Portfolio Themes for Q4 2024:

Introduction

Football season is full swing. As the old football adage goes, 'Defense wins championships,' and this timeless principle applies just as well to investing. Just like a well-coached football team builds a strong defense to weather the storm of a tough opponent, a resilient investment strategy is built to navigate market volatility and protect against unexpected downturns. While defense is crucial, it's not enough to secure a victory on its own—a team also needs a strong offense to capitalize on opportunities and put points on the board. In investing, that means allocating to high-quality growth opportunities that complement defensive holdings, providing a balanced approach to risk and reward.

In both fields, building a solid foundation sets the stage for long-term success, even in the face of rapid changes and new, in-game developments. Whether it's adapting to changing market conditions or facing a skilled opponent, success often comes from sticking to a well-crafted game plan and avoiding impulsive decisions that could jeopardize long-term objectives. As we navigate today's evolving financial landscape, maintaining a diversified, disciplined investment strategy is more important than ever.

Fed & the Economy

Navigating Economic Landscape:

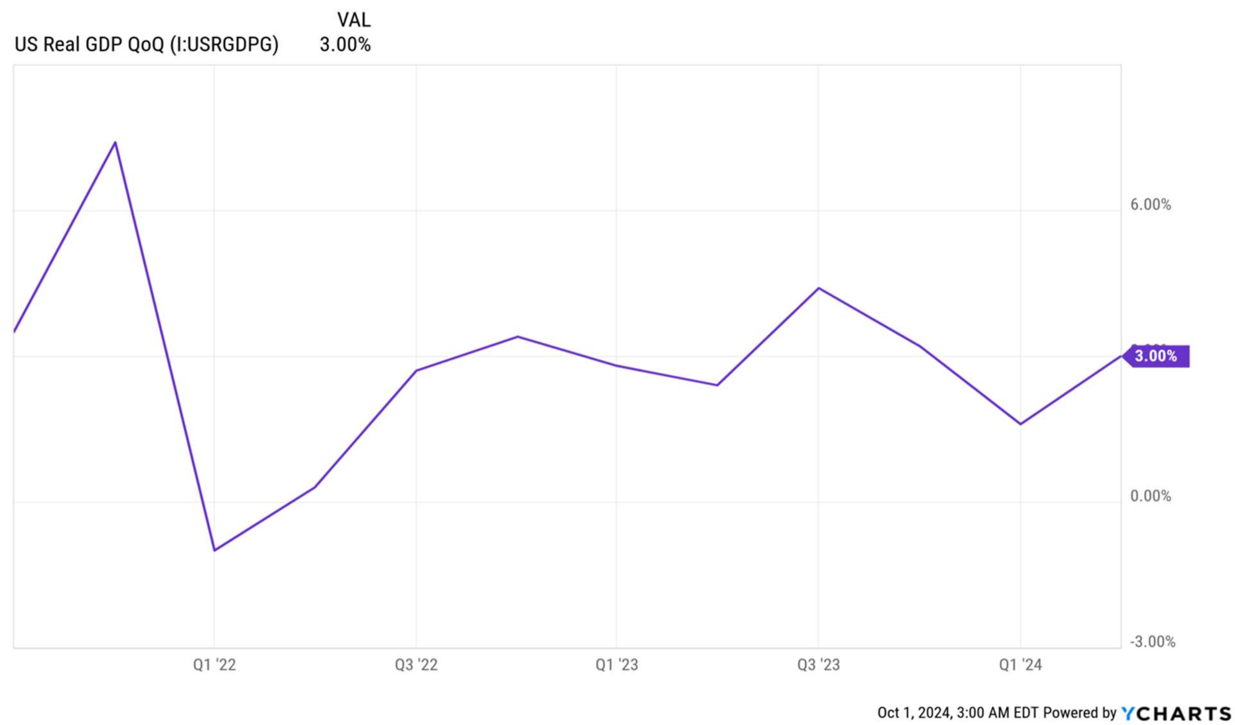
Throughout much of 2023 and 2024, markets reacted to negative economic data with optimism, believing signs of economic weakness might prompt the Federal Reserve to ease its rate hiking cycle. Bad news was good. Following that optimism, many asset classes would continue to perform positively, demonstrating how economic data and markets do not always move in the same direction. However, in the third quarter, the market's mood shifted as bad news began to have a more direct impact on equity market performance. Investor started to grapple with the fear that the Fed, which cut rates by 50 bps in September, may have waited too long, reigniting concerns about a potential recession.

