

October 2024

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 10/31/2024

Global Overview

Markets were challenged in October, as major market indices, both domestic and international, posted negative returns. Domestically, technology sector performance, paired with rising bond yields and the upcoming presidential election, made for a volatile month. Internationally, European markets struggled under the weight of weak economic growth and elevated inflation. Similarly, Chinese equities saw pullbacks as initial enthusiasm for the PBOC's easing policy in September shifted to skepticism, driven by ongoing weakness in the property market.

U.S. Markets & Economy

October was distinguished by market volatility, with equities experiencing a sell-off late in the month that reversed the gains accumulated earlier in the month. The S&P 500 finished the month with a return of -0.9%; the benchmark's first monthly decline since April of 2024, and only its second negative month since November of 2023. The late-month sell-off was largely attributed to the technology sector. Disappointing earnings reports, paired with concerns about elevated tech valuations and broader economic uncertainties due to the upcoming presidential election, contributed to a risk-off sentiment among investors. The Conference Board Consumer Confidence Index more than offset September's decline to 98.7, rising to 108.7 in October, showing improving consumer confidence. ISM Manufacturing PMI declined further to 46.5% in October, down from 47.2% in September. This marks the seventh consecutive month below 50.0%, which is a signal of manufacturing contraction. The labor market also exhibited volatility, as initial jobless claims rose early month due to disruptions from Hurricane Helene and labor strikes at Boeing. Despite an early surge to 258K, initial jobless claims fell for three consecutive weeks, ending the month at 216K, the lowest level since May. The unemployment rate remained stable at 4.1%, further indicating underlying labor market strength. Although there was a late-month shift in market sentiment, growth stocks slightly outperformed value stocks. Similarly, large-cap stocks slightly outperformed small-cap stocks. This is evidenced by the Russell 2000 Index falling 1.4%, while the Russell 1000 Index declined by 0.7%. The growth and value performance discrepancy was larger among large-caps as the Russell 1000 Value Index declined by 1.1% and the Russell 1000 Growth Index declined by 0.3%. Among small-caps, the Russell 2000 Value index fell by 1.6%, while the Russell 2000 Growth index fell by 1.3%.

The fixed income market posted mostly negative returns in October. In response to persistent inflation, fiscal policy concerns, and the upcoming election, both the U.S. 10-year Treasury yield and the 2-year Treasury yield shot up by 47 and 50 basis points, respectively. Both high yield and investment grade corporate spreads tightened over the month, going from 303 to 288 basis points in high yield, and 92 to 86 basis points in corporates. The tightening of spreads helped soften the blow to the high yield market, as the ICE BofA U.S. High Yield index fell by 0.6%. Conversely, concerns about persistent inflation and its effect on future rate cuts led for investors to hunt for safety in a mostly red October, as the Bloomberg U.S. Aggregate, and Bloomberg U.S. Govt/Credit Indices fell by 2.5% and 2.4%, over the month.

International Markets & Economy

The ECB cut its key interest rate from 3.50% to 3.25% citing reduced inflation risks, and weakening growth expectations. Eurozone inflation in September fell to 1.7%, below the central bank's 2% target for the first time in three years. The October rate cut marked the first back-to-back rate cut since December 2011, indicating the central bank's growing concerns over stagnation in the Eurozone. Similarly, the ECB trimmed its Eurozone growth forecast for 2024 down to 0.8% from the previous 0.9%, further suggesting weaker domestic demand. German manufacturing PMI rose from 40.6 to 43.0 in October, indicating a slight improvement but remaining firmly in contraction territory, tempering hopes for a strong recovery. German GDP, supported by increased government and household spending, grew by 0.2% in the third quarter, narrowly avoiding a recession following a 0.3% contraction in the second quarter.

