Market Review and Outlook
Q3 2024

'04 vectors asset management llc

ZEPHYR PSN Top Guns Award Q2 2024

Market Environment
September 30, 2024

- Interest rates fell significantly in Q3 2024, bringing expectations for at least a full 1% point of Federal Reserve rate cuts by year end 2024, a significant drop from mid year. This was reflected in short term interest rates and rate sensitive stocks.

Index	September 2024 Return	QTD Return	YTD 2024 Return	1 Year Return
Aggregate Bond	1.3%	5.2%	4.6%	11.6%
Dow Industrials	2.0%	8.7%	13.9%	28.8%
S&P 500	2.1%	5.9%	22.1%	36.3%
NASDAQ	2.8%	2.8%	21.8%	38.7%

- The Fed began their easing campaign aggressively by easing .50% at their September meeting and indicated more to follow. The Fed median estimate for short term rates at the end of 2024 is 4.375% and 2025 is 3.375%. Market expectations are below those levels. We feel the market, and perhaps the Fed expectations are a bit aggressive – again.

- As the Fed reverses course again, their uncertain and contradictory communications has increased the volatility across asset classes as markets are headline driven and become hypersensitive to every economic release. Equity markets are responding increasingly to economic data rather than just a positive response to more chance of Fed ease.

- The drop in rates has generated strong returns across the Fixed Income markets, while rate sensitive equity "Value" market sectors such as Utilities, Real Estate, Industrials were the strongest performers. Info Tech lagged during the quarter, and therefore the market weighted S&P 500 lagged the equal weighted index by a significant margin.

- Equity market valuations remain elevated in Growth oriented stocks, while the strong move higher in the rest of the market sectors has brought even those Value sectors to high valuations with extraordinary earnings growth expectations.

- The equity market volatility has also led to a flight to quality into the Fixed income markets, pushing interest rates down, while also implying greater easing of monetary policy by the Fed, balancing soft landing against a chance of recession.

- The Presidential election as well as congress is too close to call, with significant policy differences on the line.

Market Environment
September 30, 2024

- **Policy**
  - The Federal Reserve has begun their easing campaign with an aggressive .50% cut in September, with another two .25% cuts on the table by year end. Fed Committee median expectations are for 4.375% by year end 2024, 3.375% by year end 2025, and 2.875% by year end 2026. There is a very wide dispersion of expectations within the Fed including a range of 50bp in 2024 and 125bp in 2025.
  - The Fed has declared "mission accomplished" on their inflation fight despite not yet reaching their target of 2% and has clearly communicated they have shifted focus on the "full employment" side of their mandate.
  - The European, Canadian, and other global central banks have entered easing modes, while Japan has shifted to a tightening mode.
  - While no new Fiscal policy initiatives have been made, the Government is just now deploying funds from Fiscal stimulus packages such as Chips, Infrastructure, and Inflation acts, stimulating activity, but accelerating the debt.
  - After massive fiscal stimulus packages and little reduction in current spending levels, significant Treasury debt issuance continues to come to market at higher levels of interest rates, furthering the budget deficit. Continuous debt issuance will pressure longer term rates.
  - The dynamics of Energy policy that conflict fossil fuels and alternative energy will be exacerbated moving forward. The electric vehicle market is having significant struggles, while solar and wind are increasing their contribution to overall power generation.
  - The Presidential election looms with no clear winner; however, with dramatically different policies. Markets do not yet seem to be pricing in a winner for the president or congress.

- **Economic Environment**
  - The US economy overall has been strong with Q2 GDP printing 3% with a price index at 2.5%, showing nominal GDP at 5.5%.
  - Economic activity has been softening across a number of indicators, while inflation has continued to moderate again after an uptick earlier this year. The risk of recession in the next few quarters has increased.
  - The Manufacturing sector has been in contraction for 6 consecutive months, while the Services sector is hanging on to growth.
  - Employment trends including jobs available, additions to payrolls and the unemployment rate continue to incrementally soften.
  - Inflation continues to moderate amid broader rejection of high prices by consumers and businesses along supply chains.
  - The decline in oil and gas prices has contributed to a decline in headline inflation, while core has stabilized just above 2%.
  - Consumption has been bifurcated, with inflation hitting lower income earners, but has recently spread to the broader middle class.
  - It is to be seen the degree of corporate investment in AI and other technology investment amid higher interest rates and other increased cost pressures including labor and energy. Expectations remain extraordinarily high in the Tech sector.
  - Geopolitical events continue to disrupt and stress international relations and trade flows, increasing economic and market risks.

Market Outlook
September 30, 2024

- Our expectations are for a slower economic environment, including a softening labor market that will provide the opportunity for the Fed to continue to ease rates due to labor market, even though inflation may not yet reach their 2% target.
- The Fed may not ultimately cut rates as significantly as their, or market expectations suggest.
- The yield curve continues to revert to a more normal shape, moving toward its average yields since 1984. (see page 12)
- Interest rates fell significantly across the maturity spectrum; however, we feel too much in the short term, and longer term rates may move higher amid significant debt issuance due to previous fiscal packages and interest costs that will exceed $1 Trillion next year.
- The S&P 500 market index has continued higher to new records in Q3; however, the driver was "the rest" of the market rather than the small group of large cap tech stocks that have been driven by hype around artificial intelligence, which remain overvalued.
- The strong rotation from Growth to Value also brought the Dow Industrial Average to new record highs, elevating a larger set of equity valuations and suggesting extraordinary broad growth in earnings.
- The equal weighted S&P 500 outperformed the market weighted index, which we expect to continue with a greater chance of correction to highly valued Tech stocks with greater stability in Value stocks.
- Markets had moved higher on Fed rate cuts, as they have on hopes for so long, stretching valuations even more; however, this will be in the face of slowing growth in top line revenue, and narrowing profits, and are vulnerable to a fundamental let down and correction.
- Some market sectors have corrected significantly and show better value, while many stocks remain over valued. The environment is becoming more of a stock pickers market.
- Corporate earnings, while on average stronger than expected, have been bifurcated with relatively strong reactions to earnings reports and varied corporate outlooks. High profit margins in some areas were maintained as companies continued to raise prices, while others saw significant volume declines due to a rejection of higher prices. Pricing power seems to have begun to diminish.
- We expect normalization of intermediate interest rates around current to slightly higher levels, with an adjustment of P/E ratio's to lower levels, along with a reevaluation of earnings growth to bring equities to lower levels on a market weighted basis. The "equal weight" S&P 500 should outperform the "market weight" S&P 500 going forward.

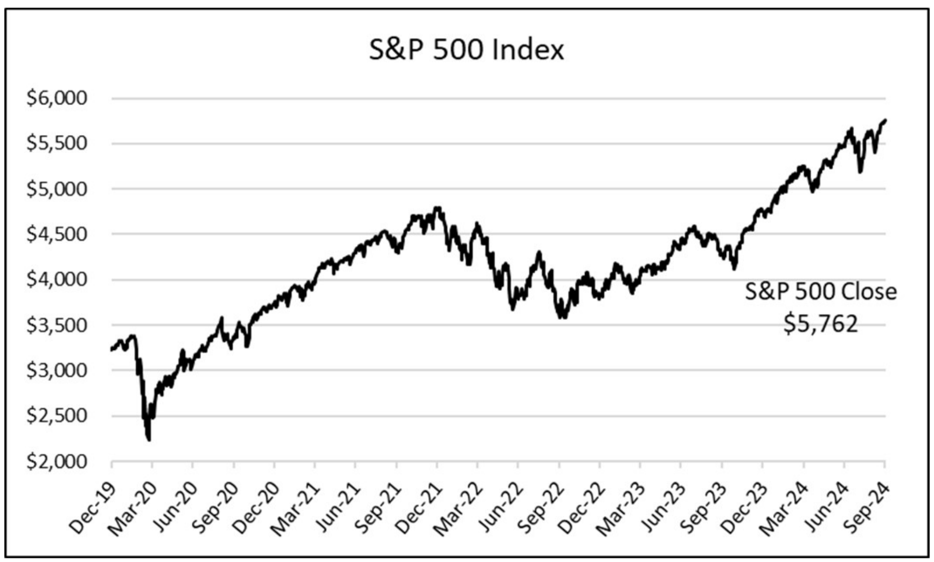
Investment Strategy
September 30, 2024

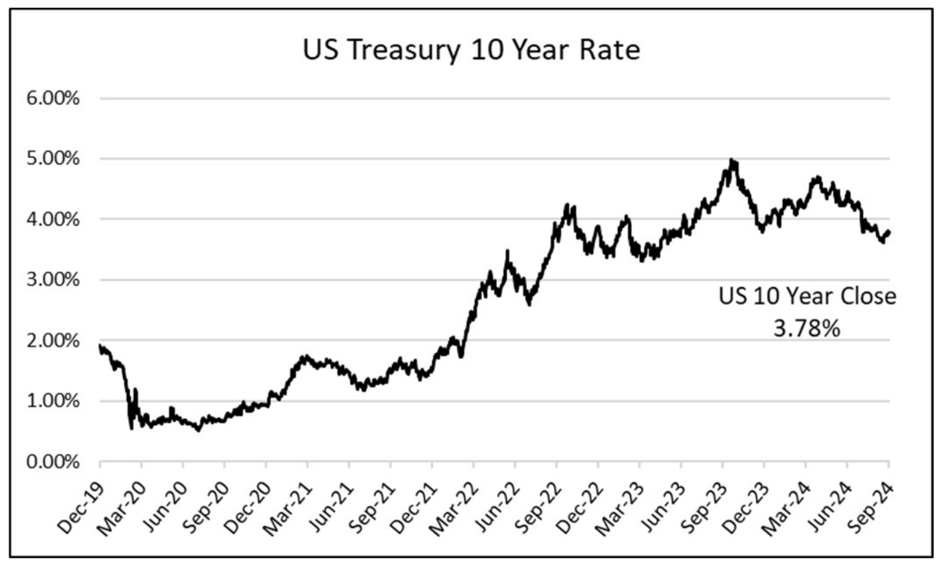
- Our fundamental economic outlook of a softening economy due to a general rejection of high prices came to fruition in Q3, which drove interest rates lower as markets priced in significant easing by the Federal Reserve.
- We had shifted our fixed income strategy last quarter from a very defensive posture to extending maturities to lock in higher rates for longer in high yields as we expect further economic slowdown and moderation of inflation would support Fed ease at long last.
- Continued short sightedness by the FOMC (Federal Open Mouth Committee) being "data dependent" and their constant contradictory communications has provided for continued volatility in interest rates.
- The recent drop in interest rates in Q3 may be pricing in an excessive amount of Fed ease, while also bringing long term rates to their lows for the year. Short term rates may have fallen too far in the short term and may be vulnerable to a move higher.
- We expect rates will establish an equilibrium with the economy early in 2025 near recent levels, and volatility will subside regardless of the Fed. Income will again dominate total returns with less volatility in price moves.
- Rate sensitive sectors such as Utilities, Real Estate and Small Cap stocks all got a boost due to lower rates and should provide a combination of income and growth to portfolio strategy going forward.
- If the economy slows materially, or growth and/or inflation reaccelerates and rate expectations reverse, markets are vulnerable…ie, they are currently priced to perfection.
- Risk premiums are low across financial assets including narrow spreads on corporate bonds to high PE's across equities, with some exceptions. Mortgages provide enhanced yield without the credit risk, while some equity sectors are undervalued.
- The overall rejection of higher prices and economic slowdown will also begin to work back high corporate profit margins and reduce growth in corporate earnings, further threatening currently high equity valuations.
- We continue to underweight our allocation to the eight rich stocks that dominate the S&P 500, aka the "Mag 7". Core holdings do include an allocation to some, but not all or as heavy, in those market leaders. Strategy does have significant technology and growth exposure, and will continue to, but more diversified, and at what we consider at a reasonable price.
- We have also increased overall equity allocation by adding to sectors that have corrected and/or show good value at lower prices, and consistent with a more "equal weighted" market exposure rather than the top heavy "market weighted" exposure.
- We have begun to add allocations to Small and Mid cap stocks, which have underperformed, and further diversified the equity strategy with small allocations to the international equity markets where appropriate.
- Geopolitical risks have continued and will continue to have consequences on the global economy and markets.

Market Review

September 30, 2024

- Bond yields fell significantly in September and in Q3 overall generating significant positive returns in the Bond market as the Federal Reserve began their easing campaign with an aggressive cut, and the bond market priced in many more additional cuts in the year ahead – perhaps too many.
- Reflective of the decline in interest rates, Equity markets saw continued rotation and broadening in participation as indices rose to new records in September. Recent leadership came from Value stocks and the equal weighted S&P 500 outpaced the Market weighted.

