Allen M. Zick, CFP®
Financial Advisor
allen.zick@raymondjames.com
845-294-0955

Alex Taub, CRPC®
Financial Advisor
alex.taub@raymondjames.com
845-294-0959

Brad J. Whitted
Financial Advisor
brad.whitted@raymondjames.com
845-294-0988

Michele Eckerson
Client Service Manager
michele.eckerson@raymondjames.com
845-294-0930

ZICK WHITTED TAUB
INVESTMENT STRATEGIES

Clear Direction in a Complex World

Quarterly Insights – October 2024

Investor expectations for falling interest rates and bond yields were the major influences on index, sector and factor performance during the third quarter, as markets were broadly positive but with some notable changes in leadership.

Starting with market capitalization, small caps outperformed large caps for the first time in 2024 as investors rotated out of large-cap stocks and into more economically sensitive small caps, as they historically have received the most benefit from lower borrowing costs that come with falling interest rates.

From an investment style standpoint, value handily outperformed growth, although both investment styles posted positive returns for the third quarter. The outperformance of value was evidence of the significant rotation we saw from the tech sector (which dominates most growth funds) to lower P/E and more economically sensitive parts of the market such as financials, industrials, utilities and others.

On a sector level, nine of the 11 S&P 500 sectors finished the third quarter with a positive return and that continued the broad year-to-date rally we've all enjoyed. Evidence of the influence of lower yields on returns can be seen in the sector outperformers, as utilities and real estate, two sectors that have relatively large dividends and benefit when bond yields are falling, handily outperformed the remaining nine S&P 500 sectors.

Looking at sector laggards, the tech and energy sectors were the only sectors to finish the third quarter with negative returns, as investors rotated out of tech and towards those higher dividend and more cyclically sensitive sectors. Energy, meanwhile, was the worst performing sector in the quarter as concerns about global growth (especially in China) weighed on oil demand expectations.

US Equity Indexes	Q3 Return	YTD
S&P 500	5.89%	22.08%
DJ Industrial Average	8.72%	13.93%
NASDAQ 100	2.12%	19.97%
S&P MidCap 400	6.94%	13.54%
Russell 2000	9.27%	11.17%

Source: YCharts

Internationally, foreign markets outperformed the S&P 500 in the third quarter as the relative underperformance of the tech sector was a headwind on S&P 500 returns. Foreign developed markets saw a solid rally in the third quarter as investors anticipated additional rate cuts from the European Central Bank and other major global central banks. Emerging markets also outperformed the S&P 500 and foreign developed markets as the Chinese government announced numerous stimulus measures late in September and that boosted Chinese stocks and emerging market indices and ETFs.

International Equity Indexes	Q3 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	7.33%	13.50%
MSCI EM TR USD (Emerging Markets)	8.88%	17.24%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	8.17%	14.70%

Source: YCharts

Commodities were mixed, but in aggregate saw moderate losses in the third quarter thanks mostly to weakness in oil prices. Oil declined sharply in Q3 as global demand expectations were reduced courtesy of soft Chinese economic data early in the quarter and on generalized global growth concerns. Gold, however, staged a strong rally thanks to elevated geopolitical uncertainty and the weaker dollar, as gold hit a new all-time high in Q3.

Commodity Indexes	Q3 Return	YTD
S&P GSCI (Broad-Based Commodities)	-5.26%	5.23%
S&P GSCI Crude Oil	-16.44%	-4.74%
GLD Gold Price	13.26%	27.53%

Source: YCharts/Koyfin.com

Switching to fixed income markets, the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) saw a very strong quarterly return thanks to a combination of falling inflation, mixed U.S. economic data and as investor's anticipation of an aggressive rate cutting cycle from the Fed.

Looking deeper into the bond markets, longer duration bonds handily outperformed those with shorter durations as investors reached for longer-term yield amidst falling inflation and underwhelming labor market data. Shorter duration bonds also saw a positive return, however, as investors anticipated the start of an aggressive rate-cutting cycle by the Fed.

Turning to the corporate bond market, investment grade bonds outperformed lower quality "junk" bonds although both saw strong quarterly gains. For the first time in 2024, investors favored investment-grade bonds amidst increased economic uncertainty, as investors sought the safety of higher-rated bonds over increased yield.

US Bond Indexes	Q3 Return	YTD
BBgBarc US Agg Bond	5.20%	4.45%
BbgBarc US T-Bill 1-3 Mon	1.36%	4.08%
ICE US T-Bond 7-10 Year	5.74%	4.26%
BbgBarc US MBS (Mortgage-backed)	5.53%	4.50%
BbgBarc Municipal	2.71%	2.30%
BbgBarc US Corporate Invest Grade	5.84%	5.32%
BbgBarc US Corporate High Yield	5.28%	8.00%

Source: YCharts

Fourth Quarter Market Outlook

With the start of the Fed's rate cutting cycle now behind us and the general pace of future cuts now broadly known, focus for the final quarter of 2024 will turn towards economic growth, geopolitical risk and the Presidential election.

Starting with economic growth, expectations for aggressive Fed rate cuts helped investors look past some soft economic reports in Q3, especially in the labor market. However, with those rate cuts now behind us, we should expect markets to be more sensitive to any disappointing economic data, especially in the labor market. Bottom line, with the S&P 500 just off record highs, the market has priced in a soft economic landing, so if the economic data in Q4 is weaker than expected and recession fears grow, that will increase market volatility between now and year-end.

Politics, meanwhile, will become a more direct market influence as we approach the November 5th election. We could see an increase in volatility that could impact the broader markets as well as specific industries and sectors (e.g. oil and gas, renewables, healthcare companies and others). That volatility will stem from the uncertainty surrounding potential future policy changes or lack thereof.

Finally, geopolitical risks remain elevated with the war between Russia and Ukraine and the war between Israel, Hamas, Hezbollah, Yemen Houthis and Iran may impact global markets this year. The markets are concerned the wars could impact the price of oil, inflation, and consumer confidence.

In sum, as we start the fourth quarter the market does face economic, political and geopolitical uncertainties. But market performance has been strong so far in 2024. Additionally, current economic data is still pointing to a soft economic landing in the United States.

So, while there is elevated uncertainty between now and year-end and it’s reasonable to expect an increase in short-term volatility, the fundamental underpinnings of this market remain broadly positive.

At Zick Whitted Taub Investment Strategies, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this investment environment. Successful investing is a marathon, not a sprint, and even bouts of intense volatility are unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it’s critical for you to stay invested, remain patient, and stick to the plan, as we’ve worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

We thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you accomplish your financial goals.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Sincerely,

Allen Zick, CFP®
Financial Advisor

Brad Whitted, CPFA
Financial Advisor

Alex Taub, CRPC®
Financial Advisor

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