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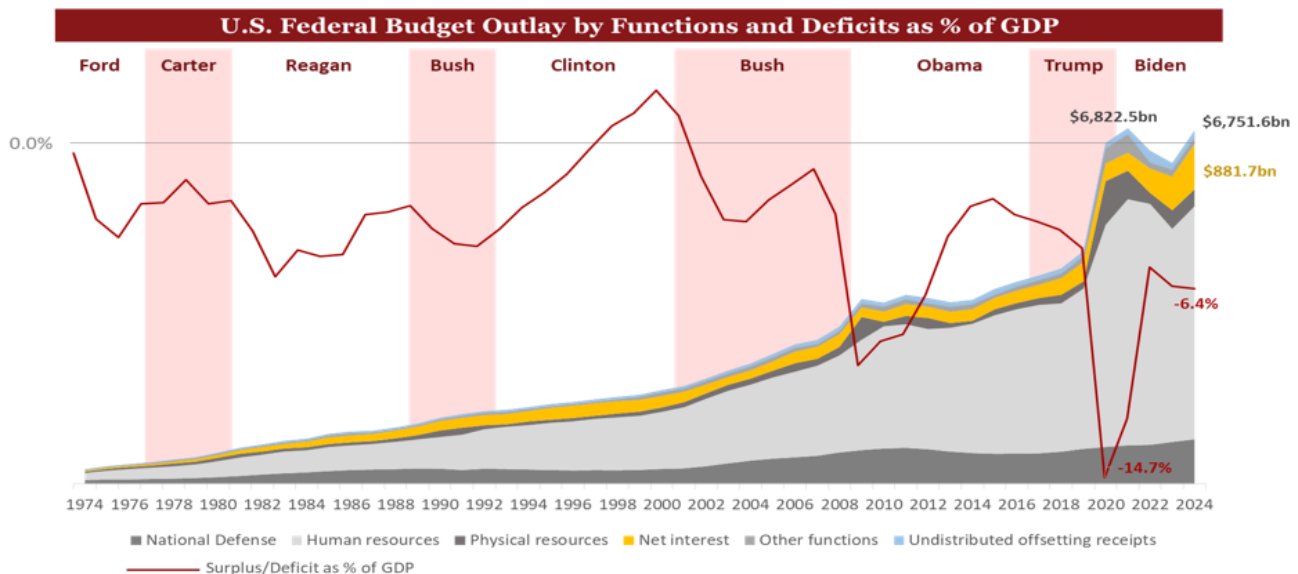
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French GDP recorded 0.4% growth in Q3, up from 0.2% in the previous quarter, mainly due to the impact of the Paris Olympic Games. French PMI turned marginally lower to 44.5 in October from 44.6 in September. The Bank of Canada cut its main interest rate by 50 bps to 3.75% to stimulate its struggling economy with inflation returning to 2% sooner than anticipated. The Bank of Japan kept its overnight call rate at 0.25% following the last hike in July. The MSCI EAFE fell by 5.4% last month with the MSCI Europe Index decreasing by 5.9% and the MSCI Japan Index decreasing by 3.9%. Russia's central bank raised its key interest rate to 21%, the highest level since the invasion of Ukraine, as it struggled to cool an overheating economy. Russian September CPI was 8.6%, well above the central bank's 4% target. Russian inflation has been driven by government fiscal spending on the war and rising wages in an increasingly tight job market, where recruitment efforts for the war are creating labor shortages. Shortly after China's central bank kicked off the country's latest easing cycle by lowering the policy rate in late September, China's commercial lenders followed up by cutting their benchmark lending rates by 25 basis points, one of the largest cuts in recent years, in a bid to warm up the property market. Despite this attempt to stimulate the economy, the MSCI China Index fell by 5.9% in October.

In the News

The U.S. budget deficit grew 8% to \$1.8 trillion for the fiscal year 2024 in September, recording the third-largest federal deficit in U.S. history, trailing the pandemic relief-driven fiscal year deficits of \$3.1 trillion in 2020 and \$2.7 trillion in 2021. U.S. fiscal receipts for the year hit a record \$4.9 trillion, up 11%, as tax collections grew. However, yearly outlays rose 10% to \$6.8 trillion, with 26.5% of spending devoted to Healthcare and Medicare expenses, 21.6% to Social Security expenses, and 13.1% to net interest expenses, which surpassed the proportion of national defense spending (12.9%) for the first time. The biggest driver of this year's deficit was a 29% increase in interest costs for treasury debt to \$1.1trillion due to a combination of higher interest rates and \$28.2 trillion in federal borrowing, which equals 98% of U.S. GDP. Inflation caused by the expanding fiscal policy demands elevated spending on goods and services when additional expenditures flow into the economy and increase the money supply. Similarly, costs tied to Social Security and Medicare are anticipated to keep rising as the US population ages, potentially contributing to budget deficit increases for decades ahead. Not only would borrowing increase as fiscal policy continues to expand, but the costs of borrowing are expected to grow in the coming years. In its latest annual budget proposal, the White House projected 10-year Treasury yields would reach 3.7% in the early 2030s, almost a full percentage point higher than the 2.8% estimation published last year. As a result, Treasury-bill rates have gone up by about half a percentage point given those longer-term projections.