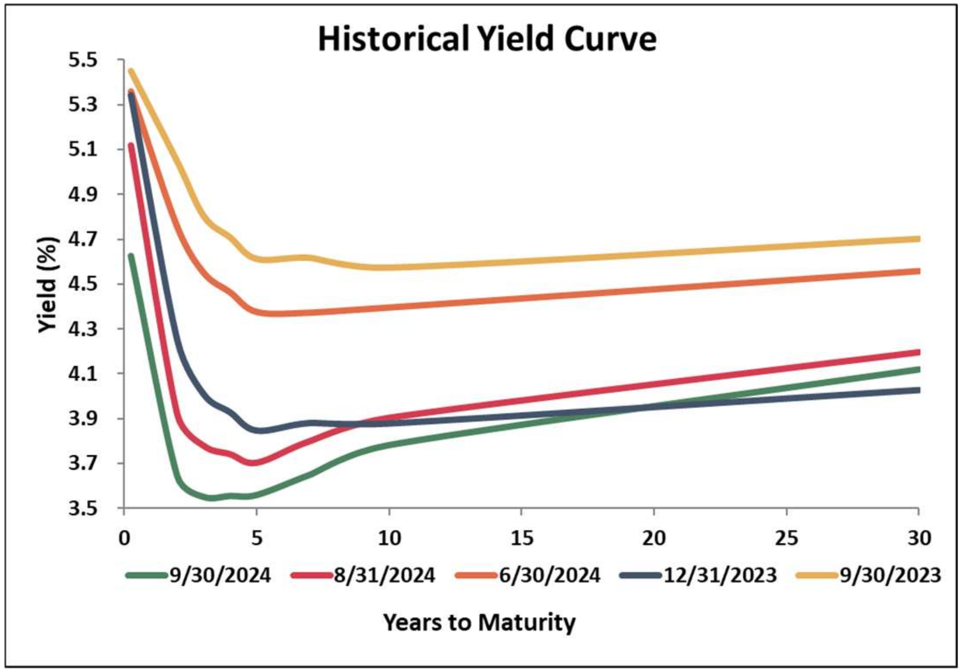


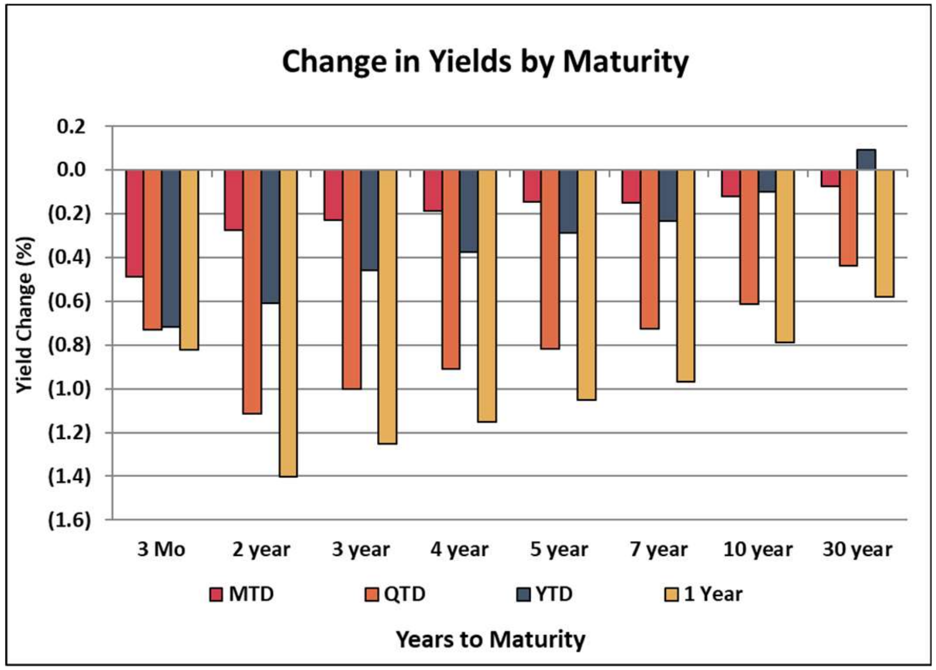


Market Review

Yield Curve – September 30, 2024

- Interest rates fell across the yield curve in Q3 to the lowest rates of the year.
- The rate drop for the quarter has been driven by short and intermediate rates, reflective of a significant increase in market expectations of Fed ease over the next year.
- The drop in rates virtually reverses the rise early in the year rise when the Fed communicated, and the markets responded to the notion of limited easing for the year. The Fed's multiple reversals of directional communications has caused markets to whipsaw and generate increased volatility.

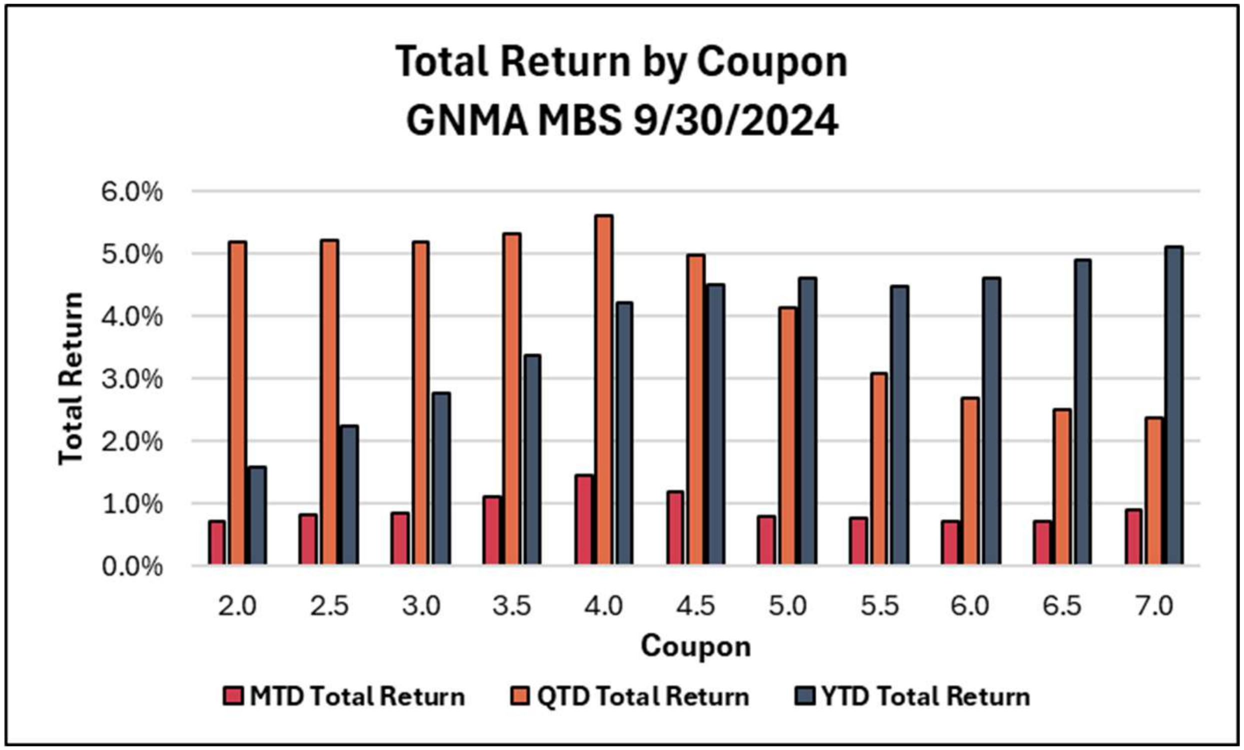




Market Review

Yield Curve – September 30, 2024

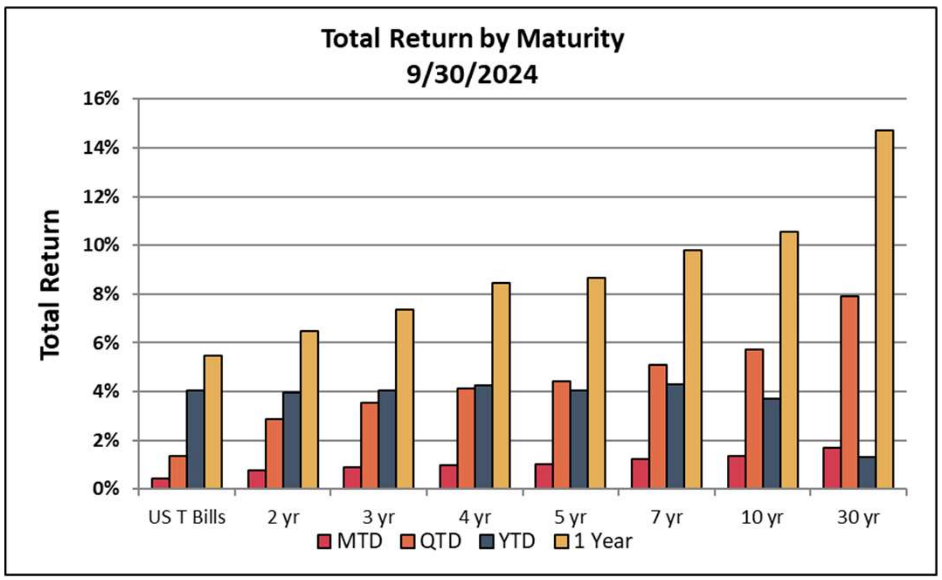
- Lower coupon mortgages are longer in duration and have generated higher returns in Q3 as interest rates have fallen, pushing prices higher.
- Higher coupon mortgages are shorter in duration (rate sensitivity) and did not participate as much in price returns in Q3; however, they have generated higher income and total return with more stability YTD.
- Prepayment rates on high coupons such as 6% and higher have picked up, but not to the detriment of total returns.

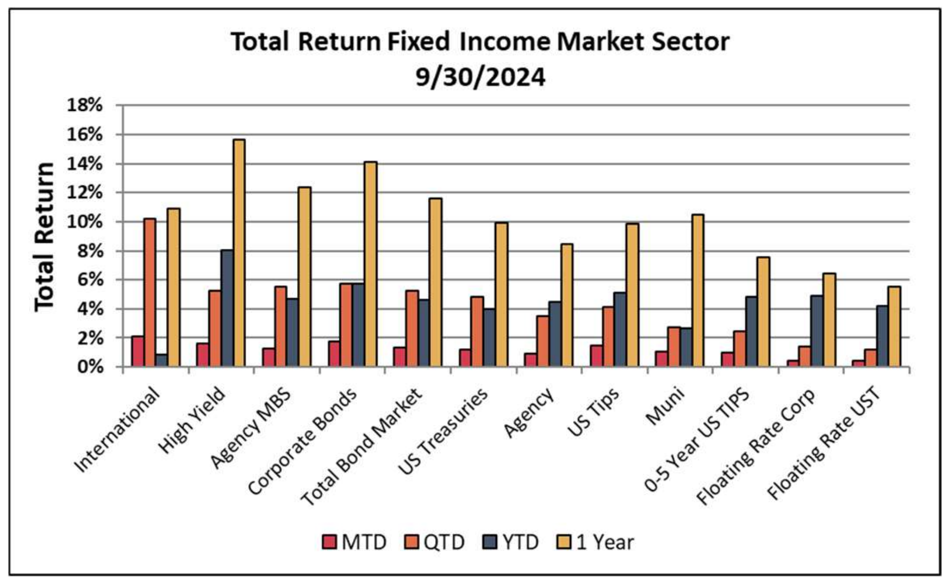


Market Review

Yield Curve – September 30, 2024

- Given the drop in yields across the curve, the longer the maturity the greater the price gain.
- Total returns have been similar across short to intermediate maturities YTD given they had the most significant drop in rates, while longer maturities still lag as rates are still higher on the year.
- The best performers for the quarter were longer duration and higher yielding sectors like Mortgage backed and Corporate bonds, while short term, floaters lagged due to limited price appreciation.
- Municipal bonds lagged as well given their richness, while international bonds gained largely due to currency appreciation vs. the dollar.

