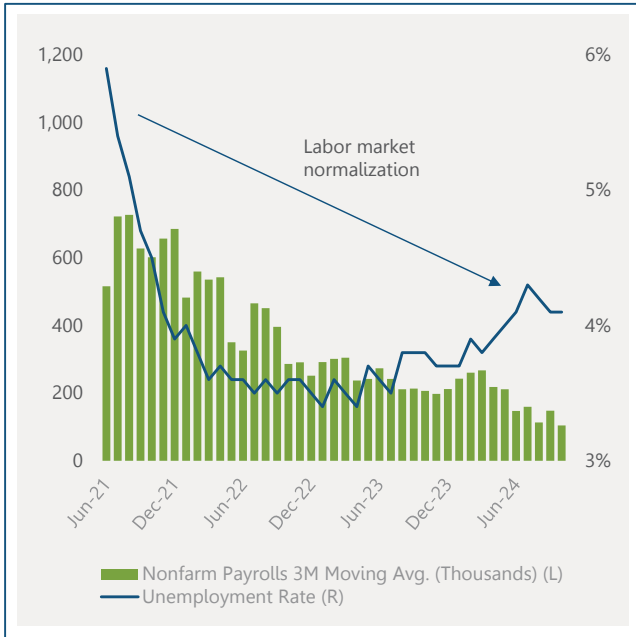


November 2024

Market Review



Getting Back to Normal?
Nonfarm Payrolls and Unemployment Rate



Source: Bloomberg. Past Performance does not guarantee future results.

In our view, the labor market is going through a normalization process rather than deteriorating in a way that would be expected leading up to a recession. Monthly nonfarm payroll figures continue to regulate toward pre-pandemic ranges, while the unemployment rate has stabilized near 4% after briefly spiking in August.

Job growth has gradually slowed over the last three years, while the unemployment rate has moved slightly higher off a multi-decade low of 3.4% in 2023. This indicates a healthier amount of slack in the job market than existed for most of the last two years. A normalized labor market should positively contribute to the final stages of the Fed’s war against inflation.

In October, US nonfarm payrolls increased by only 12,000, coming in well-below expectations of 100,000 and sharply declining from September’s reading of 223,000. The underwhelming reading was chalked up to the impact Hurricanes Helene and Melton had on large swathes of the southeast and the Boeing machinists strike, which affected approximately 44,000 manufacturing jobs. ADP reported private companies hired 233,000 in October, the most significant job creation since July 2023, indicating strength remains in pockets of the labor market.

Solid Growth + Cooling Inflation
3-Month Annualized Real GDP and CPI



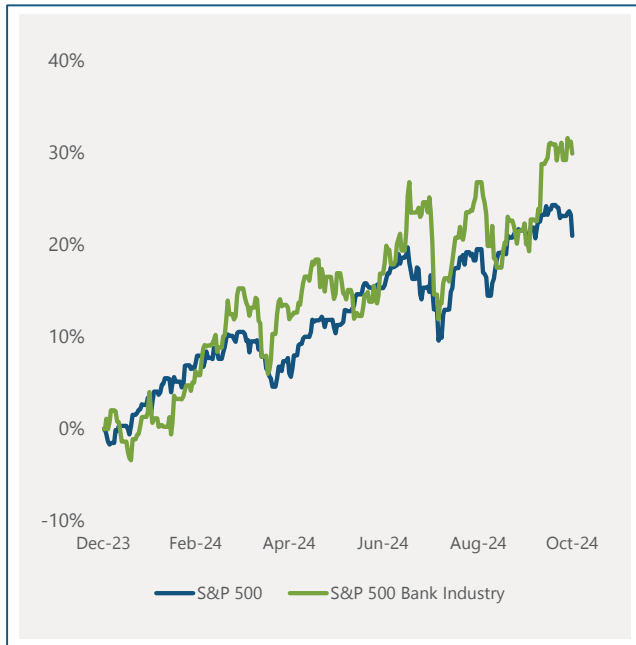
Source: Bloomberg. Past Performance does not guarantee future results.