Chart of the Month



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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	(1.98)	2.45	16.50	33.68	6.38	12.03	9.78
	Bloomberg US Agg Bond TR USD	(2.48)	0.25	1.86	10.55	(2.20)	(0.23)	1.49
	Russell 3000 TR USD	(0.73)	3.52	19.75	37.86	7.64	14.60	12.44
	DJ Industrial Average TR USD	(1.26)	2.72	12.50	28.85	7.42	11.37	11.65
	NASDAQ Composite PR USD	(0.52)	2.82	20.54	40.80	5.30	16.89	14.60
	MSCI EAFE NR USD	(5.44)	(1.46)	6.85	22.97	2.70	6.24	5.27
	FTSE Treasury Bill 3 Mon USD	0.43	1.34	4.62	5.59	3.78	2.44	1.71
	Bloomberg Commodity TR USD	(1.85)	2.97	3.89	(1.18)	2.15	6.96	(0.08)
Domestic Equities	S&P 500 TR USD	(0.91)	3.66	20.97	38.02	9.08	15.27	13.00
	S&P MidCap 400 TR	(0.71)	0.36	12.74	32.99	5.19	11.37	9.86
	S&P SmallCap 600 TR USD	(2.64)	(3.22)	6.45	30.00	1.92	9.20	9.01
	Russell 1000 TR USD	(0.70)	3.83	20.33	38.07	8.12	15.00	12.75
	Russell 1000 Growth TR USD	(0.33)	4.63	24.14	43.77	8.84	19.00	16.18
	Russell 1000 Value TR USD	(1.10)	2.96	15.40	30.98	6.85	10.14	8.87
	Russell Mid Cap TR USD	(0.54)	3.74	14.02	35.39	3.55	10.94	9.80
	Russell Mid Cap Growth TR USD	1.75	7.75	14.88	38.67	0.61	11.46	11.19
	Russell Mid Cap Value TR USD	(1.26)	2.50	13.63	34.03	5.10	9.93	8.43
	Russell 2000 TR USD	(1.44)	(2.24)	9.56	34.07	(0.05)	8.50	7.94
	Russell 2000 Growth TR USD	(1.33)	(1.12)	11.72	36.49	(2.30)	7.92	8.15
	Russell 2000 Value TR USD	(1.56)	(3.35)	7.51	31.77	1.95	8.42	7.33
International Equities	MSCI ACWI Ex USA NR USD	(4.91)	0.44	8.61	24.33	1.60	5.78	4.79
	MSCI EAFE NR USD	(5.44)	(1.46)	6.85	22.97	2.70	6.24	5.27
	MSCI EAFE Growth NR USD	(6.17)	(2.05)	5.33	23.28	(1.29)	5.63	6.02
	MSCI EAFE Value NR USD	(4.70)	(0.87)	8.44	22.75	6.64	6.47	4.28
	MSCI Japan NR USD	(3.90)	(3.96)	7.97	22.33	2.48	5.30	6.09
	MSCI AC Asia Ex Japan NR USD	(4.60)	5.47	15.59	27.97	(1.39)	4.62	4.69
	MSCI Europe NR USD	(5.89)	(1.80)	6.13	22.43	3.00	6.91	5.23
	MSCI United Kingdom NR USD	(5.49)	(2.09)	9.07	21.62	6.34	6.09	3.76
	MSCI EAFE Small Cap NR USD	(6.27)	(1.97)	4.14	22.96	(3.00)	4.10	5.73
MSCI EM NR USD	(4.45)	3.58	11.66	25.32	(1.43)	3.93	3.43	
Fixed Income	Bloomberg US Govt/Credit TR USD	(2.38)	0.35	1.90	10.23	(2.31)	(0.13)	1.65
	Bloomberg US Govt/Credit Interm TR USD	(1.60)	0.61	3.00	8.20	(0.18)	0.85	1.73
	Bloomberg US Govt/Credit Long TR USD	(4.69)	(0.44)	(1.32)	17.01	(8.16)	(2.90)	1.61
	ICE BofA US High Yield TR USD	(0.55)	2.68	7.44	16.47	2.95	4.38	4.78
	Credit Suisse HY USD	(0.50)	2.41	7.07	15.80	3.15	4.39	4.68
	Morningstar LSTA US LL Index TR USD	0.86	2.22	7.45	10.56	6.68	6.02	4.92
	FTSE WGBI NonUS USD	(4.24)	0.62	(2.41)	8.36	(7.38)	(4.41)	(1.45)
	Bloomberg Gbl Agg Ex USD TR USD	(4.12)	0.86	(1.43)	8.65	(5.62)	(2.87)	(0.85)
REITs	FTSE Nareit All REITs TR	(3.72)	4.48	9.46	33.38	(0.50)	3.65	6.44
	Wilshire US REIT TR USD	(2.49)	6.52	12.03	36.49	1.11	4.65	6.40