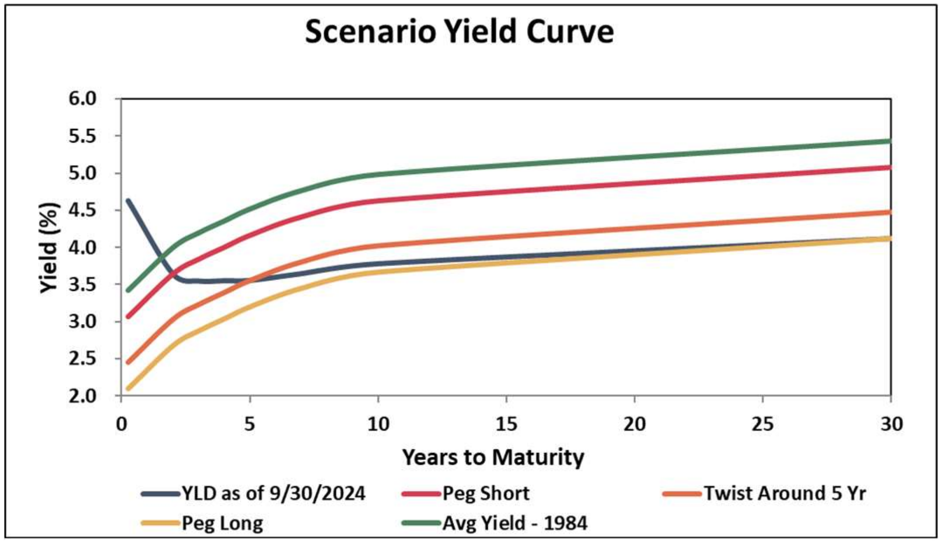


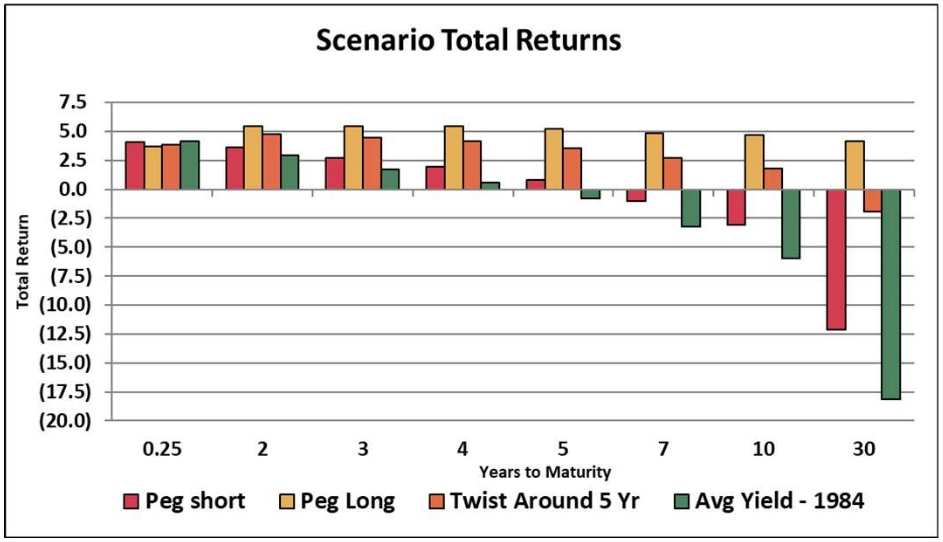


Market Review

Yield Curve – September 30, 2024

- Looking forward, the yield curve still being inverted makes shorter term maturities the most attractive place to be in a stable yield curve environment; however, those yields have begun to fall and their continued advantage is a function of the speed and degree of their decline.
- In most scenarios returning the yield curve to its long-term average slope, including returning all yields to their average levels since 1984, 2–5 year maturities are most attractive, performing best in the majority of scenarios.
- We feel that a return to average yields since 1984 is a reasonable base case scenario and that longer term bonds remain vulnerable amid significant debt issuance.

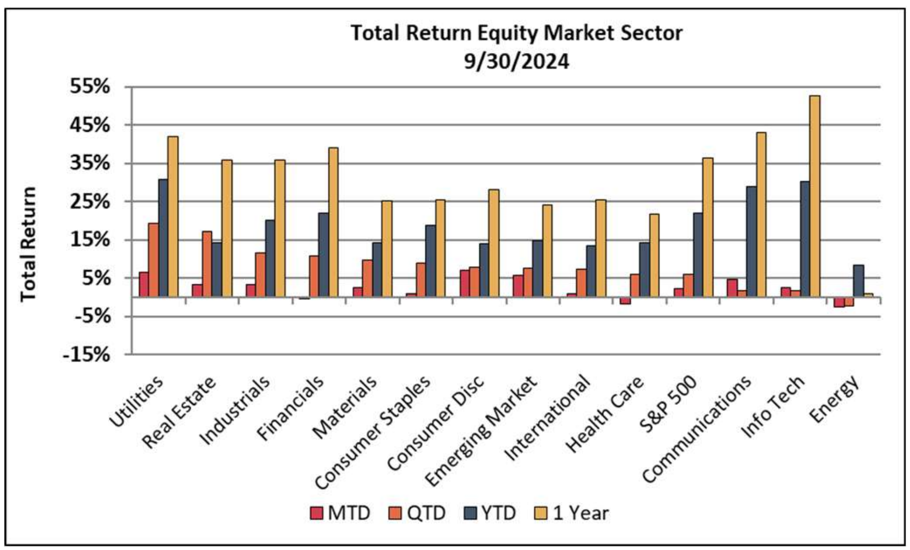


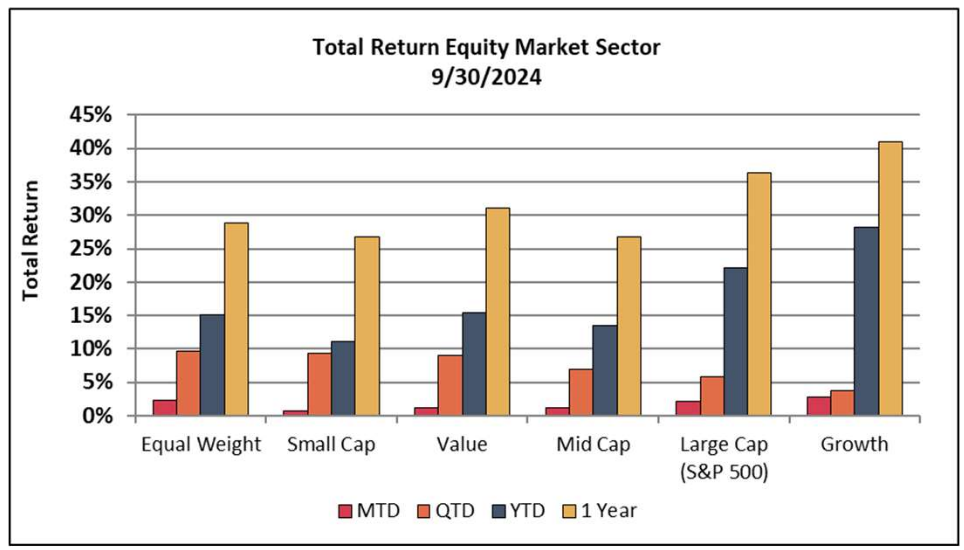


Market Review

Equity Market Returns – September 30, 2024

- Equity markets rallied in Q3 and were led by a broader group of stocks amid the fall in rates, which also gave a boost to small and mid cap stocks and other rate sensitive sectors.
- The equal weighted S&P 500 outpaced the market weighted index by a large margin given the leadership of Value stocks; however, still lag the returns of growth stocks over the past year.
- Utilities, Real Estate, and Industrials led returns in the quarter while Info Tech and Energy lagged
- The strong performance in “the rest of the market” over the recent quarter brought market valuations higher across a broader number of sectors and companies, bringing more of the market to rich valuations.
- International stocks got a boost from currency strength; however, were held back by slow economies.





The "Great 8" S&P 500 September 30, 2024

- S&P 500 returns were again swayed by the few largest stocks whose returns diverged significantly in Q3.
- These 8 stocks collectively make up over 30% of the market weighted S&P 500 index.
- The underperformance of many of these caused the S&P 500 (market weighted) index to underperform the equal weighted index in Q3 by 3.7%.
- We recently added Broadcom to the analysis as it has moved in among the largest companies.

Top 8 Holdings Vs. Rest of S&P 500 - YTD

Company	12-31-2024 % Weight in SPX	6-30-2024 % Weight in SPX	9-30-2024 % Weight in SPX	MTD % Return 9-30-2024	MTD % Contribution 9-30-2024	QTD % Return 9-30-2024	QTD % Contribution 9-30-2024	YTD % Return 9-30-2024	YTD % Contribution 9-30-2024
AAPL	7.0%	6.6%	7.3%	1.8%	0.1%	10.8%	0.7%	21.5%	1.5%
MSFT	7.0%	7.2%	6.6%	3.2%	0.2%	-3.6%	-0.3%	15.1%	1.1%
NVDA	3.1%	6.6%	6.1%	1.7%	0.1%	-1.7%	-0.1%	145.3%	4.4%
AMZN	3.4%	3.9%	3.6%	4.4%	0.2%	-3.6%	-0.1%	22.6%	0.8%
META	2.0%	2.4%	2.6%	9.9%	0.2%	13.6%	0.3%	62.2%	1.2%
GOOGL	2.1%	2.3%	2.0%	1.7%	0.0%	-8.8%	-0.2%	19.0%	0.4%
GOOG	1.8%	2.0%	1.7%	1.4%	0.0%	-8.7%	-0.2%	18.9%	0.3%
AVGO	1.2%	1.5%	1.7%	6.3%	0.1%	7.8%	0.1%	56.2%	0.7%
TSLA	1.7%	1.2%	1.5%	22.2%	0.3%	32.2%	0.4%	5.3%	0.1%
Top 8 of SPX	**29.2%**	**33.8%**	**32.9%**	**3.9%**	**1.3%**	**2.0%**	**0.7%**	**35.9%**	**10.5%**
Rest of SPX	**70.8%**	**66.2%**	**67.1%**	**1.3%**	**0.9%**	**7.8%**	**5.2%**	**16.4%**	**11.6%**
Total	100.0%	100.0%	100.0%	2.1%	2.1%	5.9%	5.9%	22.1%	22.1%
SPW Returns				**2.3%**		**9.6%**		15.2%	

Market Scoreboard

September 30, 2024

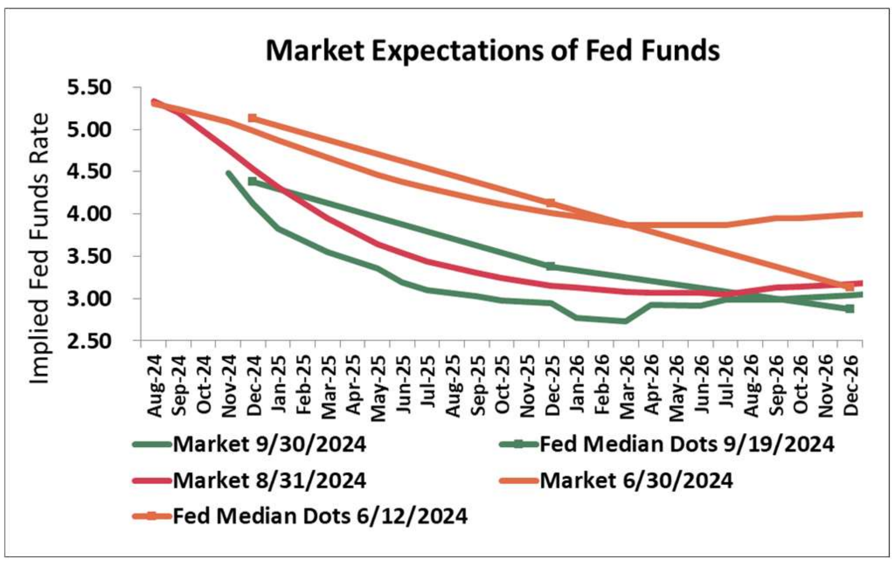
Market Summary - September 30th, 2024					
Bond Market	**MTD**	**QTD**	**YTD**	**1 Year**	**Yield**
Total Bond Market	1.3%	5.2%	4.6%	11.6%	4.2%
US Treasuries	1.2%	4.8%	4.0%	9.9%	3.8%
US MBS Index	1.2%	5.5%	4.7%	12.4%	4.5%
Corporate Bonds	1.7%	5.7%	5.8%	14.1%	4.8%
High Yield Corporates	1.6%	5.3%	8.0%	15.7%	6.7%
US TIPS (Inflation Prot.)	1.5%	4.2%	5.1%	9.8%	5.9%
Merrill Muni Index	1.1%	2.7%	2.7%	10.5%	3.0%
Floating Rate Corp	0.5%	1.4%	4.9%	6.5%	5.7%
International Bonds	2.1%	10.2%	0.8%	10.9%	2.2%
Commodities/Other	**MTD**	**QTD**	**YTD**	**1 Year**	**End Value**
Gold	5.2%	13.2%	27.7%	44.1%	2,635
Dollar Index	-0.9%	-4.8%	-0.5%	-5.7%	101
Oil (WTI)	-6.2%	-13.7%	-3.5%	-12.6%	68

