

September 2024

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 9/30/2024

Global Overview

Equities showed resilience throughout September as tailwinds from declining interest rates, moderating inflation, and expansionary monetary policy helped to offset the longer-term headwind of slowing economic growth. The U.S. Federal Reserve cut rates for the first time since the hiking cycle began in 2022, leading to positive returns among major market indices across the market capitalization spectrum. Within non-US equities, the emerging markets index led with the MSCI Emerging Markets index posting a 6.7% return, largely due to China's 25.3% surge as a result of the People's Bank of China's expansionary monetary policy.

U.S. Markets & Economy

The Federal Reserve announced a 50 bp rate cut during the September 18th FOMC meeting, with analyst expectations of additional cuts in November and December. The market is now pricing-in four more rate cuts in 2025 and two in 2026, expressing confidence that inflation is moving toward the Fed's 2% target. The S&P 500 gained 2.1%, as investors welcomed the Fed's 50 bp cut. Historically, the start of a rate cutting cycle has led to a change in market leadership and investment focus, as sectors such as utilities, real estate, consumer discretionary, financials, and technology benefit from lower borrowing costs, and increased consumer spending. The Conference Board Consumer Confidence Index in September fell to 98.7, from 101.9 in August. Also, September's ISM manufacturing numbers remained below 50, at 47.2, further suggesting slowing economic growth. Initial claims for unemployment benefits dropped to a four-month low in late September of 218,000, while continuing claims also decreased to 1,834,00 which may suggest that the Fed's rate cut began to have a positive impact the labor market, although it is too soon to tell. A familiar theme once again reared its head as large-cap stocks outperformed small-cap stocks, and growth outperformed value. Notably, the Russell 1000 Growth Index posted a return of 2.8%, while the Russell 1000 Value Index had a return of 1.4% in September. This style leadership was mirrored in small cap, with Russell 2000 Growth index's September returns of 1.3%, compared to the Russell 2000 Value Index's 0.1%.

A major catalyst for the bond market occurred as the Federal Reserve cut rates by 50 bps, citing concerns within the labor market and declining inflation. Rates fell along the treasury curve over the month, especially on the front end of the curve. The spread between the 2- and 10-year Treasury yields turned positive for the first time in over two years and ended at 15 basis points. The Bloomberg U.S. Aggregate Index posted a 1.3% return in September. Investment Grade and High Yield securities also increased, as the Bloomberg U.S. Govt/Credit and the ICE BofA US High Yield indices posted returns of 1.4% and 1.6%, respectively. Because of the favorable outlook from the rate cuts, investors began borrowing at a rapid rate, as \$171 billion in new issuances entered the investment grade market, surpassing the previous record of \$164 billion in September of 2020. Despite this, corporate spreads tightened from 96 to 91 basis points. Similarly, High yield spread tightened from 317 to 306 basis points.

International Markets & Economy

The dominant theme in global financial markets in September was the highly anticipated wave of interest rate cuts, as 17 central banks lowered rates, marking the largest number of cuts in a single month since the pandemic. This signaled the onset of a global monetary easing cycle. Germany's economic woes continue to be a sore spot in the EU. Germany's PMI fell to 40.6 in September from 42.4 in August, marking the fourth consecutive month of a slowdown and the lowest reading in 12 months. Germany also saw the sharpest drop in export sales in 11 months and the steepest factory employment contraction in over 4 years. Rising energy costs, weaker import demand, and increased competition from China in manufacturing dampened Germany's long-term growth prospects. In France, stagnant demand and high input costs kept the PMI in contraction, although it did increase slightly to 44.6 in September from 43.9 in August. French