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

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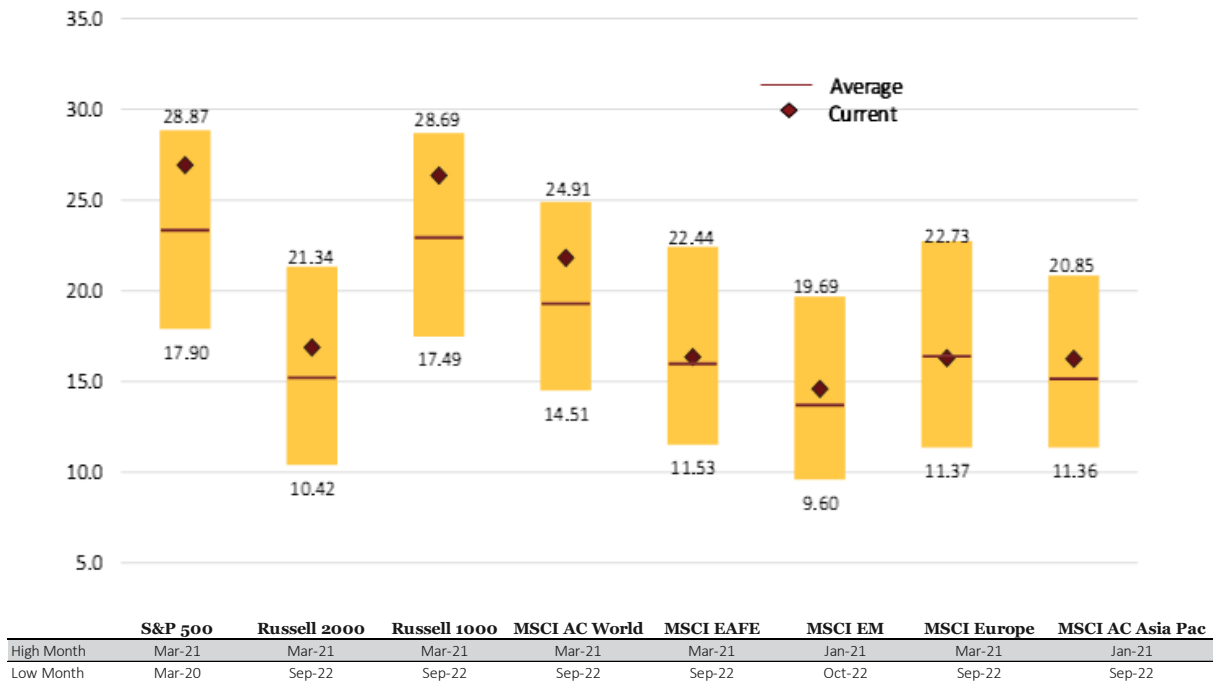
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Current Trailing P/E vs. Trailing 5-Year High, Low Average