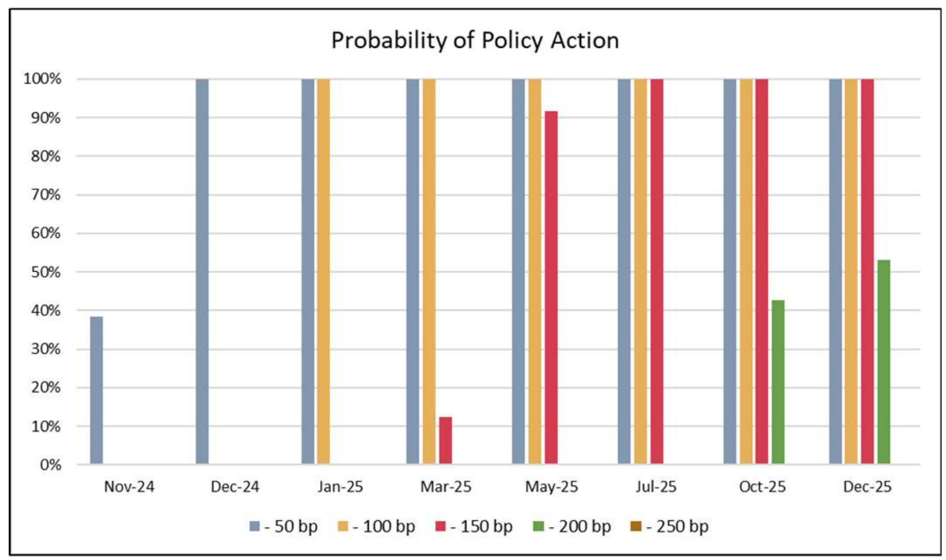
Market Summary - September 30th, 2024					
Stock Market Indices	**MTD**	**QTD**	**YTD**	**1 Year**	**End Value**
DOW Jones Avg.	2.0%	8.7%	13.9%	28.8%	42,330
NASDAQ Composite	2.8%	2.8%	21.8%	38.7%	18,189
Large Cap Core (S&P 500)	2.1%	5.9%	22.1%	36.3%	5,762
Large Cap Growth	2.8%	3.7%	28.1%	41.1%	3,864
Large Cap Value	1.1%	9.1%	15.4%	31.1%	1,948
Mid Cap Core	1.2%	6.9%	13.5%	26.8%	3,122
Mid Cap Growth	1.1%	4.6%	16.9%	28.5%	1,492
Mid Cap Value	1.2%	9.5%	10.0%	25.0%	992
Small Cap Core	0.7%	9.3%	11.2%	26.7%	2,230
Small Cap Growth	1.3%	8.4%	13.2%	27.7%	10,606
Small Cap Value	0.1%	10.2%	9.2%	25.9%	17,758
Europe	1.9%	7.4%	13.0%	27.4%	516
England	0.6%	7.9%	15.3%	23.3%	8,237
Japan	0.8%	8.4%	13.2%	26.4%	37,920
Shanghi 300	22.4%	22.0%	21.7%	16.6%	4,018
International	0.9%	7.3%	13.4%	25.3%	2,469
MSCI China	23.9%	23.5%	29.3%	23.9%	550
Emerging Markets	5.7%	7.7%	14.8%	24.0%	46

Market Review

Monetary/Fed Policy – September 2024

- At the September Fed meeting, the Fed began its easing campaign with an aggressive 50 bp cut in rates with a pledge to do more, another dramatic shift from mid year.
- Median Fed expectations are for another 50bp by year end, while the market expectations are for another 75bp by year end. The fed projects an additional 100bp in 2025, while the market expects 150.
- Monetary policy expectations have swung in both directions all year as the Fed has gotten whipsawed by short term swings in economic data.
- Our expectations are for less easing than the Fed or Markets expect.





Market Review

Monetary/Fed Policy – September 2024

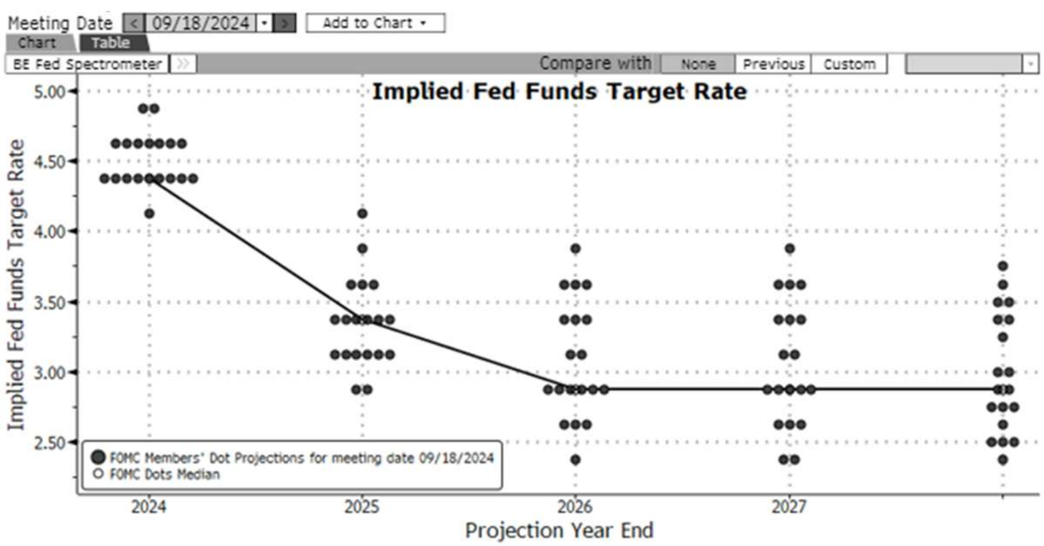
Federal Reserve Median Economic Projections As of 9/18/2024						
Change in GDP	**Actual**	**2024**	**2025**	**2026**	**2027**	**Longer Run**
September 2024 Projection		2.0	2.0	2.0	2.0	1.8
June 2024 Projection		2.1	2.0	2.0	2.0	1.8
March 2024 Projection		2.1	2.0	2.0	2.0	1.8
Actual Q2 2024	**3.0%**					
Unemployment Rate						
September 2024 Projection		4.4	4.4	4.3	4.2	4.2
June 2024 Projection		4.0	4.2	4.1	4.1	4.2
March 2024 Projection		4.0	4.1	4.0	4.0	4.1
Actual August 2024	**4.2%**					
PCE Inflation						
September 2024 Projection		2.3	2.1	2.0	2.0	2.0
June 2024 Projection		2.6	2.3	2.0	2.0	2.0
March 2024 Projection		2.4	2.2	2.0	2.0	2.0
Actual July 2024	**2.5%**					
Core PCE Inflation						
September 2024 Projection		2.6	2.2	2.0	2.0	
June 2024 Projection		2.8	2.3	2.0	2.0	
March 2024 Projection		2.6	2.2	2.0	2.0	
Actual May 2024	**2.6%**					
Projected Policy Path- Fed Funds						
September 2024 Projection		4.4	3.4	2.9	2.9	2.9
June 2024 Projection		5.1	4.1	3.1	3.1	2.8
Actual September 2024	4.9%					

- The Fed reversed course again by lowering its terminal 2024 expected rate after raising it just 3 months ago, and reducing it just 3 months before that.
- Fed Expectations are now for 4.375 rate at year end vs previous expectations of a 5.125% rate at year end.
- The Fed continues to chase reality in their economic projections, decreasing economic activity, employment, and inflation to reflect recent data.
- Economic data have begun to shift counter to the direction of Fed forecasts, as real data has been stronger again.
- Just after governors broadcast their new higher for longer policy, fundamentals turned to suggest more easing may be appropriate.
- The September meeting had one dissenting opinion to cut less, by only 25bp rather than 50bp.

Market Review

Monetary Policy – September 2024

- The Feds Dot Plot shows all Fed Governors thoughts on where rates will be at each time period, with the median showing a move back to lower levels with a wide dispersion of opinion.
- The Fed never achieved previously expected terminal rate of 5.625% for 2023, and moved terminal rate for 2024 down to 4.625%, back up to 5.125, and now back down to 4.375 to end 2024.
- The opinions across the Fed board have become divergent with some declaring a soft-landing mission accomplished, some fearing risk of recession, and some fearing much more work is needed to conquer inflation.
- Market inflation expectations have fallen back below 2% as implied by 2 year TIPS, and slightly over for 5 and 10 years, pricing in close to the Feds ultimate objective of 2%.



Current Fed Funds Rate
4.83

10 Year Tip	10 Year UST	Implied Inflation Premium
1.59	3.78	**2.19**

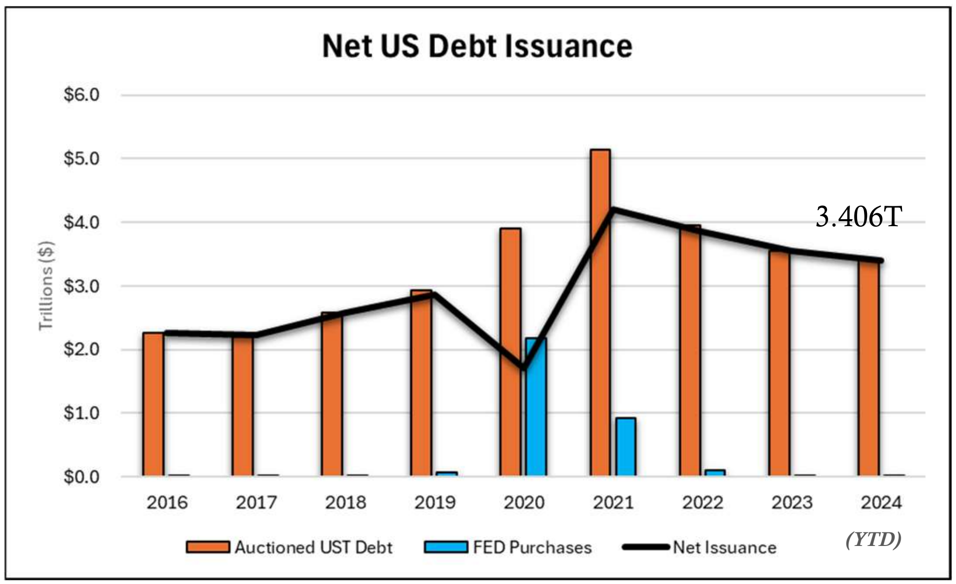
5 Year Tip	5 Year UST	Implied Inflation Premium
1.47	3.56	**2.09**

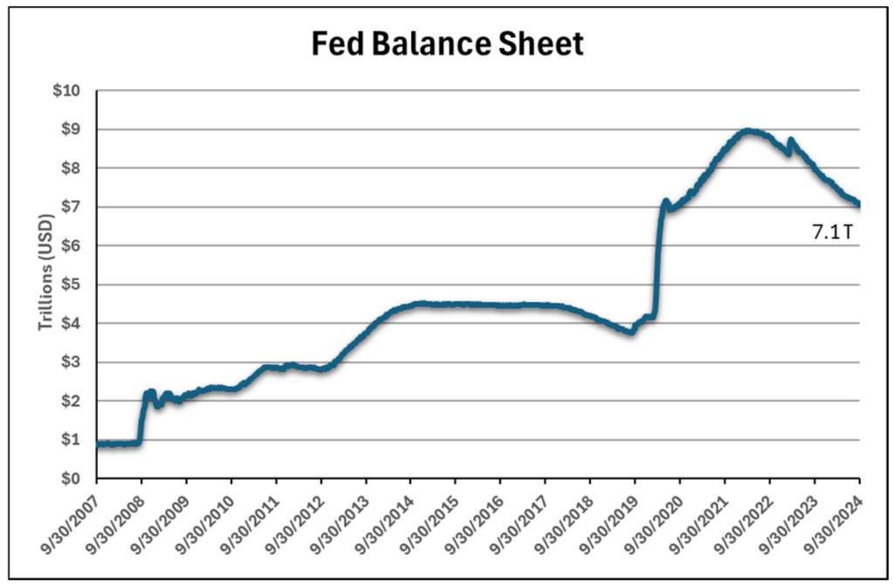
2 Year Tip	2 Year UST	Implied Inflation Premium
1.96	3.64	**1.68**

Market Review

Treasury & Fed – September 2024

- The US Treasury has auctioned off around $3.5 Trillion in Debt in 2023, and is on pace to do it again in 2024.
- The Federal Reserve has continued to work down its balance sheet, reducing previous quantitative easing, but has much further to go.
- The Fed still owns over 7 Trillion in US Debt.
- The Fed will not be buying additional debt as they unwind Quantitative Easing; however, they recently discussed limiting run off of the portfolio – another potential policy error.