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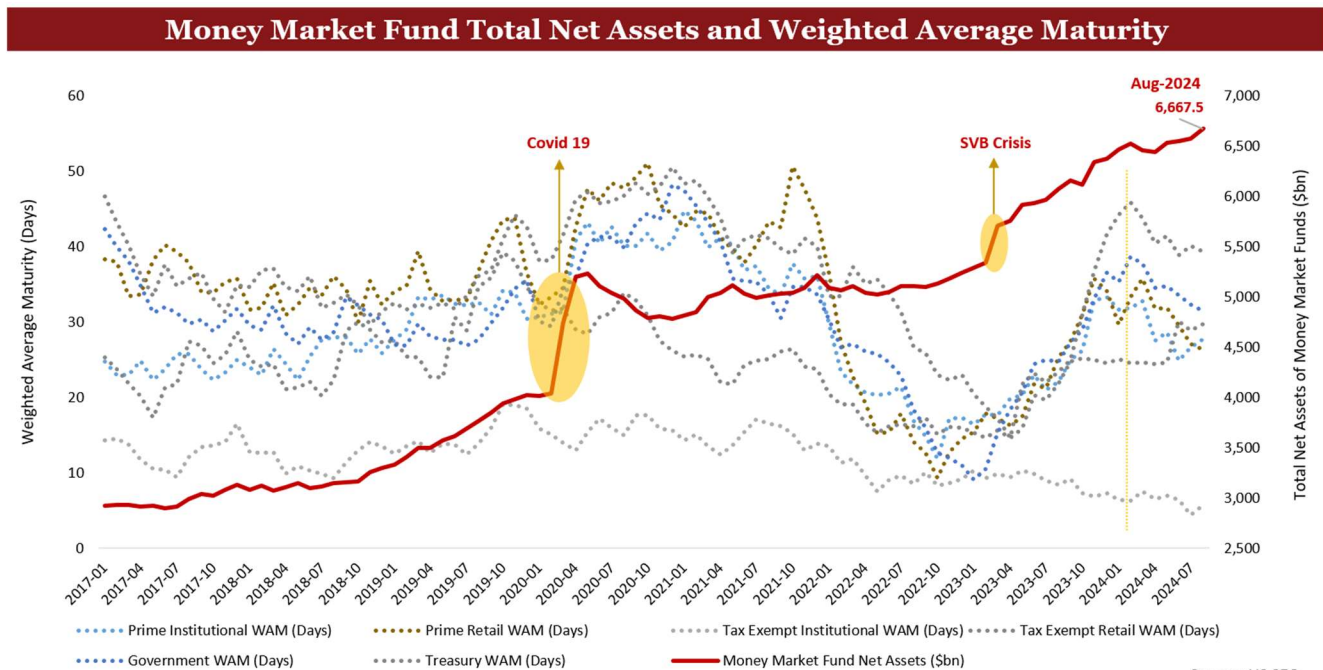
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inflation fell to 1.2% in September, down from 2.2% in August, reaching a three-year low due to a significant drop in energy prices. The MSCI Europe Index rose by 0.4%, driven by market expectations of further ECB policy easing amid concerns over broader business activity contractions. In Japan, the Bank of Japan kept its policy rate steady in September, reaffirming its intention for no rate hikes during market uncertainty as the central bank believes Japan's economy is moving in line with forecasts. Japanese PMI dipped to 52.0 in September from 52.9 in August. Broadly, developed markets posted gains in the month, and the MSCI EAFE increased 0.9% in September. China's central bank rolled out its largest stimulus package since the pandemic in late September. For the first time, the PBOC introduced a combination of policies aimed at lowering borrowing costs, stimulating the property market, and encouraging stock purchases. Key measures included a 0.2% cut to the benchmark seven-day reverse repo rate, a 0.5% reduction in the reserve requirement ratio, a 0.5% cut to mortgage rates, a reduction in the down payment requirement for second-home purchases from 25% to 15%, and the injection of 800 billion yuan in liquidity for institutional investors and stock buy-backs. As a result, MSCI China surged by 25.3%, while the CSI 300 Index gained 21.5%.

In the News

Following the Fed's September 50 bps rate cut, money market funds saw their largest weekly inflow in nearly six months during the last week of September. Contrary to expectations for an unwinding of money market assets and a shift to traditional fixed income assets, investors poured \$113 billion into money market funds amid recession concerns. U.S. banks also saw seasonally adjusted deposits rise by \$44.2 billion in the week ending September 18th, bringing total deposits to the highest level since December 2022. In the same week, Investors offloaded \$10.4 billion from global equity funds in the sharpest weekly outflow since June. Despite falling interest rates, money market funds remain attractive to investors, with yields sitting around 4.9%, they offer an alternative to richly priced large cap stocks as the S&P 500 ratio is priced at 29x its earnings. The past 30 years shows Institutional money-fund assets have typically increased by an average of 3.8% during months in which the Fed has cut interest rates. Money market fund assets on average peaked for a nine month period after the first rate cut in past five rate cut cycles since 1988. One thing worth noting though, is that the weighted average maturities of money market funds have been dropping significantly since January of 2024, indicating investors are aware of interest rate risks, and are preparing for further rate cuts in the coming cycle.