Source: Morningstar; Data as of 10/31/2024

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates ³ per US \$		Inflation ²
	Latest ¹	2024 ¹	2025 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	2.80	2.60	1.80	4.10	4.29	-	-	2.40
China	0.90	4.90	4.50	5.10	2.13	7.12	7.32	0.40
Japan	0.70	0.50	1.10	2.40	0.95	152.94	150.96	2.50
United Kingdom	0.50	0.40	1.00	4.00	4.41	1.30	1.21	1.70
Euro Area	0.40	0.70	1.50	6.30	3.04	1.08	1.05	2.00
Germany	0.20	0.20	1.10	6.10	2.38	1.08	1.05	2.00
France	0.40	0.70	1.30	7.30	3.13	1.08	1.05	1.20
Italy	0.00	0.70	1.20	6.10	3.65	1.08	1.05	0.90
Canada	0.50	1.00	1.80	6.50	3.27	1.39	1.39	1.60
India	1.30	6.60	6.60	7.80	6.84	84.01	83.22	5.49
Mexico	1.00	2.20	2.00	2.90	10.42	20.03	17.95	4.58
Brazil	1.40	1.90	2.10	6.40	12.85	5.83	5.02	4.42

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD

2. In terms of Core CPI

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

4. Germany, France, and Italy currency exchange rates are taken at the Euro Area exchange rate

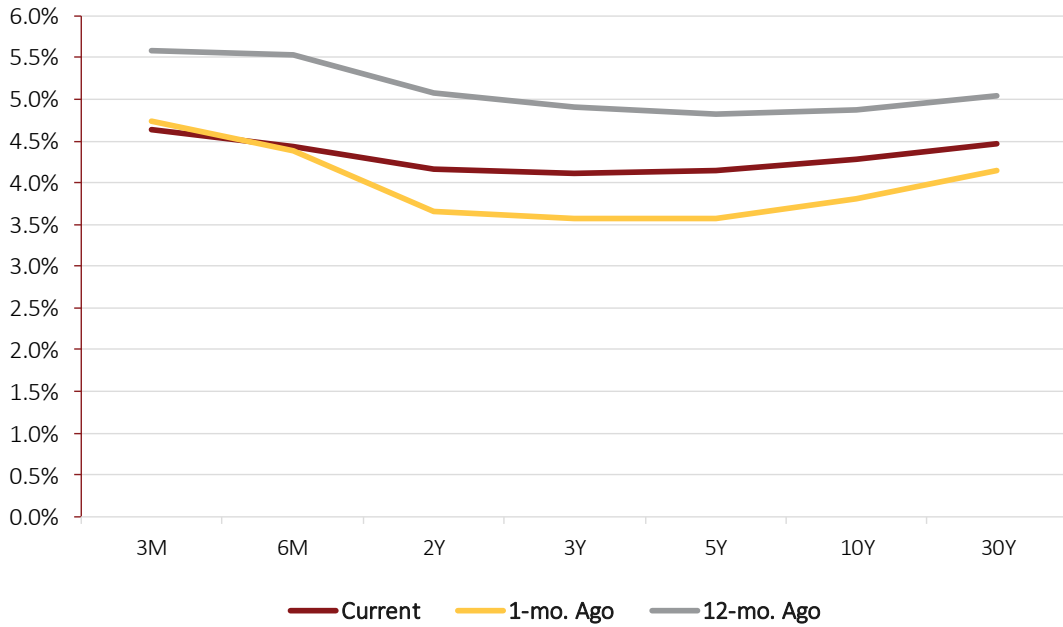
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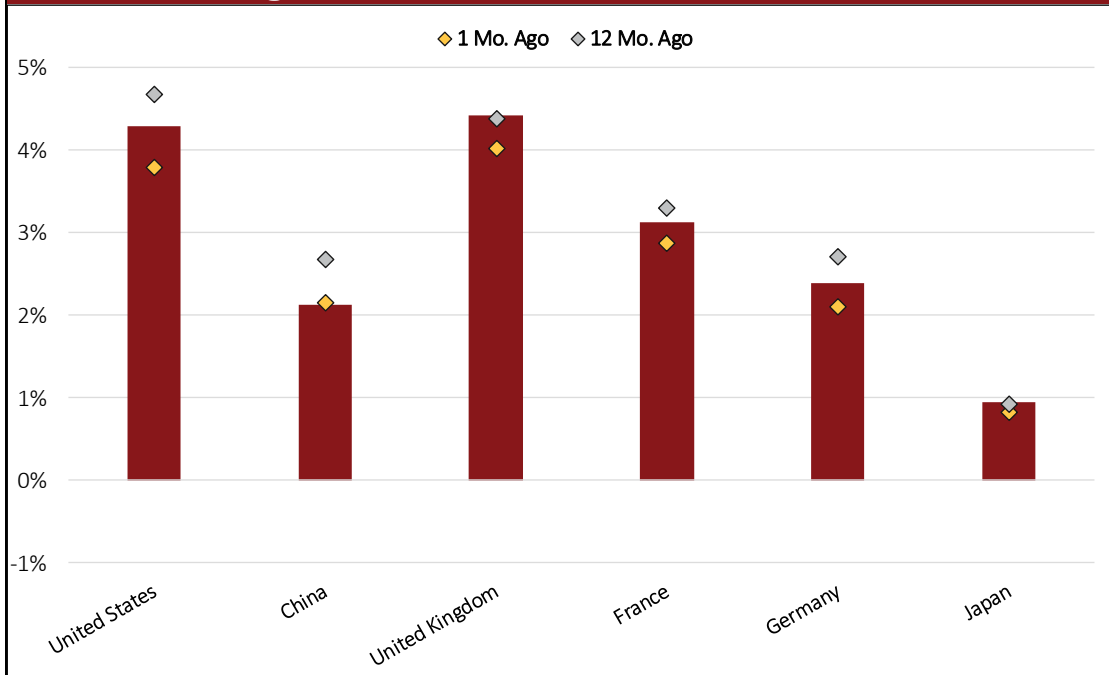
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U.S. Treasury Yield Curves