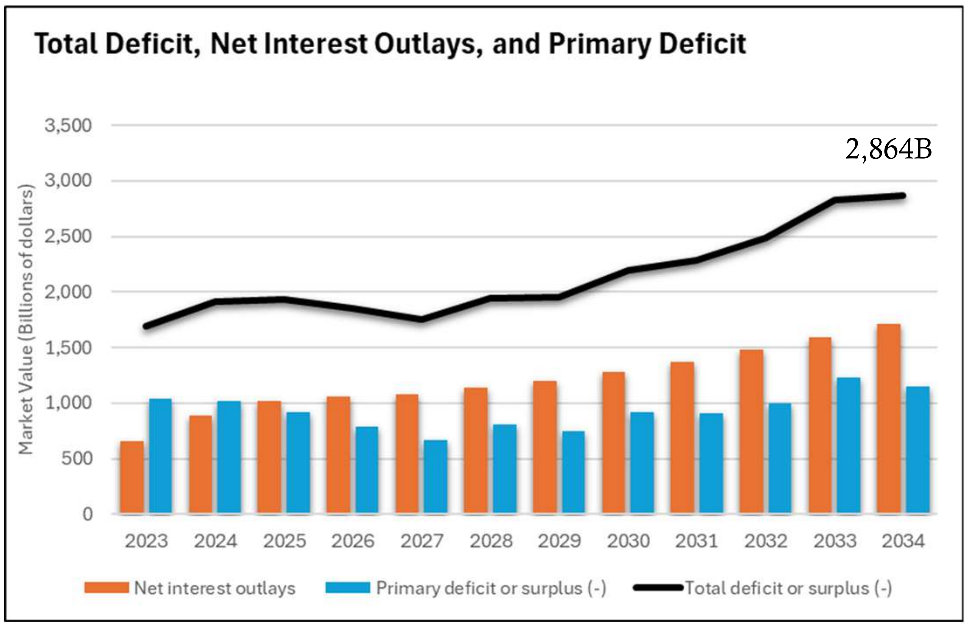


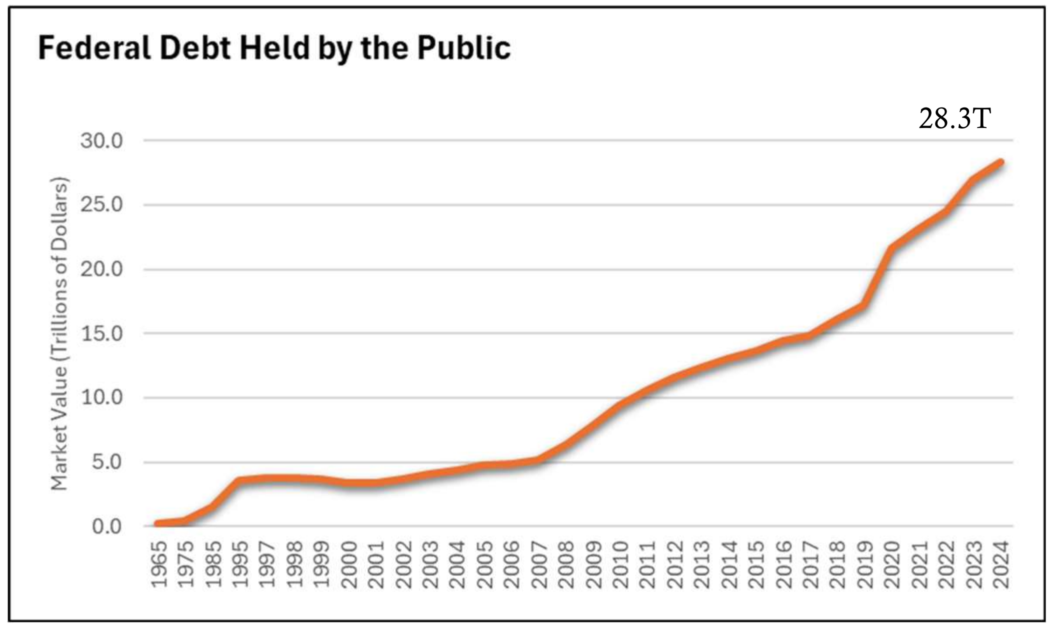


Market Review

Treasury & Fed – September 2024

- The Federal Reserve sets monetary policy, which influences short term interest rates.
- Longer term interest rates may be influenced by Government debt issuance and investors willingness to lend money.
- The Federal budget deficit per the Congressional Budget Office is projected to significantly increase moving forward, with interest costs alone exceeding $1 trillion.



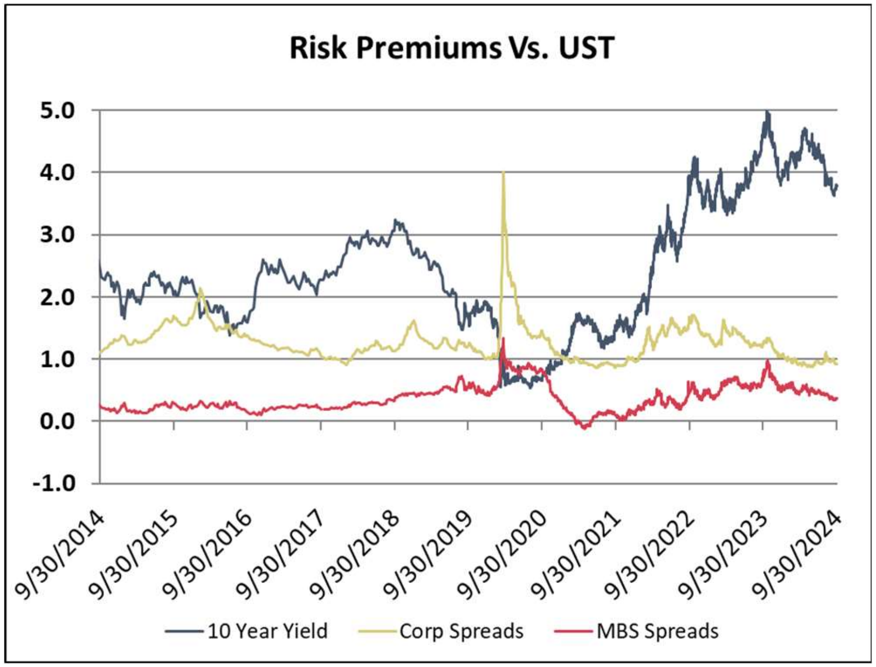


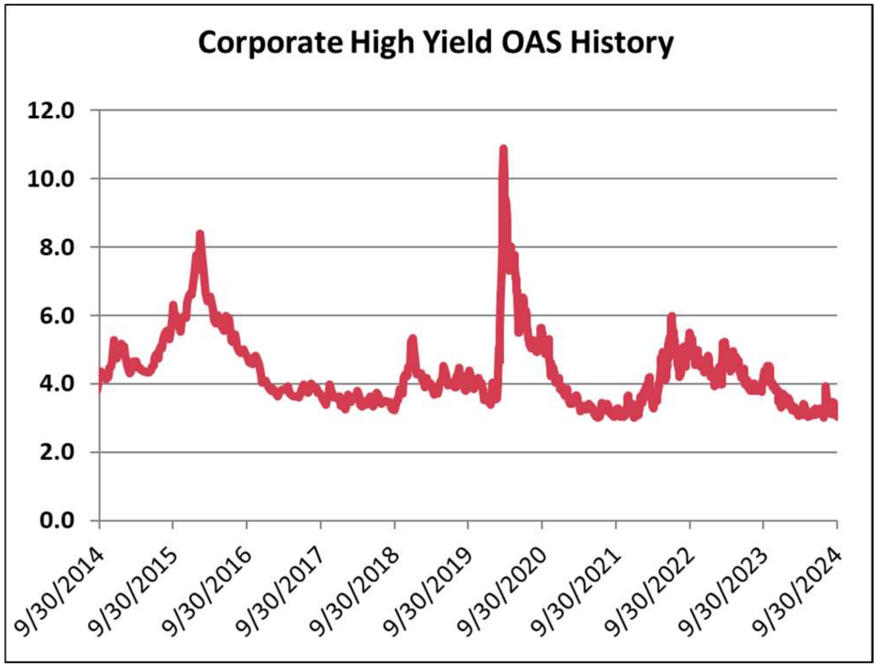
Source: Congressional Budget Office

Market Review

Yield Spreads – September 2024

- While Treasury rates have leveled off and equity prices rose, corporate bond risk premiums tightened near historic lows. Economic fundamentals have recently softened.
- Corporate credit conditions have been strong; however, higher rates, slower overall economic activity, and tighter earnings margins may begin to put pressure on companies with higher debt levels.
- Mortgage-backed securities also tightened but may be more stable going forward given lack of credit risk.





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Market Review

S&P 500 Earnings – September 2024

- Headline earnings grew 6.42% year-over-year for the last twelve months, and 4.66% comparing 2Q 2024 to 2Q 2023.
- The S&P 500 is trading at 24.38 times trailing earnings (actual earnings reported), above long-term historical averages by ever increasing margins.
- Earnings are expected to grow by 12.58% over the next twelve months based on current consensus.
- The S&P 500 is trading at 21.65 times forward earnings (expected earnings in 12 months), above long-term historical averages.
- Analysts have historically overestimated forward earnings by about 6.9%, and at the current forward P/E, if earnings were only 5.68% growth the S&P 500 would trade at $5,409, and lower at historical averages
- 10.58% accounts for the average overestimation of earnings excluding extraordinary events (9/11 attacks, 2008/2009 financial crisis, 2020 Covid-19 pandemic)
- 33.9% is the earnings growth rate needed to return to the 10-year average P/E multiple at the current index price

S&P 500 Index

Headline EPS Blended Trailing		
LTM YoY Growth	6.42%	$236.39
3Q 2024 YoY Growth	4.66%	$60.12
P/E Matrix	P/E	SPX Price
9/30/2024	**24.38**	**$5,762**
5 Year Average	21.46	$5,073
10 Year Average	19.73	$4,664
15 Year Average	18.07	$4,272
20 Year Average	17.41	$4,115

S&P 500 Index

Headline EPS Blended Forward					
Est. YoY Growth		33.90%	**12.58%**	10.58%	5.68%
Est. EPS		$316.53	**$266.12**	$261.39	$249.80
P/E Matrix	P/E	SPX Price			
9/30/2024	**21.65**	$6,854	**$5,762**	$5,660	$5,409
5 Year Average	19.61	$6,209	$5,220	$5,127	$4,900
10 Year Average	18.20	**$5,762**	$4,844	$4,758	$4,547
15 Year Average	16.55	$5,239	$4,404	$4,326	$4,134
20 Year Average	15.93	$5,042	$4,239	$4,164	$3,979

Market Review

S&P 500 Equal Weight Earnings – September 2024

- Headline earnings grew 4.97% year-over-year for the last twelve months
- The SPW is now trading at 18.46 times trailing earnings (actual earnings reported), now above long-term historical averages
- Earnings are expected to grow by 7.11% over the next twelve months based on current consensus.
- The S&P 500 is trading at 17.24 times forward earnings (expected earnings in 12 months), below the 5 and 10-year averages, but slightly above the 15-year average.
- 1.42% is the earnings growth rate needed to return to the 10-year average P/E multiple at the current index price

S&P 500 Equal Weight Index

Headline EPS Blended Trailing		
LTM YoY Growth	4.97%	$393.73
3Q 2024 YoY Growth	1.48%	$92.80
P/E Matrix	P/E	SPW Price
5 Year Average	18.84	$7,417
9/30/2024	**18.46**	**$7,269**
10 Year Average	18.09	$7,124
15 Year Average	17.27	$6,798

S&P 500 Equal Weight Index

Headline EPS Blended Forward					
Est. YoY Growth		1.42%	**7.11%**	5.11%	0.21%
Est. EPS		$399.32	**$421.73**	$413.85	$394.56
P/E Matrix	P/E	SPW Price			
5 Year Average	19.61	$7,832	$8,272	$8,118	$7,739
10 Year Average	18.20	**$7,269**	$7,677	$7,534	$7,182
9/30/2024	**17.24**	$6,883	**$7,269**	$7,134	$6,801
15 Year Average	15.76	$6,292	$6,645	$6,521	$6,217

Market Review

S&P 400 and S&P 600 Earnings – September 2024

- Midcap earnings shrank -1.35% year-over-year over the last twelve months (LTM).
- Midcap earnings are expected to grow 11.91% over the next twelve months.
- Midcap P/Es are trading below long-term historical averages.
- Small-cap earnings shrank -2.5% over the last twelve months.
- Small-cap earnings are expected to grow 14.95% over the next twelve months.
- Small-cap P/Es are trading below long-term historical averages.

