quickly. While layoffs near historic lows suggest the rise in unemployment may just be conditions normalizing as opposed to something more sinister, loosening slack in the labor market has helped slow wage growth. As labor markets continue to cool, easing wage pressures should contribute to lower inflation.

Cooling inflation in recent months has allowed the Federal Reserve to focus on supporting the labor market, prompting it to deliver a 50-basis point rate cut at its September meeting. While the pace of future cuts will hinge on the incoming data, interest rates will likely settle at a structurally higher level compared to the last decade, absent any economic shocks.

FOREIGN MARKETS

Global economic activity has improved from last year's slow pace. Manufacturing activity remains subdued in Europe while domestic demand in China has been weak. However, other parts of Asia are benefitting from a turn in the electronics cycle, driven by investments in AI and other advanced technologies. With many global central banks focused on normalizing policy, renewed economic tailwinds should highlight plenty of attractive opportunities across global markets.

Despite a volatile third quarter, foreign equities have maintained their upward momentum, and several international equity indexes are up over 10% this year. Even so, in both absolute terms and relative to their own histories, international markets continue to look attractively priced compared to the U.S. Combined with improving fundamentals, structurally higher interest rates and a more favorable economic backdrop, international markets present an attractive opportunity for U.S. investors to diversify abroad.

FIXED INCOME MARKETS

The Bloomberg Aggregate Bond Index rose 5.20%, which was the best quarter for bonds since Q4 2023. Rates dropped sharply at the start of Q3, as the market began to anticipate the start of the rate-cutting cycle. The 10-year Treasury dropped 0.65% (to 3.74%) and the 2-year Treasury fell 1.14% (to 3.62%). Aside from a brief credit disturbance during the Yen Carry Trade episode in early August, credit spreads remained resilient and stable.

LOOKING FORWARD

The character of the market changed during Q3, but the direction remained the same with increasing participation. Many have asked if this is a less powerful rally, but the data suggests otherwise. The equal-weight S&P (+9.48%) has outperformed its cap-weighted counterpart by 3.59%. The rate-cutting cycle officially began, as the market witnessed above trend growth and the absence of market trauma. The S&P 500 rose +5.89% during Q3 2024 to all-time highs as the economy expanded, and the Fed implemented a 50bps cut. The soft-landing narrative continues.

CoreSat Model Update

Core Allocation

The core allocation is designed to unlock the benefits of diversification by using capital more efficiently and effectively. This allows our risk allocations to maintain their core stock and bond exposure while simultaneously introducing new, diversifying return streams in our satellite allocation. Essentially, we can introduce diversifying assets and strategies without sacrificing exposure to the traditional asset allocation. This creates the potential for outperformance, which may be particularly attractive in an environment where expected returns for traditional assets may be muted. Also, by thoughtfully introducing differentiated return streams, the allocation may gain a diversification advantage with the potential to reduce portfolio volatility and drawdowns.

We continue to tilt the domestic allocation toward quality names, those with stable earnings and trading at fair value. Outside the US, we continue to focus on broad index exposure with a tilt toward value and quality. In fixed income, we have focused on short duration where yields have been more attractive, however, with yields expected to fall further, we will be extending duration to take advantage of more stable yields and price appreciation.

Satellite Allocation - Tactical

During the quarter both global equities and bonds produced positive returns, with year-to-date returns for most asset classes showing double digits. Managed futures – as measured by the returns of the S&P Strategic Futures Index ("S&P SFI") – posted a 2.96% return for the quarter and a year-to-date return of 6.37%. While global equities and U.S. Bonds make up the core of the portfolios, the managed futures overlay contributes the majority of the portfolio's active risk. The satellite allocation consists of managed futures and tactical trend following strategies. The combination provides diversified returns outside of traditional equities and bonds, along with volatility management. We prefer using tactical strategies due to their all-weather go-anywhere approach, which will typically produce better risk-adjusted returns over time.

Andrew Corradetti, CMT
Chief Investment Officer

*SOURCES: BEA, Census Bureau, FactSet, J.P. Morgan Asset Management. U.S. Department of Labor. J.P. Morgan Economic Research, Standard & Poor's, BEA, BLS, Federal Reserve, Standard & Poor's, MSCI, JPMorgan Credit Research, YCharts, Bloomberg and FactSet, Aptus Capital Advisors. Data are as of September 30, 2024.

Disclosures

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Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. The information contained herein should not be considered a recommendation to purchase or sell any particular security. Forward looking statements cannot be guaranteed.

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 11.2 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 4.6 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market. To be eligible for inclusion in the Index, the security's U.S. listing must be exclusively on The Nasdaq Stock Market (unless the security was dually listed on another U.S. market prior to January 1, 2004, and has continuously maintained such listing). The security types eligible for the Index include common stocks, ordinary shares, ADRs, shares of beneficial interest or limited partnership interests and tracking stocks. Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, preferred stocks, rights, warrants, units and other derivative securities.

The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Emerging Markets Index captures large and mid-cap representation across 26 Emerging Markets (EM) countries. With 1,387 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Investment-grade Bond (or High-grade Bond) are believed to have a lower risk of default and receive higher ratings by the credit rating agencies. These bonds tend to be issued at lower yields than less creditworthy bonds.

Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

Nasdaq-100® includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization.

S&P Strategic Futures Index (S&P SFI) reflects the long-term price trend of futures on physical commodities, interest rates, and currencies while limiting volatility and offering transparent, rules-based exposure to momentum, both long and short.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities, and collateralized mortgage-backed securities. ACA-2410-2.

OPWM's CoreSat model portfolios are subject to management risk and an investor's return and principal value of investment may fluctuate such that an investment, when liquidated, may be worth more or less than their original investment. OPWM's model portfolios invest primarily in mutual funds or exchange traded funds (ETFs), which are subject to investment advisory and other expenses. There are numerous risks associated with investing in the underlying mutual funds and ETFs which should be considered prior to investing.

OPWM's model portfolios invest in equity, fixed income, and liquid alternative investments (as classified by OPWM). The more aggressive the OPWM's model portfolios selected, the more likely the strategy will contain larger percentages of riskier asset classes. Equity investments are subject to overall market risk and volatility. Fixed income investments are subject to issuer credit risks and the effects of interest rate fluctuations. Alternative investments typically hold more non-traditional investments and may employ more complex trading strategies including leverage through the use of derivatives. Investors considering alternative investments should carefully consider their unique characteristics and additional risks.

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Tactical investment strategies may result in the portfolios being more concentrated in a specific asset class, which could reduce overall return if these asset classes underperform.

Accounts and funds managed by an advisor using the OPWM CoreSat model portfolios are subject to additions and redemptions of assets under management, which may positively or negatively affect performance depending generally upon the timing of such events in relation to the market's direction. The Hypothetical Information and model performance assume full investment, whereas actual accounts and funds managed by an adviser would most likely have a positive cash position. Had the Hypothetical Information or model performance included the cash position, the information would have been different and generally may have been lower. While there have been periodic updates and improvements to the OPWM CoreSat models, there have not been any material changes in the objectives or strategies of the model that have occurred that may affect results.

While OPWM believes the outside data sources cited to be credible, it has not independently verified the correctness of any of their inputs or calculations and, therefore, does not warrant the accuracy of any third-party sources or information.

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