Source: Federal Reserve Bank; Data as of 10/31/2024

10-Year Sovereign Yields



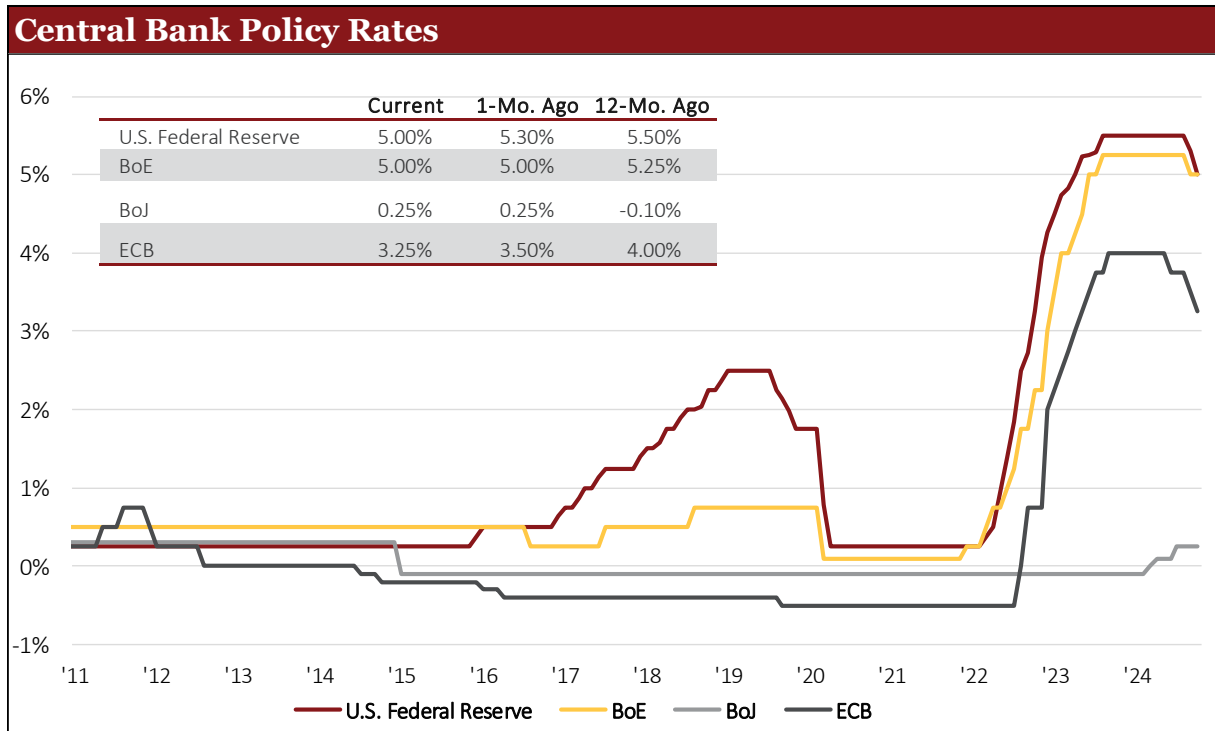
Source: Trading Economics; Data as of 10/31/2024