Chart of the Month



Source: US SEC

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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	1.83	6.36	18.86	32.43	9.08	13.04	10.07
	Bloomberg US Agg Bond TR USD	1.34	5.20	4.45	11.57	(1.39)	0.33	1.84
	Russell 3000 TR USD	2.07	6.23	20.63	35.19	10.29	15.26	12.83
	DJ Industrial Average TR USD	1.96	8.72	13.93	28.85	9.97	11.78	12.03
	NASDAQ Composite PR USD	2.68	2.57	21.17	37.60	7.98	17.86	15.01
	MSCI EAFE NR USD	0.92	7.26	12.99	24.77	5.48	8.20	5.71
	FTSE Treasury Bill 3 Mon USD	0.44	1.37	4.17	5.63	3.63	2.38	1.67
	Bloomberg Commodity TR USD	4.86	0.68	5.86	0.96	3.66	7.79	0.03
Domestic Equities	S&P 500 TR USD	2.14	5.89	22.08	36.35	11.91	15.98	13.38
	S&P MidCap 400 TR	1.16	6.94	13.54	26.79	7.47	11.78	10.32
	S&P SmallCap 600 TR USD	0.85	10.13	9.33	25.86	3.99	10.21	10.05
	Russell 1000 TR USD	2.14	6.08	21.18	35.68	10.83	15.64	13.10
	Russell 1000 Growth TR USD	2.83	3.19	24.55	42.19	12.02	19.74	16.52
	Russell 1000 Value TR USD	1.39	9.43	16.68	27.76	9.03	10.69	9.23
	Russell Mid Cap TR USD	2.23	9.21	14.63	29.33	5.75	11.30	10.19
	Russell Mid Cap Growth TR USD	3.33	6.54	12.91	29.33	2.32	11.48	11.30
	Russell Mid Cap Value TR USD	1.88	10.08	15.08	29.01	7.39	10.33	8.93
	Russell 2000 TR USD	0.70	9.27	11.17	26.76	1.84	9.39	8.78
	Russell 2000 Growth TR USD	1.33	8.41	13.22	27.66	(0.35)	8.82	8.95
Russell 2000 Value TR USD	0.06	10.15	9.22	25.88	3.77	9.29	8.22	
International Equities	MSCI ACWI Ex USA NR USD	2.69	8.06	14.21	25.35	4.14	7.59	5.22
	MSCI EAFE NR USD	0.92	7.26	12.99	24.77	5.48	8.20	5.71
	MSCI EAFE Growth NR USD	0.43	5.68	12.26	26.54	1.92	7.74	6.61
	MSCI EAFE Value NR USD	1.42	8.89	13.79	23.14	8.94	8.27	4.56
	MSCI Japan NR USD	(0.58)	5.72	12.35	21.55	2.67	7.15	6.38
	MSCI AC Asia Ex Japan NR USD	8.43	10.40	21.16	28.95	0.62	6.55	5.38
	MSCI Europe NR USD	0.39	6.58	12.77	25.23	6.66	8.90	5.59
	MSCI United Kingdom NR USD	0.26	7.94	15.41	23.32	9.79	7.89	4.10
	MSCI EAFE Small Cap NR USD	2.55	10.54	11.11	23.48	(0.36)	6.40	6.21
MSCI EM NR USD	6.68	8.72	16.86	26.05	0.40	5.75	4.02	
Fixed Income	Bloomberg US Govt/Credit TR USD	1.40	5.10	4.39	11.31	(1.50)	0.41	2.00
	Bloomberg US Govt/Credit Interm TR USD	1.08	4.17	4.68	9.45	0.17	1.26	1.96
	Bloomberg US Govt/Credit Long TR USD	2.32	7.96	3.54	17.24	(6.17)	(1.97)	2.32
	ICE BofA US High Yield TR USD	1.63	5.28	8.03	15.66	3.08	4.55	4.95
	Credit Suisse HY USD	1.34	4.74	7.61	14.92	3.22	4.53	4.83
	Morningstar LSTA US LL Index TR USD	2.32	6.61	18.66	31.76	8.09	12.19	9.39
	FTSE WGBI NonUS USD	1.96	8.61	1.92	12.02	(6.25)	(3.42)	(1.09)
	Bloomberg Gbl Agg Ex USD TR USD	2.00	8.52	2.81	12.28	(4.42)	(1.86)	(0.50)
REITs	FTSE Nareit All REITs TR	2.99	16.25	13.69	33.65	3.04	4.68	7.74
	Wilshire US REIT TR USD	2.64	15.19	14.88	33.61	4.60	5.39	7.76