Several key moments from Q3 illustrate this shift. During the first week of September, the Institute for Supply Management (ISM) reported a contraction in U.S. manufacturing, a sector which accounts for 10.3% of GDP, with the August index falling to 47.2%, below expectations and signaling ongoing struggles. This was the fifth consecutive month in contraction, which is measured as a reading below 50.

The labor market also showed signs of cooling. ADP's August private payroll report revealed that only 99,000 jobs were added, a significant miss from the 140,000 forecast. This marked the smallest gain in private payrolls since early 2021 and signaled a broader slowdown. The weak jobs report stoked fears that the economy might be losing momentum, as it followed softer employment data throughout much of the summer, as unemployment figures ticked up and previous estimates were revised downward.

Throughout Q3, the S&P 500 experienced volatility spikes as investors recalibrated expectations for Fed policy. Despite an overall strong performance, markets remained jittery. Expectations around Fed Rate cuts moved quite drastically, reflecting investor hopes and fears of what may come. However, uncertainty over timing has continued to weigh on sentiment, and as we move into Q4, the potential for recession still exist.

One item we've had to remind some people is that a slowing economy doesn't indicate a recession. A 'contracting economy' is the primary result of a recession. Now the economy would certainly have to slow, prior to tipping into recession territory, but the two are not synonymous. The rate of growth in an economy goes through peaks and valleys, all without entering a recession. Although no one likes to see anything decline, an economy of our size cannot sustain an ever-increasing growth rate indefinitely, and we've experienced substantial economic growth, outpacing most other developed economies since the COVID pandemic.



Source: yCharts

US Politics

US Presidential Election

While politics dominate headlines in a Presidential election year, long-term stock market returns are less impacted by politics than many people believe. Each administration enters office with a distinct agenda, but without a super-majority in both houses of Congress, it's nearly impossible to predict which policies will be enacted and which sectors and industries will ultimately emerge as winners or losers. Politicians often receive too much blame or credit for economic and market outcomes. The reality is that the vast majority of economic and market outcomes are driven by hard work and innovation from private businesses and individuals, ultimately driving the economy forward, and improving their standard of living and future prospects.

The takeaway here is to let your political beliefs manifest at the polls this November, not in your investment portfolio. Rather than trying to time the market and make short-sighted bets, build a long-term plan to meet your goals with a diversified portfolio built to weather any political environment.

Debt Ceiling

The US national debt has continued to grow significantly, yet neither Trump nor Harris have addressed it as a campaign priority in the lead-up to the 2024 presidential election. Although traditionally a cornerstone of political debates, both candidates have put forward policies that would increase the deficit rather than curb it. Harris's plans, including assistance for first-time homebuyers, and Trump's tax-cut extensions could collectively push the annual deficit by an additional $4.1 trillion in the next decade.

Economists warn that if left unchecked, this trajectory could eventually lead to economic instability or even a default, making it crucial for future administrations to prioritize fiscal responsibility. Despite the severity, addressing the issue is politically challenging, and neither candidate appears eager to focus on it during a campaign season dominated by populist promises.

Unlike households, however, governments have indefinite planning horizons that allow them to constantly roll over their debts. When it is time for governments to repay lenders, they can simply issue new debt to meet their obligations. There will come a point when the bond market gags on the size of the US debt, but we are likely a long way from that, and it's unlikely to be a one-time, large-scale event. Economic strength and inflation figures will be much more important over the intermediate term for investors and the economy.