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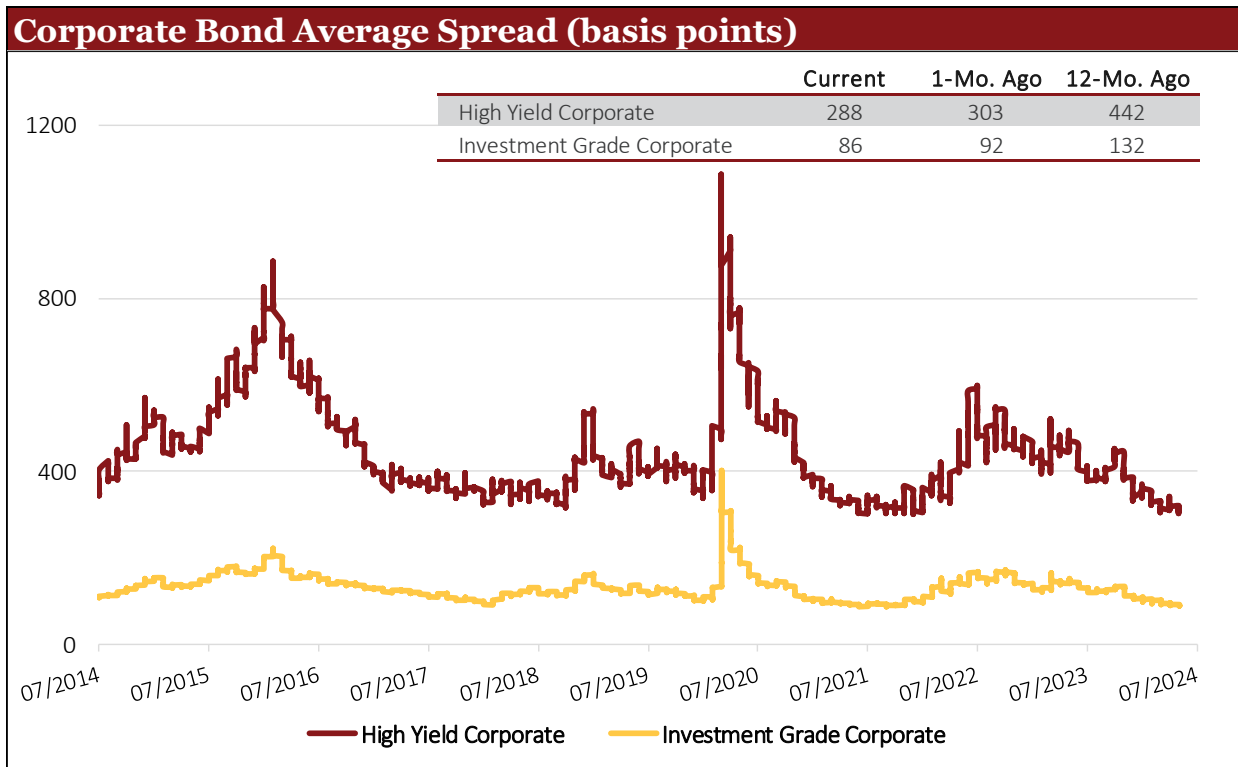
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Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics; Data as of 10/1/2024



Source: Federal Reserve Bank, Bank of America; Data as of 10/31/2024