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

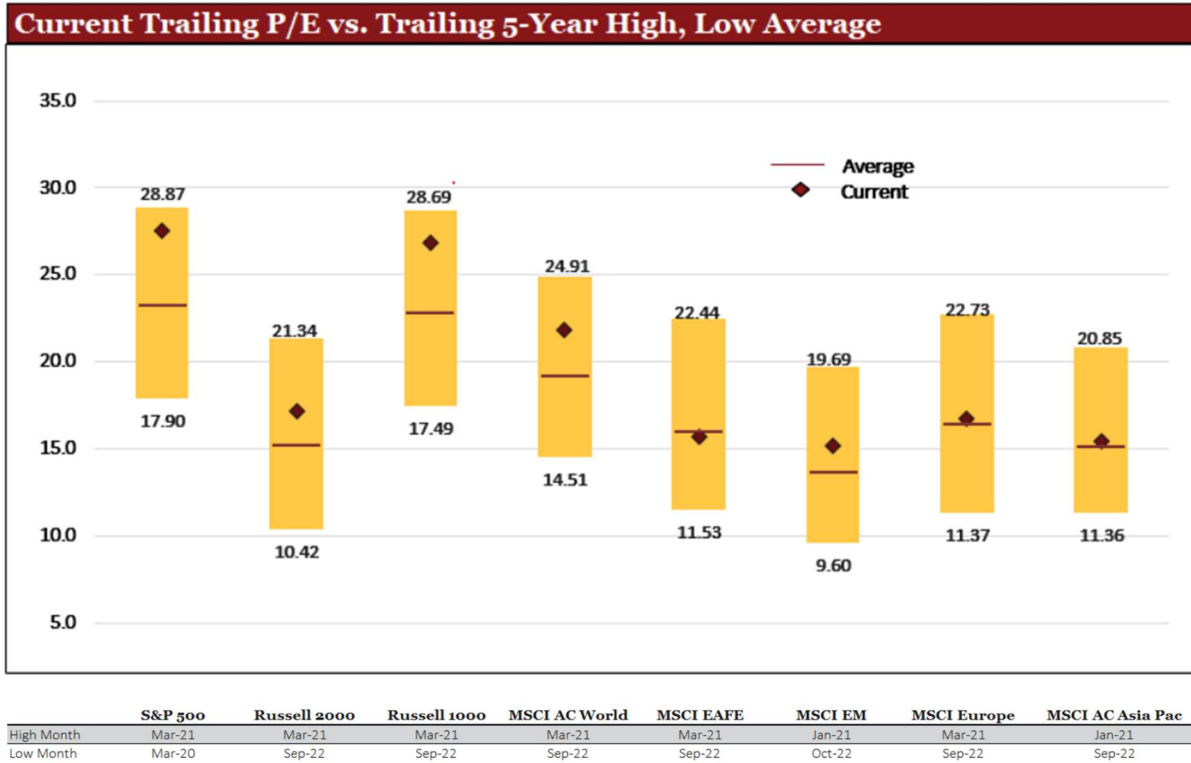
Source: Morningstar

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Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates ³		Inflation ²
	Latest ¹	2024 ¹	2025 ¹	(Most recently available)	Sovereign Bonds, 10 Year	per US \$		(Most recently available)
						Current	1 Year Ago	
United States	3.00	2.60	1.80	4.20	3.79	-	-	2.50
China	0.70	4.90	4.50	5.30	2.16	7.01	7.31	0.60
Japan	0.70	0.50	1.10	2.50	0.86	142.60	149.48	3.00
United Kingdom	0.50	0.40	1.00	4.10	4.01	1.34	1.21	2.20
Euro Area	0.20	0.70	1.50	6.40	2.91	1.12	1.05	1.80
Germany	-0.10	0.20	1.10	6.00	2.13	1.12	1.05	1.60
France	0.20	0.70	1.30	7.30	2.93	1.12	1.05	1.20
Italy	0.20	0.70	1.20	6.20	3.47	1.12	1.05	0.70
Canada	0.50	1.00	1.80	6.60	2.96	1.35	1.35	2.00
India	1.90	6.60	6.60	8.50	6.75	83.89	82.81	4.75
Mexico	0.20	2.20	2.00	2.90	9.35	19.64	17.70	4.99
Brazil	1.40	1.90	2.10	6.60	12.35	5.43	5.06	4.24