Fixed Income

Fixed Income Recap

Fixed income and interest rate volatility persisted in the third quarter, as markets continued to reprice the timing and magnitude of future rate cuts. Bond markets are pricing in further rate cuts and softening of U.S. rates, with the Aggregate Bond Index and most other core bond indices now solidly in positive territory for the year, posting approximately a 4.7% year-to-date return through the end of the third quarter.

Most international policy rates continued to decline, including the European Central Bank, which cut rates again in September, and China, which reduced rates and implemented a slew of policies to buoy its softening economy and real estate market.

Looking Ahead

Spread, which refers to the difference between a bond's yield and the yield of a risk-free issue with the same duration (e.g., U.S. Treasuries), indicates how much investors are being compensated for taking on additional credit risk (i.e., default risk). If spreads are above their long-term average (referred to as 'wide' or 'cheap'), investors are being compensated more for taking on credit risk. Conversely, if spreads are below their long-term average (referred to as 'narrow' or 'tight'), investors are being compensated less—this is the scenario we see in the graphic below for all sectors except agency mortgage-backed securities. In simpler terms, the extra income investors are receiving for taking on additional risk is historically low, making the risk-adjusted return profile less attractive.

However, even as yields across fixed income sectors have come down from their peaks, they remain relatively attractive compared to inflation and the past 20 years. We continue to favor high quality bonds, including US government and mortgages, as other fixed income sectors continue to offer historically low spreads, relative to the treasuries.

Evaluating risk and opportunities across fixed income

Current value vs. 20-year average

	Yield (%)	Yield (percentile)	Spread (percentile)
10-year U.S. Treasury	3.9	76	–
Agency MBS	5.1	85	88
Investment grade	4.9	68	17
High yield	7.3	50	11
Municipal bonds	5.8	62	11

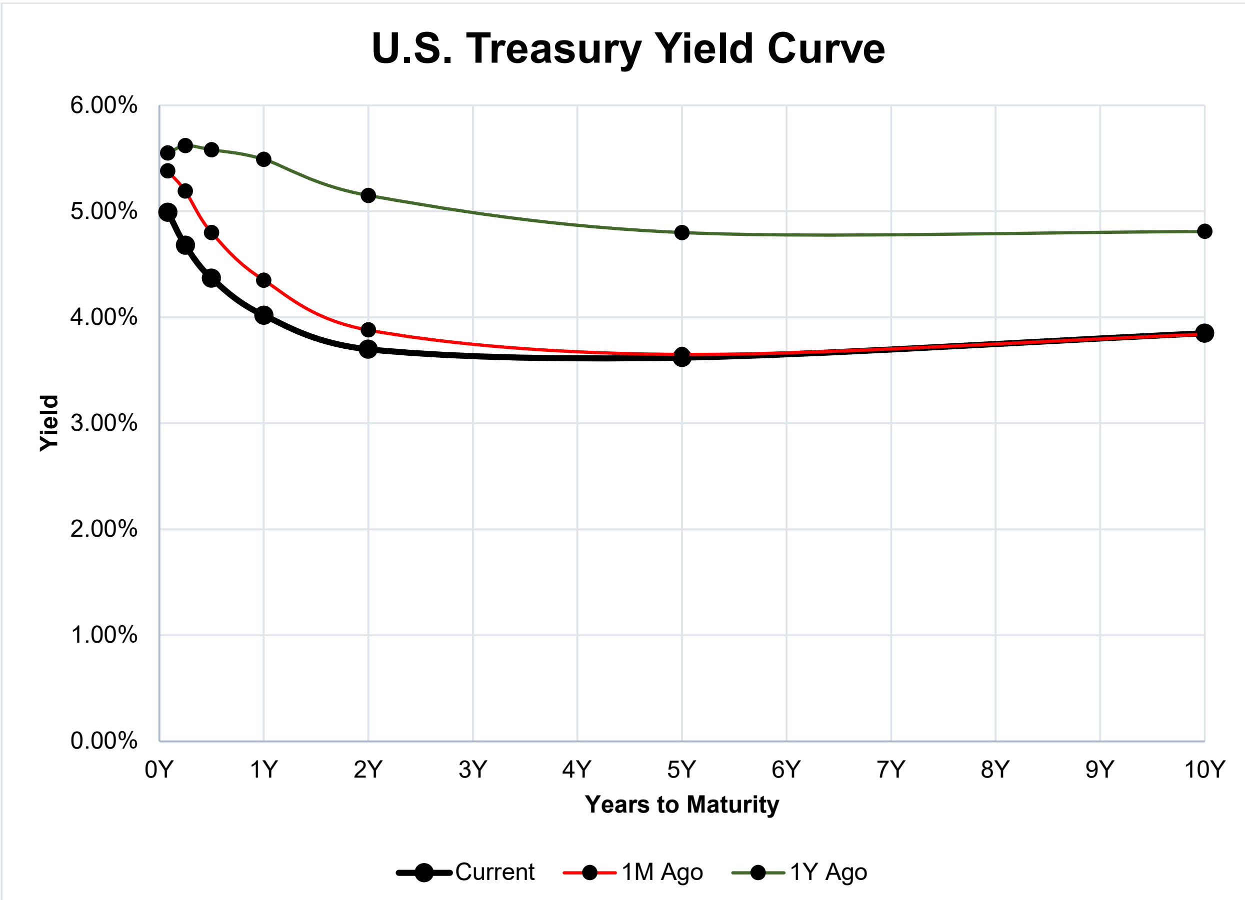
Source: Columbia Threadneedle Investments as of August 31, 2024. Yield is represented by yield to worst, which is the minimum return received on a callable bond, apart from the yield if the issuer were to default. For municipal bonds, yield is represented by taxable equivalent yield, which is based on the top federal bracket (37%) and net investment income tax (3.8%). Other taxes are possible. Yield percentile and spread percentile are represented by the range of daily yields and daily spreads, respectively, and both are for the last 20 years, with the current percentile position indicated. **Past performance is not a guarantee of future results.**