S&P Midcap 400 Index

Headline EPS Blended Trailing		
LTM YoY Growth	-1.35%	$176.42
3Q 2024 YoY Growth	-7.35%	$44.88
P/E Matrix	P/E	SPX Price
10 Year Average	17.92	$3,161
15 Year Average	17.89	$3,157
9/30/2024	**17.70**	**$3,122**
20 Year Average	17.51	$3,089
5 Year Average	17.29	$3,049

S&P Midcap 400 Index

Headline EPS Blended Forward		
Est. YoY Growth		11.91%
Est. EPS		$197.43
P/E Matrix	P/E	SPX Price
10 Year Average	16.26	$3,211
15 Year Average	15.96	$3,151
9/30/2024	**15.81**	**$3,122**
5 Year Average	15.60	$3,079
20 Year Average	15.49	$3,059

S&P Smallcap 600 Index

Headline EPS Blended Trailing		
LTM YoY Growth	-2.50%	$81.24
3Q 2024 YoY Growth	-4.97%	$22.09
P/E Matrix	P/E	SPX Price
15 Year Average	19.34	$1,571
10 Year Average	19.20	$1,560
20 Year Average	18.47	$1,500
5 Year Average	18.18	$1,477
9/30/2024	**17.50**	**$1,422**

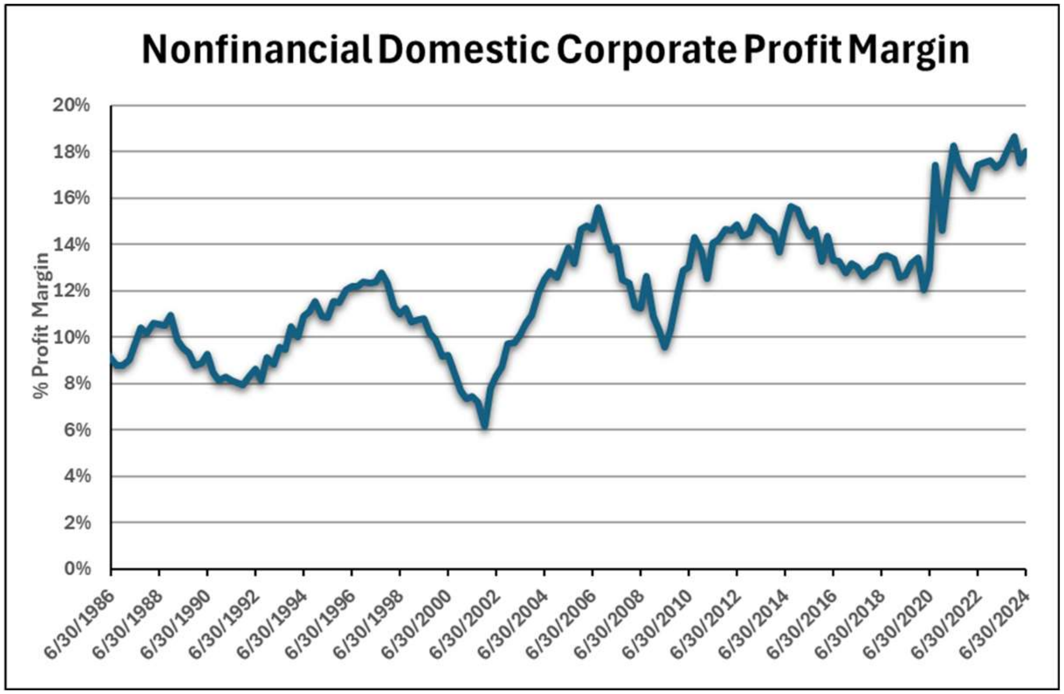
S&P Smallcap 600 Index

Headline EPS Blended Forward		
Est. YoY Growth		14.95%
Est. EPS		$93.39
P/E Matrix	P/E	SPX Price
10 Year Average	16.41	$1,533
15 Year Average	16.27	$1,520
20 Year Average	15.85	$1,481
5 Year Average	15.23	$1,422
9/30/2024	**15.23**	**$1,422**

Market Environment

September 30, 2024

- Corporate profits have continued to climb on the back of continued pricing power by corporations.
- Corporate profit margins remain at historically high levels.
- Recent reports of lower volumes and changes in consumer behavior suggest margins may normalize or begin to get squeezed in the near future.

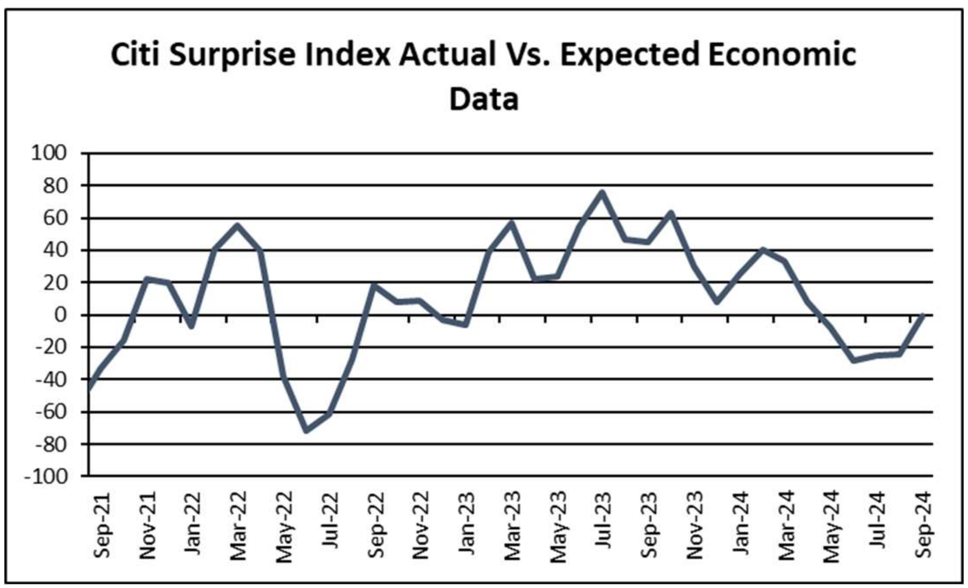


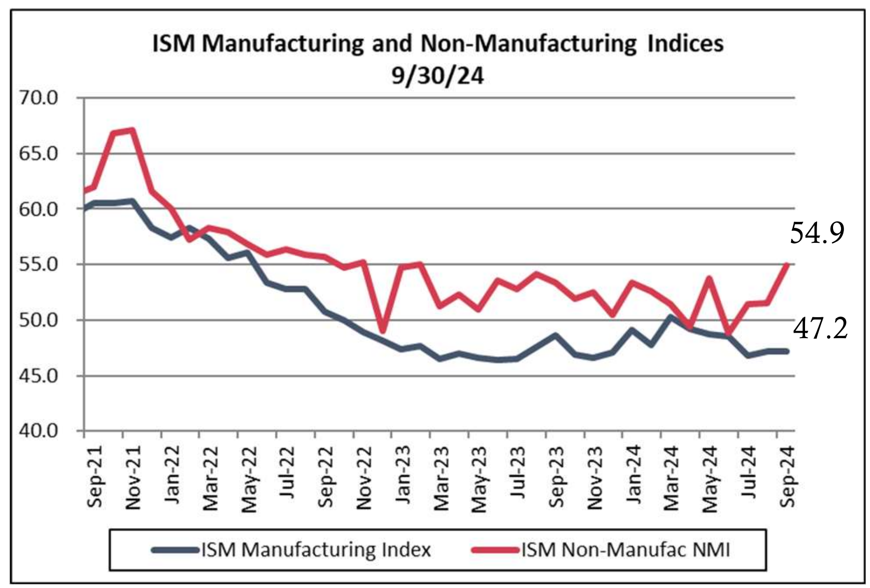
Source: BEA

Economic Environment

September 30, 2024

- The Citi Surprise index turned negative, but has recently normalized toward expectations.
- Economic activity has been solid amid continued steady employment gains and rising wages but has moderated considerably recently.
- The Manufacturing sector has been sluggish, with the ISM Manufacturing dipping below the 50 level that suggests expansion/contraction, while the Services index has reaccelerated.

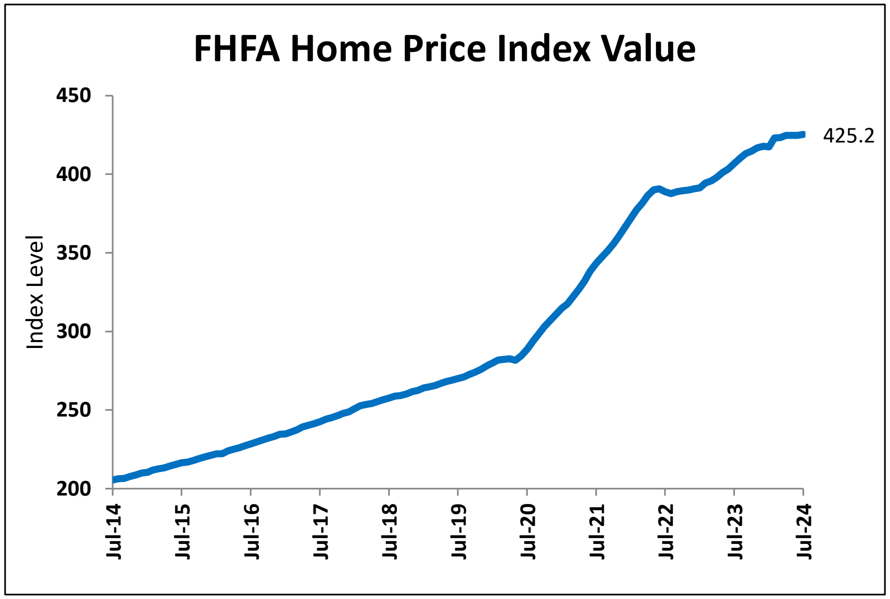


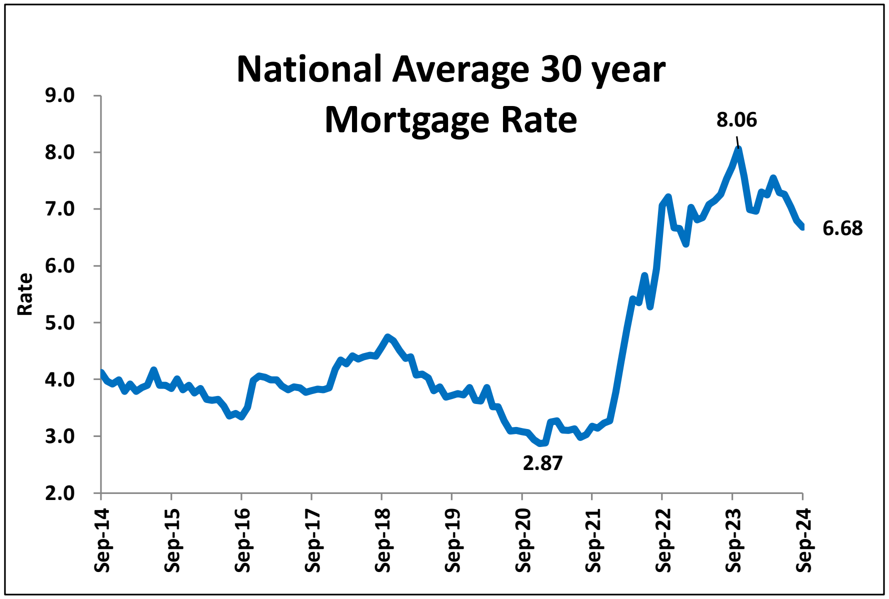


Economic Environment

September 30, 2024

- Home prices in August as reported by National Association of Realtors were $416,700, a dip from the all time high in June at $429,900, but an increase of 3.1% from a year ago.
- The continued rise in home prices has occurred throughout the higher rate environment, including when rates topped 8%, and has continued its price rise, albeit at a slower pace with mortgage rates dipping below 7%.
- Higher prices are having a significant impact on continued higher than expected inflation, and slower home sales even with rates declining.