The domestic economic backdrop continues to improve from the stagflation-like conditions of 2022 to an environment with above-trend GDP growth and stabilizing inflation. Growth has generally been strong and less volatile since the third quarter of 2022 as consumers have continued to spend, helped by still-solid wage gains and growing credit card balances.

The bars in the accompanying chart depict three-month annualized headline consumer price inflation stacked on top of annualized quarterly U.S. real GDP growth. As the U.S. economy has moved on from the pandemic, cooling inflation has combined with solid growth to create fertile conditions for risk assets. Equity markets in particular tend to do well in environments with moderate growth and slowing inflation, conditions which have largely prevailed over the last four quarters.

The set of bars furthest to the right is based on projections for the fourth quarter. Similar to 2Q24 and 3Q24, expectations are for a healthy combination of above-trend economic growth and inflation below 3%. With these conditions in place, we believe the Federal Reserve can continue to lower its policy rate over the next several months so long as inflation is not re-stoked.

Banks Outperforming This Year
Year To Date Return



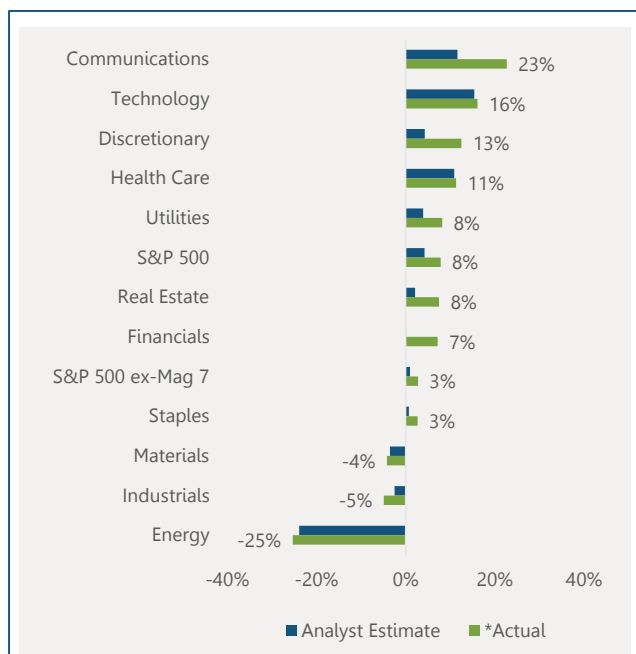
Source: Bloomberg. Past Performance does not guarantee future results.

The S&P 500 ended a five-month winning streak in October as solid economic data contributed to higher bond yields and led investors to reduce their projections for Fed rate cuts. The S&P 500 index fell 0.91% in its first monthly loss since April and second down month over the last year. Financials, communications, and energy were the only broad sectors that rose in the month.

The S&P 500 Banks industry stood out with a 6.20% monthly gain as investors were encouraged by banks' third quarter earnings reports. Bank's third quarter results were driven by strong trading revenue, improved investment banking activity, and easing deposit cost pressure. Bank stocks have performed well this year with the S&P 500 Banks industry's 29.92% gain outpacing the S&P 500's 20.97% return.

The MSCI China index's 5.48% decline reversed some of September's 23.90% gain. Chinese stocks surged in late September after the government announced a barrage of stimulus measures to help their stagnant real estate market and local government financial challenges. Investors' initial enthusiasm quickly faded as the lack of stimulus details created uncertainty about the planned stimulus effectiveness.