Yield Curve

The US Treasury yield curve 10-2 year spread is no longer negative, ending the longest inversion of the curve in recorded history. Following the FOMC cut of the front end Federal Funds rate, treasury rates beyond 1 year remained relatively stable, as the market had priced in the rate cuts via purchases in intermediate and long-term bonds, driving rates lower. Contrary to popular belief, the Fed's impact on interest rates is minimal beyond the short end of the yield curve, as the marketplace ultimately dictates these longer-term interest rates, not the Fed.

Expect money market, bank savings, and ultra short-term treasury yields to decline in the weeks following a Fed rate cut.

US Treasury Yield Curve Data



Source: yCharts

			Date	9/30/2024	9/23/2024	8/30/2024	6/30/2024	3/30/2024	9/30/2023
	Label	*Ticker*	*Name*	Current	1W Ago	1M Ago	3M Ago	6 M Ago	1Y Ago
Years to Maturity	0.083	I:1MTCMR	1 Month Treasury Rate	4.93%	4.85%	5.41%	5.47%	5.49%	5.55%
	0.25	I:3MTCMR	3 Month Treasury Rate	4.73%	4.72%	5.21%	5.48%	5.46%	5.55%
	0.5	I:6MTCMR	6 Month Treasury Rate	4.38%	4.40%	4.89%	5.33%	5.38%	5.53%
	1	I:1YTCMR	1 Year Treasury Rate	3.98%	3.91%	4.38%	5.09%	5.03%	5.46%
	2	I:2YTCMR	2 Year Treasury Rate	3.66%	3.57%	3.91%	4.71%	4.59%	5.03%
	5	I:5YTCMR	5 Year Treasury Rate	3.58%	3.51%	3.71%	4.33%	4.21%	4.60%
	10	I:10YTCMR	10 Year Treasury Rate	3.81%	3.75%	3.91%	4.36%	4.20%	4.59%
	30	I:30YTCMR	30 Year Treasury Rate	4.14%	4.09%	4.20%	4.51%	4.34%	4.73%
10-2 Spread				0.15%	0.18%	0.00%	-0.35%	-0.39%	-0.44%