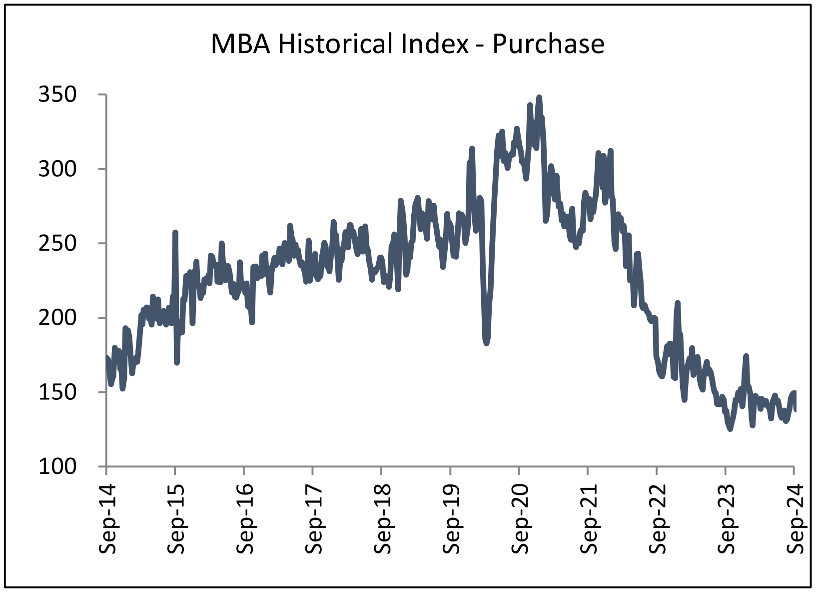


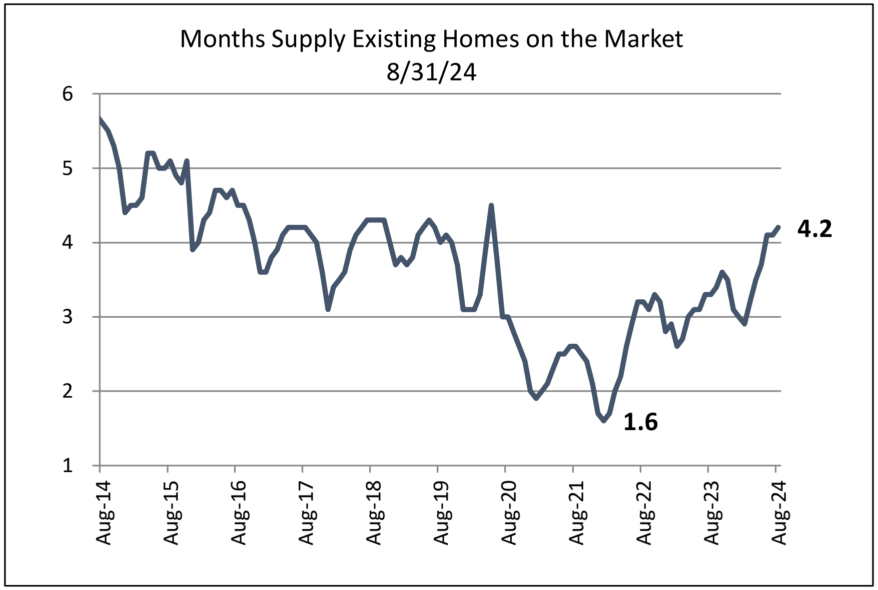
Economic Environment

September 30, 2024

- **Housing**
  - The moderation in home price increases and recent drop in rates has not yet inspired home purchase activity, as prices remain near all time highs. Builders have been offering incentives such as mortgage rate buy downs to try to spur sales.

  - As a result, supply of homes on the market has increased recently to 4.2 months from a low of below 2 months one year ago toward a more normal level. Existing home owners had been unwilling to give up on their low current mortgage rates.





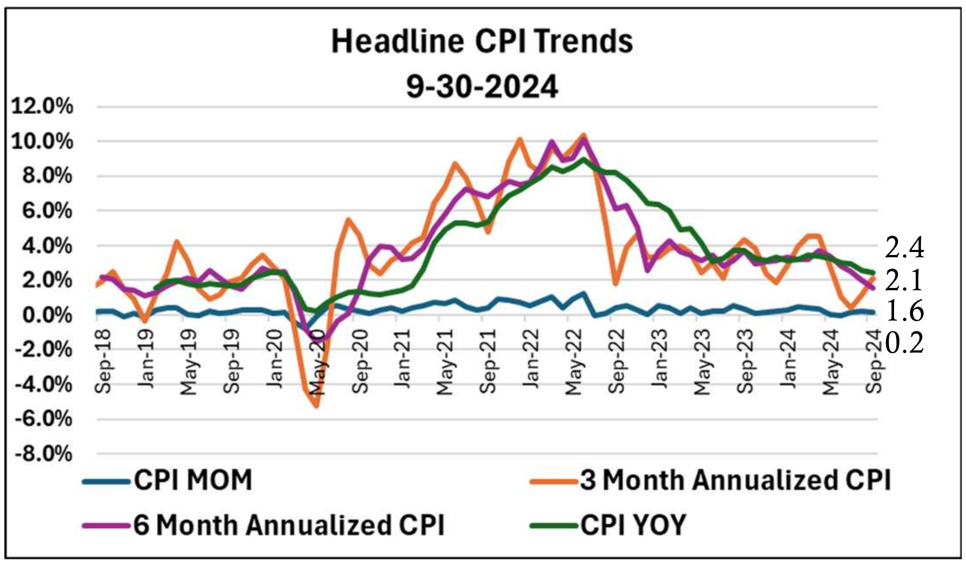
Economic Environment

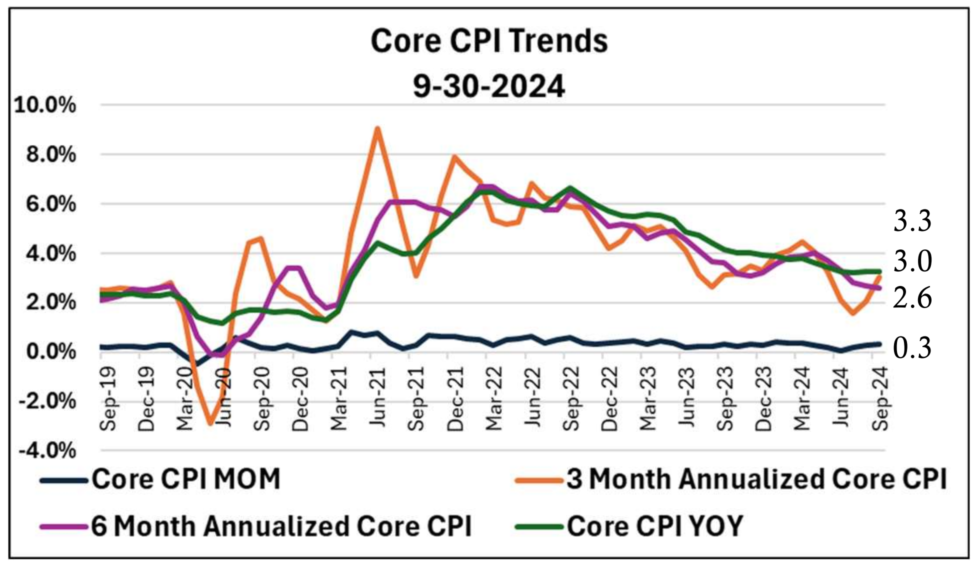
September 2024

- Inflation has continued to moderate with the one year and 6 month readings migrating toward the Fed's 2% target, while the 3 month annualized has bounced after a significant drop.

- The decline has been significantly influenced by the drop in energy prices, as the core CPI has also continued to moderate, but not as significantly as housing and services remain high.

- The Fed's inflation target remains at 2%, and the Fed had been expressing success in working toward their target with a mission accomplished message and again reversed course into an easing mode.

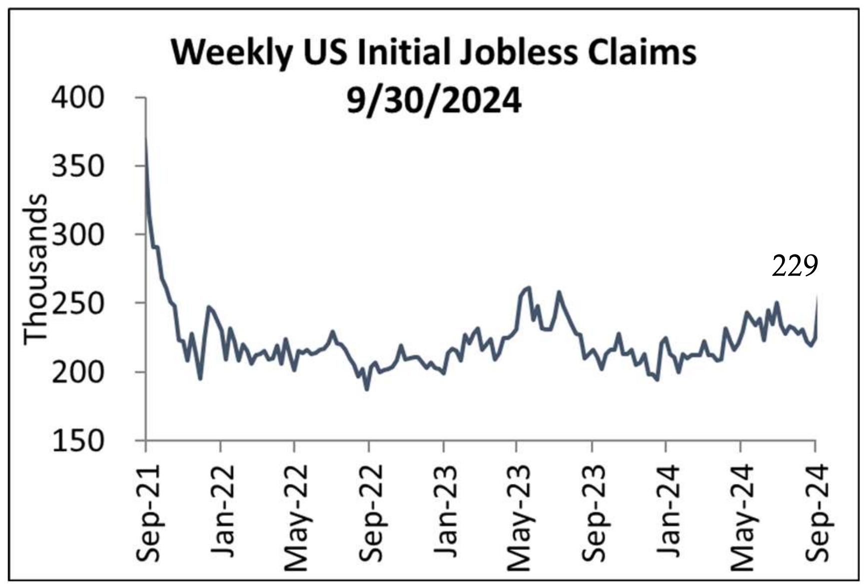




Economic Environment

September 30, 2024

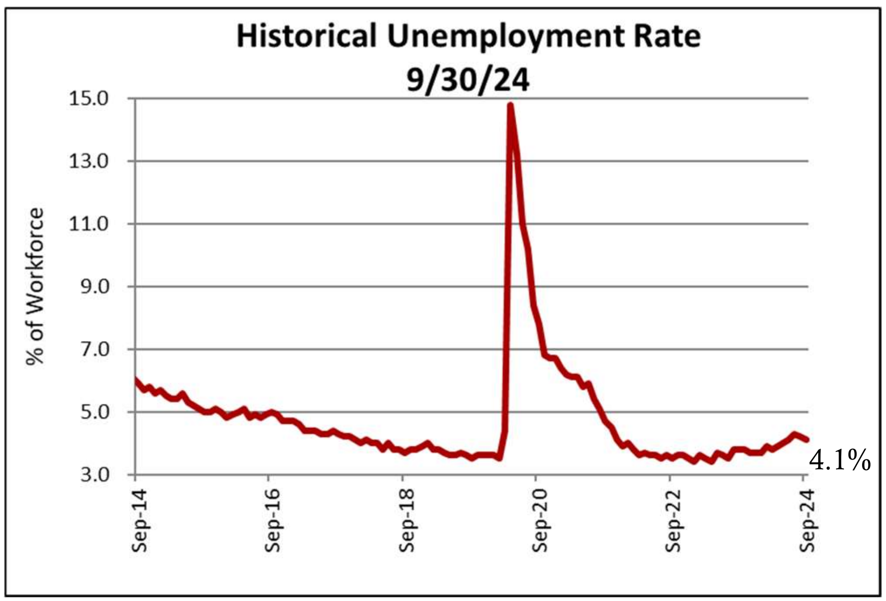
- Job openings have declined below the 8 million mark before bouncing last month.
- The number of people leaving their jobs voluntarily, the quits rate, has been steadily declining.
- Continued rising wages and rejection of higher prices is cooling the employment environment, and we expect layoffs to begin to flow through via rising unemployment claims, however that has not yet materialized.

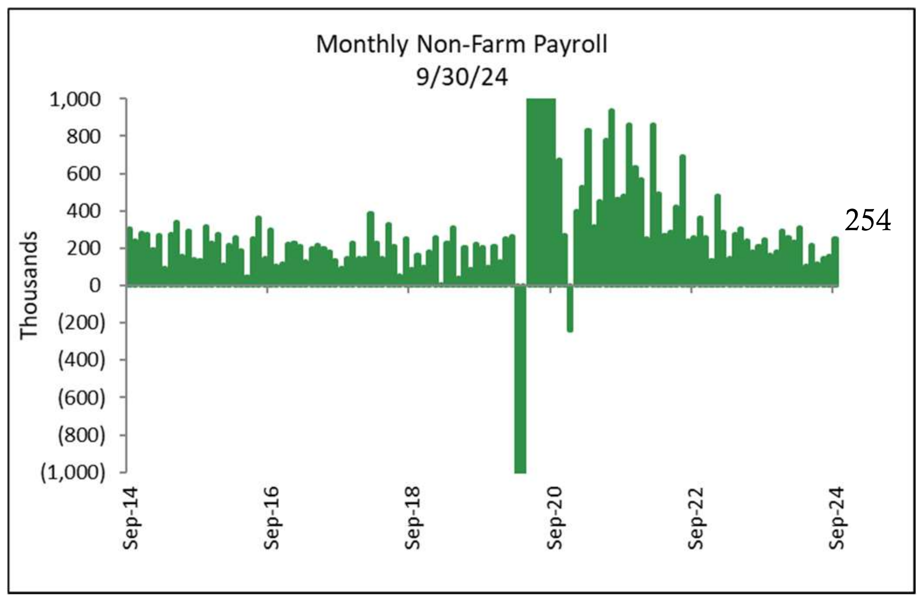


Economic Environment

Employment – Monthly Payrolls – September 2024

- The unemployment rate has ticked back down to 4.1% from 4.2% as demand for labor has cooled and the labor force participation rate rises.
- Monthly payrolls additions continue at moderate levels after a recent dip, but recently posted stronger levels than expectations, unnerving markets and putting Fed expectations in question.
- Jobs are primarily being filled in government, health care, and services sectors, while layoffs continue in technology, and have spread to some other cyclical economic sectors, while new jobs are getting harder to find.