Improving Earnings Breadth
Third Quarter S&P 500 Earnings Growth YoY



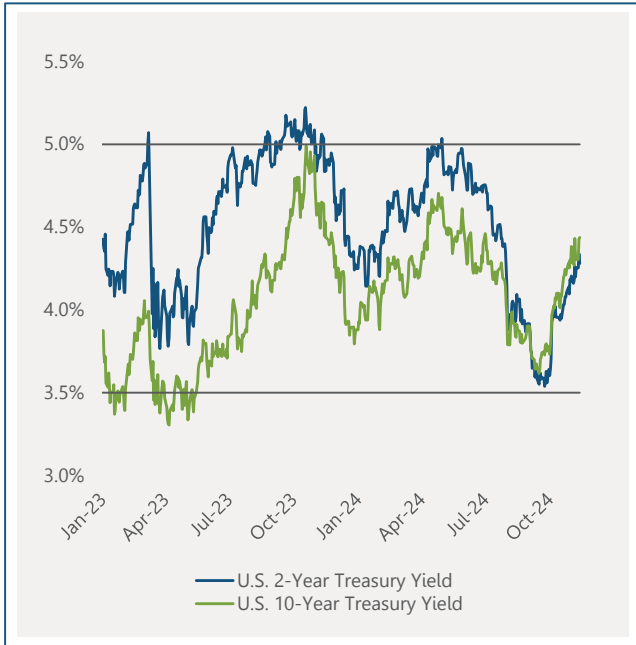
Source: Bloomberg. Past Performance does not guarantee future results. *Actual results include reported earnings and projections for results still to report. Mag 7: Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Nvidia (NVDA), Meta Platforms (META), and Tesla (TSLA).

The busiest stretch of third quarter earnings reporting season is over with results reported from 350 companies in the S&P 500 that represent around 75% of the index's market capitalization. The S&P 500 is on track to record another quarter of solid earnings and revenue beats. Earnings are on pace for 7.84% year-over-year growth, which exceeds analysts' forecast for 4.23% growth.

The earnings growth gap between the Magnificent Seven stocks and the rest of the S&P 500 continues to narrow as the trajectory of Mag 7 profit growth moderates from high levels and other areas of the market strengthen from margin expansion. The S&P 500 ex-Mag 7's 2.78% earnings increase, nearly three times the 0.97% analyst projection, was the second consecutive quarter with positive growth since the fourth quarter of 2022. Negative earnings growth in energy, materials, and industrials sectors were the weakest areas.

S&P 500 revenue growth is also on pace to exceed analysts' projection with a year-over-year pace of 5.48% versus the 4.46% analyst forecast. Cost cuts and lower inflation helped the S&P 500 operating margin grow 2.30% year over year to 15.28%. This was the third consecutive quarter with positive growth following six quarters of margin contraction largely due to inflation pressures.

Treasury Yields Remain Rangebound
2-Year and 10-Year UST Yields: 2023-2024



Source: Bloomberg. Past Performance does not guarantee future results.

Although Treasury yields have displayed elevated volatility over the last two years, a clear directional trend has not emerged outside of short-lived moves that only lasted several months. Both 2-year and 10-year yields approached the top of the 3.5% to 5% range during a stretch of upside inflation surprises in the beginning of this 2024. This move fully reversed over the summer as yields touched the bottom of that range in early August during the brief growth-scare episode. In September and October, however, fading recession fears pushed yields higher toward the middle of the range.

Stocks have generally struggled when yields have approached both the top and bottom of this range and for different reasons. Concerns about a reacceleration of inflation and a no landing scenario toward 5% yields and worries about deflation and a hard landing outcome when yields get close to 3.5%.

The 10-year yield has moved above the 2-year yield as large portions of the Treasury yield curve have dis-inverted, or normalized. Fed rate cuts and resilient economy have seemingly combined to bring about this normalization of the yield curve after two years of inversion – the historically unnatural state of short-term yields exceeding long-term yields.

Corporate Debt Issuance Picks Up
Year-to-Date Supply of U.S. Inv. Grade Corporate Bonds



Source: Goldman Sachs. Past Performance does not guarantee future results.

Total investment-grade corporate bond issuance of \$1.4 trillion year-to-date through September 30 is up 30% from the same period in 2023. Third quarter issuance of \$449 billion compares to an average of \$338 billion over the last ten years. Demand has been strong as investors have been attracted to higher yields and coupon rates than existed for most of the 13 years from 2009 through 2021.

Funding conditions have been very favorable for corporate treasurers and CFOs as the extra yield corporate borrowers pay relative to similar maturity Treasury bonds remained ultra-low in the third quarter compared to historical levels.

In addition to attractive refinancing conditions, mergers and acquisitions activity has been another driver of corporate issuance in 2024. Dealmaking in the energy, healthcare, and technology sectors has boosted investment-grade supply so far this year. Increased capital expenditures in the utility sector to support power demand from data centers has led to an acceleration of utility sector issuance.

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