Source:yCharts

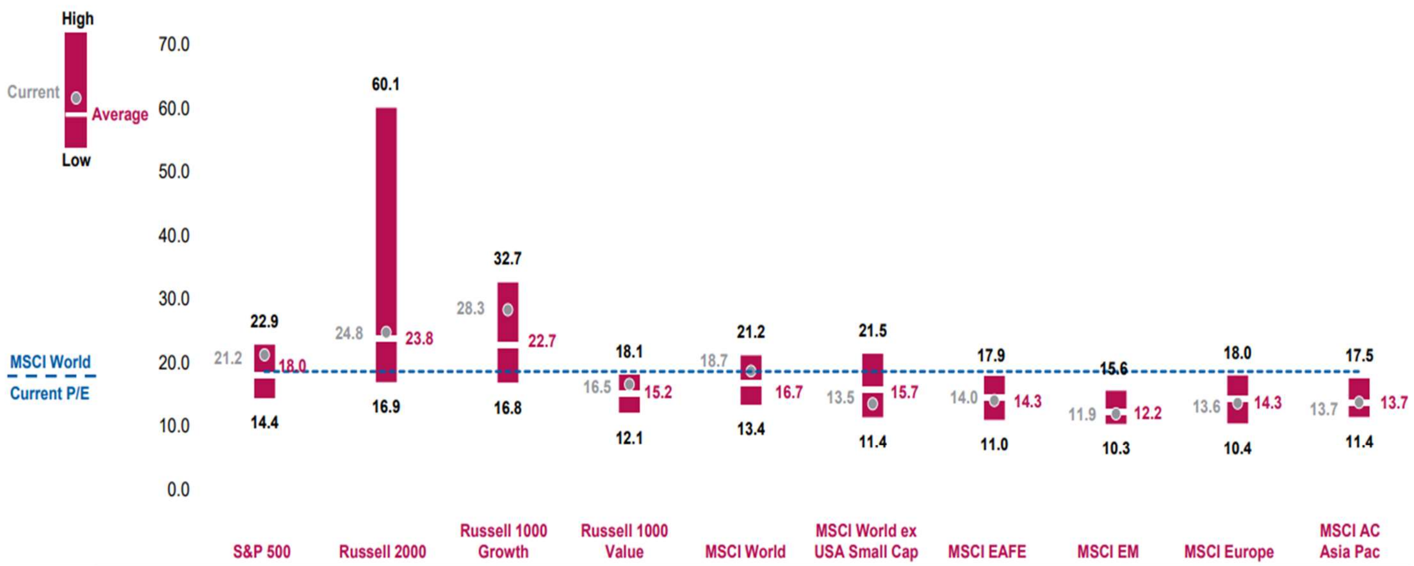
Equities

Valuations & Earnings

Market dynamics and earnings have continued to be favorable, but there remains a distinct divergence in asset class returns, valuations, and even amongst US Equity sectors. The third quarter saw a broadening of performance, with small-cap and other interest rate-sensitive sectors outperforming.

The chart below provides a 10-year lookback on relative asset class valuations. Nearly all equity asset classes are near their 10-year historical averages, except US Growth stocks. It's important to note that this analysis compares each asset class to its average valuations over the past *10 years, during which growth stocks have had a tremendous run*. In other words, this is not comparing the valuation of growth stocks of today, versus their valuations of 50 years ago. Such an analysis would showcase growth stocks at even higher, historical valuation metrics! Taking a broader view, we acknowledge that today's P/E ratios may not ever match those from 50 years ago. However, it's evident that the gap between valuation levels of U.S. growth stocks and nearly all other sectors remain somewhat extreme, even if they have converged slightly due to the recent broadening out.

