Investment Perspective

Third Quarter 2024

During the third quarter, the S&P 500® Index and the Russell 2000® Value Index rose 5.89% and 10.15%, respectively. International equity markets also increased with the MSCI EAFE Net Index returning 7.26%.

Inflation continued to fall allowing interest rates to decline and opening the window for the U.S. Federal Reserve to begin cutting rates. The Federal Reserve joins other major central banks in cutting interest rates, thus lowering the equity risk premium, and driving risk asset prices higher. The U.S. Federal Reserve is also coordinating monetary policy with the U.S. Treasury in order to maximize market liquidity heading into November's election.

Post the November election and through the first half of 2025, we anticipate firming inflation and a continued slowdown in discretionary consumption and industrial demand offset by stability in demand for core services. Despite the previous inverted yield curve, a U.S. recession still seems highly unlikely without an exogenous shock. Given the appreciation year-to-date, equity markets appear reasonably valued and may experience more volatility as they digest shifts in political influences that drive fiscal policy and economic growth.

The Bloomberg Aggregate Index returned 5.20% for the quarter while the ICE BofA 1-10 AAA-A Municipal Index returned 2.68%. During the quarter, the Federal Reserve cut interest rates by 50 basis points reducing the target rate to 5.00%. With inflation declining towards the Fed's 2% target and with the labor market softening, the Fed indicated that more cuts are likely, but it will be a meeting-by-meeting decision based upon the data. As of quarter-end, the market is pricing in two to three additional 25 basis point cuts in 2024.

Treasuries performed well during the quarter with yields in the short end of the curve declining approximately 100 basis points, while yields in the intermediate to long end of the curve declined approximately 50 to 75 basis points. After being inverted since 2022, the yield curve (measured as the difference between the 10-year Treasury and the 2-year Treasury) finally normalized. The yield curve spread began the quarter inverted at -30 basis points but finished steeper at +14 basis points following the Fed's decision to begin reducing interest rates.

Investment grade credit spreads tightened 4 basis points, ending the quarter at +84 basis points over Treasury yields. With spreads continuing to trade inside historical averages and with volatility levels low, we anticipate better opportunities to increase our exposure to corporate bonds in 2024 should credit spreads widen from these relatively rich levels.

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