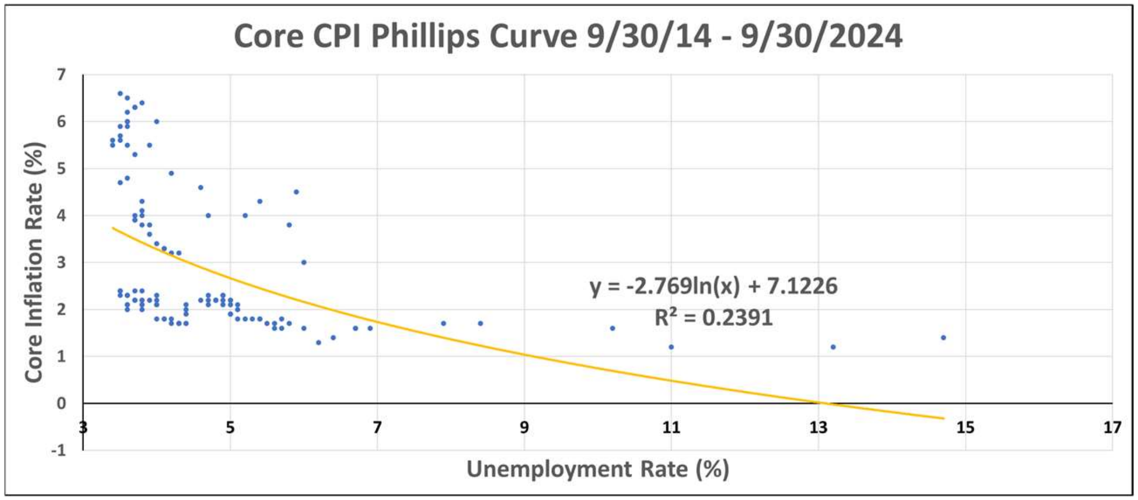


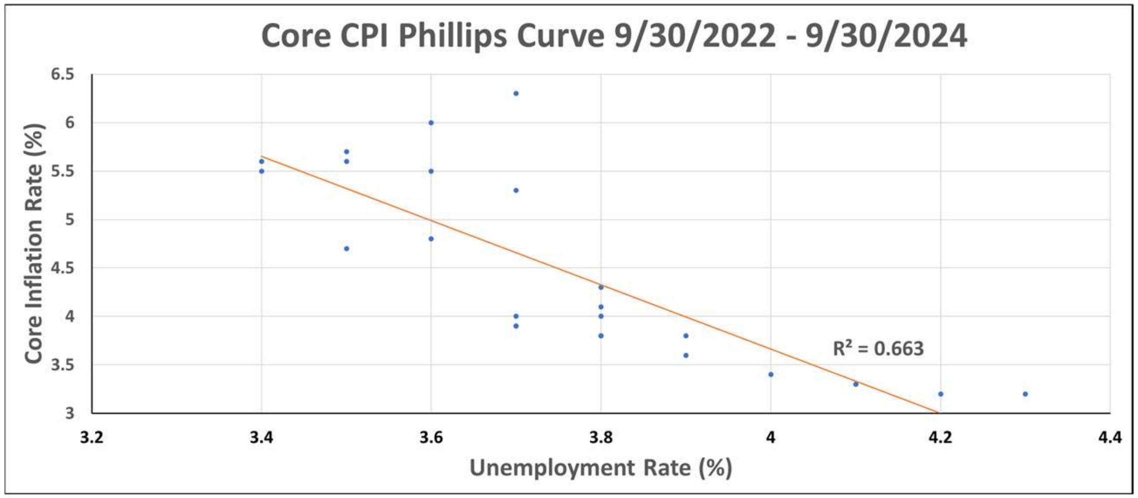


Economic Environment

Employment and Inflation – September 2024

- In the last three years, the Phillips Curve has re-emerged.
- Inflation has workers demanding higher wages, and demand for labor has employers paying more to retain and hire workers, which in turn, increases costs and the need to raise prices.
- The strong demand for labor provided for continued job switching for higher wages, as workers seek to offset higher costs of living; however recently, the “quits” rate has declined.

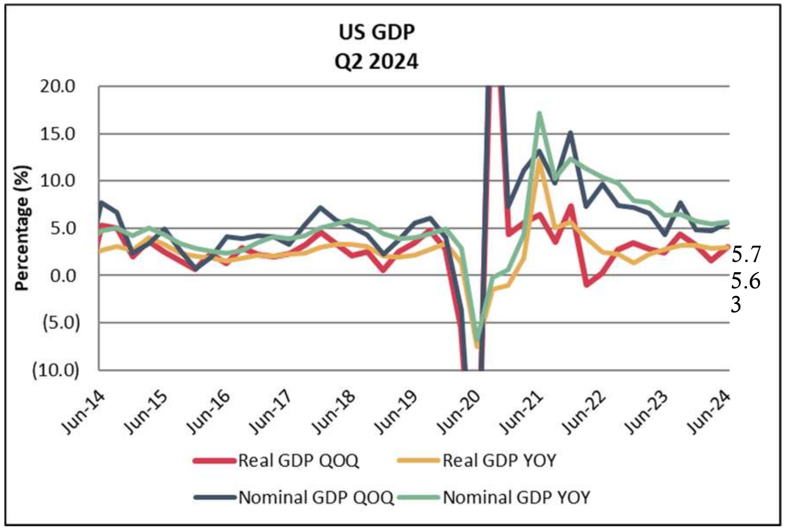




Economic Environment

September 2024

- US Nominal and Real GDP remains firm, driven by service consumption and government spending.
- Global economic activity has slowed, with some areas such as Europe and Japan at or near recession.
- Inflation in off the boil in most areas around the globe.
- Central banks around the world have moved into easing mode while curbing additional Fiscal stimulus, acknowledging the risk of recession to win the battle against
- Japan has shifted to tightening policy, stepping up from their long held negative rate policy. inflation.



GDP YoY % Change

	Q2 2024	One Year Ago	Change
US	3.00	2.80	0.20
Eurozone	0.60	0.50	0.10
Germany	0.00	0.00	0.00
France	1.00	1.30	(0.30)
Italy	0.61	0.48	0.13
UK	0.70	0.50	0.20
Canada	1.50	0.90	0.60
Mexico	2.09	3.54	(1.45)
Australia	1.00	1.90	(0.90)
Japan	(1.00)	2.00	(3.00)
China	4.70	6.30	(1.60)
Russia	4.10	5.10	(1.00)
Brazil	3.33	3.47	(0.14)

**Canada GDP as of 7/31/2024*
**All other GDP as of 6/30/2024*

Inflation YoY % Change

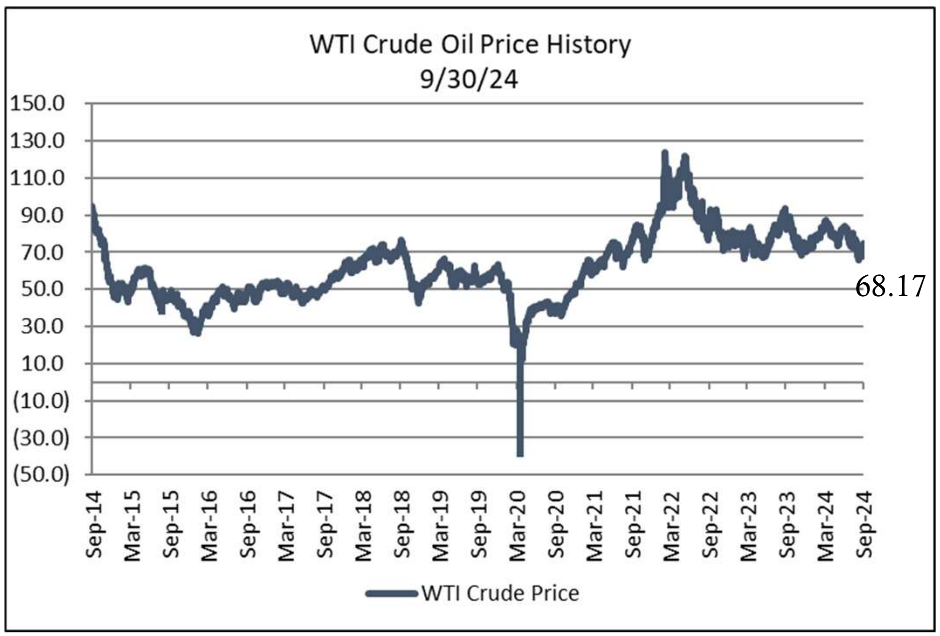
	Aug-24	One Year Ago	Change
US	2.50	3.70	(1.20)
Eurozone	1.80	4.30	(2.50)
Germany	1.60	4.50	(2.90)
France	1.20	4.90	(3.70)
Italy	0.70	5.30	(4.60)
UK	2.20	6.70	(4.50)
Canada	2.00	4.00	(2.00)
Mexico	4.99	4.64	0.35
Australia	1.00	1.90	(0.90)
Japan	3.00	3.20	(0.20)
China	0.60	0.10	0.50
Russia	9.05	5.15	3.90
Brazil	4.24	4.61	(0.37)

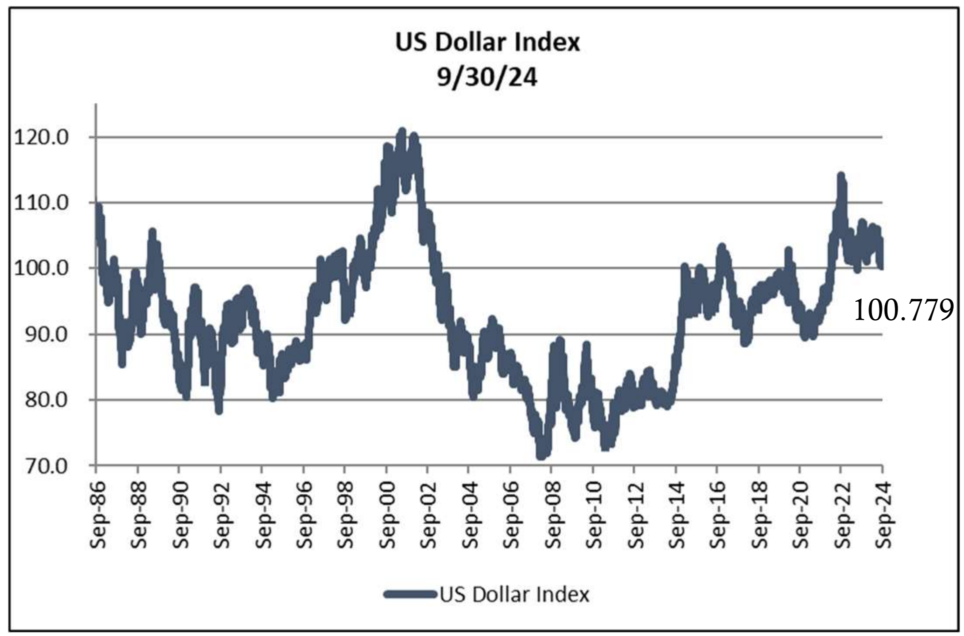
**UK, Canada, Japan, & China as of 8/31/2024*
**Australia CPI as of 6/30/2024*

Economic Environment

September 2024

- OPEC+ continues to limit production in an effort to support/increase the price of oil. It is working.
- Energy flows have shifted materially with Russian energy distribution shifting to China and India, while European supplies become sourced from the US and Middle East.
- Russian oil production and distribution has been robust amid lack of sanction enforcement, increasing global supply, while US has also been accelerating production.
- The Dollar strength has moderated as most global central banks have shifted toward more stable monetary policy.
- Overall the dollar remains strong and may resume its climb given the strength of the US economy, but may depend on perception of monetary policy.





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