Regions/Styles: Current NTM P/E vs. 10-Year High, Low, Average



	S&P 500	Russell 2000	Russell 1000 Growth	Russell 1000 Value	MSCI World	MSCI World ex USA Small Cap	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Date	8/20	6/20	8/20	3/21	8/20	8/20	8/20	1/21	6/20	1/21
Low Date	12/18	9/22	2/16	9/22	12/18	9/22	9/22	10/18	9/22	12/18

Source: FactSet as of 8/31/24. NTM P/E is market price per share divided by expected earnings per share over the next twelve months. Data provided is for informational use only. See end of report for important additional information. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass.

Intra Year Market Declines

S&P 500 Total Return (as of 9/30/2024). Source yCharts
We saw the S&P 500 decline as much as -8.5% off recent highs in the third quarter, and yet…

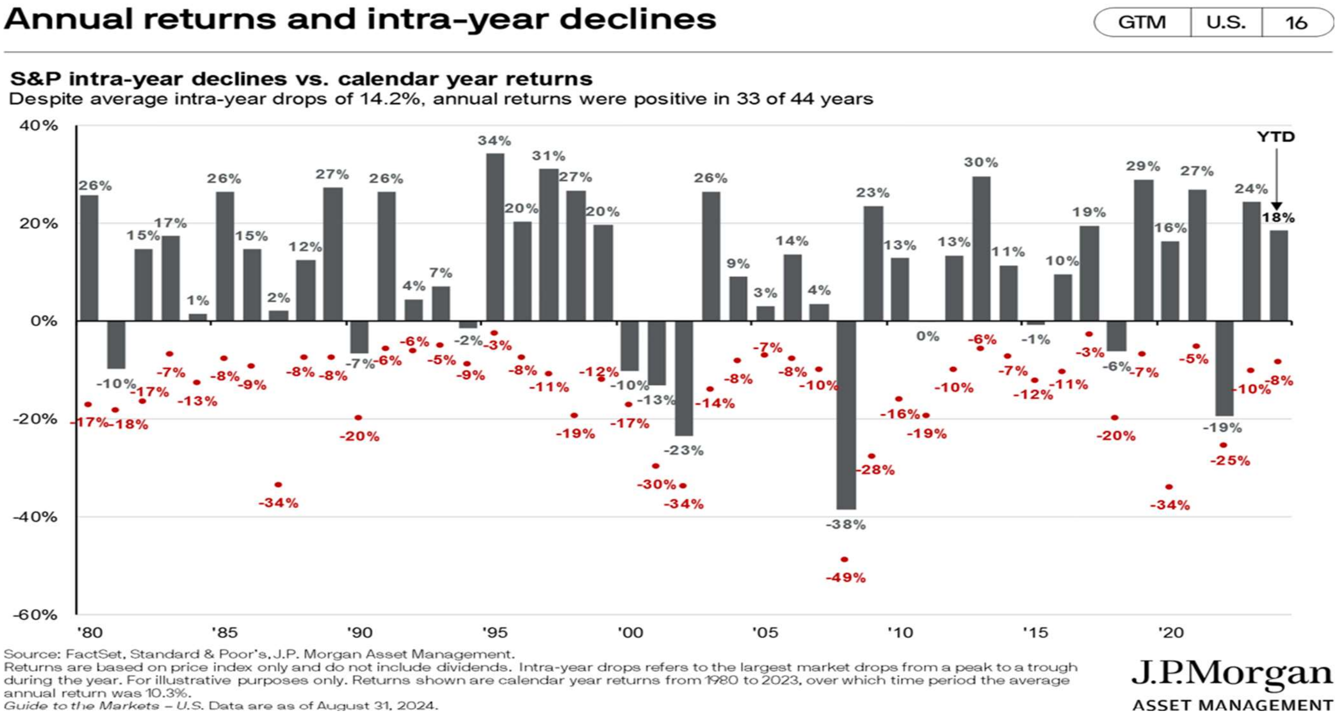
• Record All-Time Highs in 2024: 42

• YTD Total Return: 22.1%

• 12-Month Return: 36.4%

As you near and transition into drawing from your portfolio, it is important to consider the cash flow needs out of your investments and work with your advisor to determine proactive ways to reduce portfolio risk, over time. One of the most important decisions a financial advisor can help you optimize is your equity risk tolerance, coaching you up if you are not taking on enough risk to sustain portfolio returns and outpace inflation, or letting you know when it may be prudent to take some risk off the table, as you move through life stages and your cash flow needs change.

If you blinked, you may not even have noticed during the month of August equity markets had a couple of tough weeks, putting certain indices into correction territory. The S&P 500, for reference, fell from its July high, down almost 9% in early August, as some volatility around the Japanese carry trade and higher than expected inflation data was released. However, in a short period of time, since mid-August, we are back near all time highs in the S&P 500.
Maybe you only check your investment portfolio monthly, or even less frequently. For others who may only check in periodically, ignorance can be bliss. When you are investing for the long term and have ample cash reserves and cash flows, it may make it easier to stomach intermittent market declines and allow your portfolio to recover and continue to compound.