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

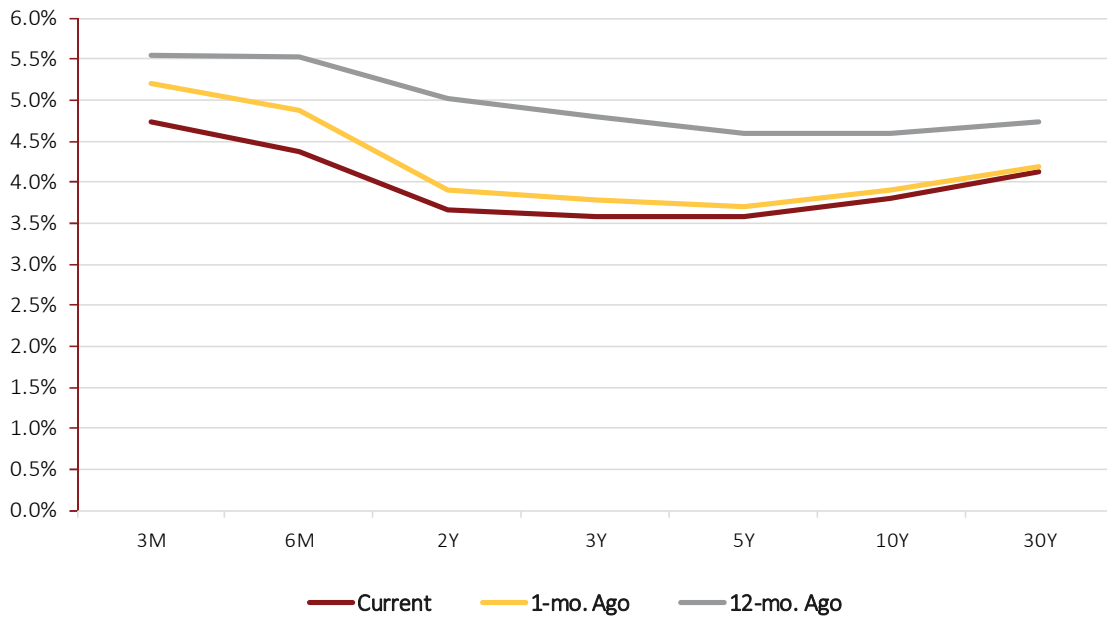
3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

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

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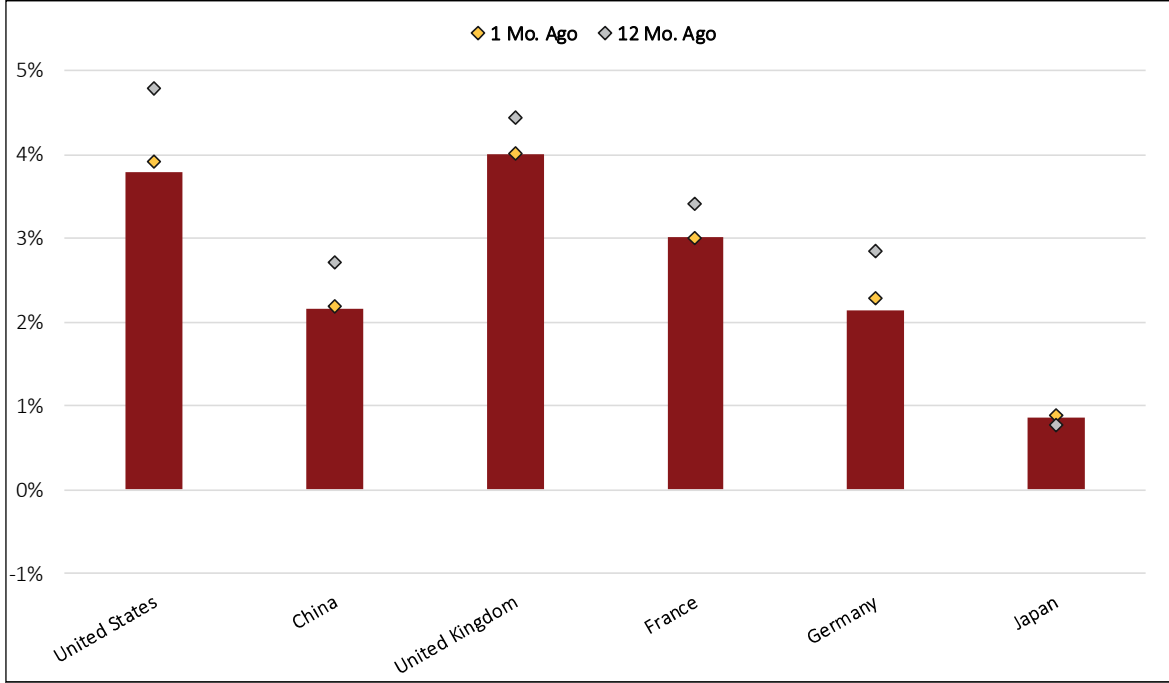
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U.S. Treasury Yield Curves



Source: Federal Reserve Bank of St. Louis, U.S. Department of the Treasury

10-Year Sovereign Yields



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

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