Real Estate

Commercial Real Estate (CRE) delinquencies have been creeping up, primarily driven by the office sector, which had largely priced in the upcoming delinquencies and the shift toward remote work. The surprise, however, is the uptick over the summer in the multifamily delinquency rate. Although still historically low, the rise in delinquencies suggests that lower-income U.S. consumers may be feeling some strain. This trend aligns with a slowing labor market, persistent inflation, and data indicating declining consumer savings rates alongside rising credit card debt. These factors tend to impact lower-income Americans the most.

If rates with respect to variable indexed "floating" structured loans have peaked, then this should be a favorable climate for real estate. We've seen strong Public REIT performance the last few months, as rates have come down and further expectations around Fed cutting are priced in.

CHART 2: DELINQUENCY RATE BY PROPERTY TYPE (% 30 DAYS +)

	SEP-24	AUG-24	JUL-24	3 MO	6 MO	12 MO
Overall	5.70	5.44	5.43	5.35	4.67	4.39
Industrial	0.32	0.50	0.64	0.62	0.47	0.30
Lodging	6.23	5.91	6.17	6.32	5.45	5.27
Multifamily	3.33	3.30	2.63	2.36	1.84	1.85
Office	8.36	7.97	8.09	7.55	6.58	5.58
Retail	7.07	6.21	6.14	6.42	5.56	6.92

Source: Trepp

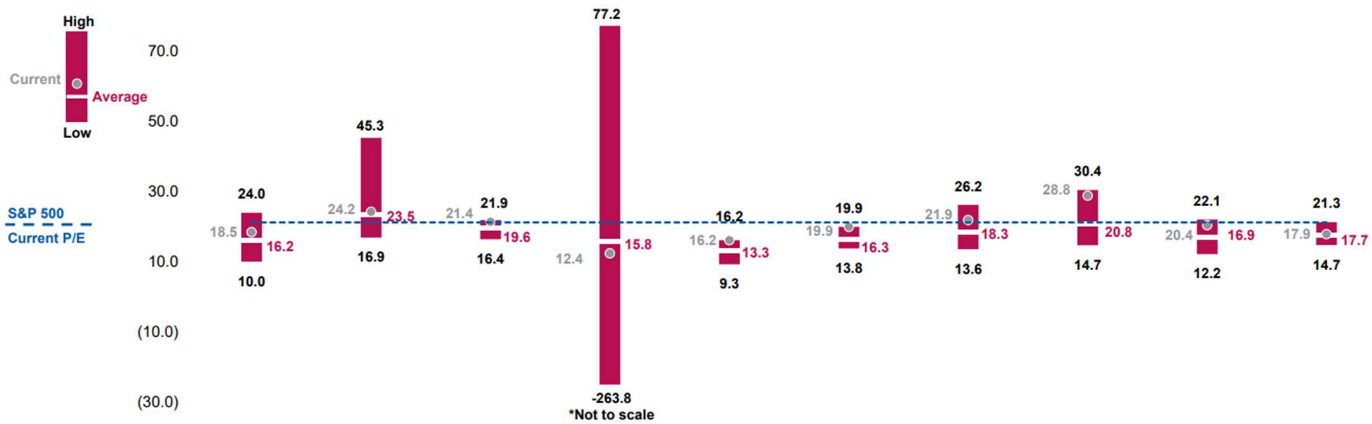
Which sectors, though? Office & mall have major obstacles to overcome, as demand for long-term leases has slipped, post COVID. However, turning points may be arising as more firms are requiring at least partial office presence. As an example, Amazon, the second-largest private employer in the US, recently decided to implement a strict return-to-office (RTO) mandate Starting in January 2025, corporate employees at Amazon will be required to return to the office five days a week, marking a shift from the current three-day requirement. Should other large employers follow suit, this would have significant implications for CRE, particularly in major metropolitan areas.

To avoid overconcentrating a sector or region or locking up liquidity in private real estate transactions, we prefer an allocation to real estate, using an active manager, investing in public REITs. Public REITs, historically, have benefitted from active management compared to their passive counterparts. We still prefer our use of Cohen & Steers as an active real estate manager, focused on US domiciled Real Estate. Although global interest rates are lower, and may continue to slide at a quicker pace, real estate in the US would be expected to have a stronger tailwind from a growing population, growing real economy, and strong property owner rights.

Market Pivot from Technology & Semiconductors

The technology sector reached its highest forward P/E multiple of 30.4 earlier this year. This is the highest forward P/E multiple the sector has seen in the past 10 years, well above its 10 year rolling average. But since August, we've seen a pivot away from semiconductors and technology. The Semiconductor pivot may be attributed to simple rebalancing but can also be attributed to earnings and the buyers of AI hardware (think the Mag 7 stocks) not seeing the return on their tech investments as anticipated. The monetization of AI has been limited, yet the market had largely priced in sweeping changes to companies' bottom lines this year. In reality, these changes are likely to filter into daily life and corporate earnings gradually, not overnight, but through incremental productivity gains

S&P 500 Sectors: Current NTM P/E vs. 10-Year High, Low, Average



	Communication Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Utilities
High Date	8/20	6/20	12/21	4/16	8/24	8/24	8/20	6/24	7/20	3/22
Low Date	5/18	2/16	4/18	7/20	3/20	3/20	12/18	12/18	9/15	6/15

Source: FactSet as of 8/31/24. NTM P/E is market price per share divided by expected earnings per share over the next twelve months. The Real Estate sector is excluded from this 10-year chart since the sector was created on August 31, 2016. Data provided is for informational use only. See end of report for important additional information. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass.

A prime example of AI integration in my professional life was at our recent independent financial advisor conference. The number of technology firms present was larger than ever before, ranging from CRM firms to AI software platforms of various types. There were AI platforms for notetaking, scheduling, data upload, and tasks management. Working with hundreds of advisors across the country, we’ve seen firsthand how some have started to integrate some of these programs into their businesses, boosting efficiency.

With starkly different sector performance and valuation, why don't we pivot into other sectors? Will interest rate changes, future policy changes, or geopolitical events cause the next sector rotation? When will the next pivot come? The answer is it’s extremely difficult to predict with consistency, and a review of most sector rotation strategies shows underperformance against the broader S&P 500 over the long-term, made worse after fees are added. They may shine in certain market environments from time to time, but as soon as you zoom out, and look at the big picture, you start to see them add expenses and fall short of their benchmarks.

Bottom line: some continued broadening out in the equity markets may be warranted, as the downward trend in interest rates could enhance the relative attractiveness of small caps, dividend stocks, and companies with higher debt levels

International

A Weakening US dollar, Amidst Rate Cuts

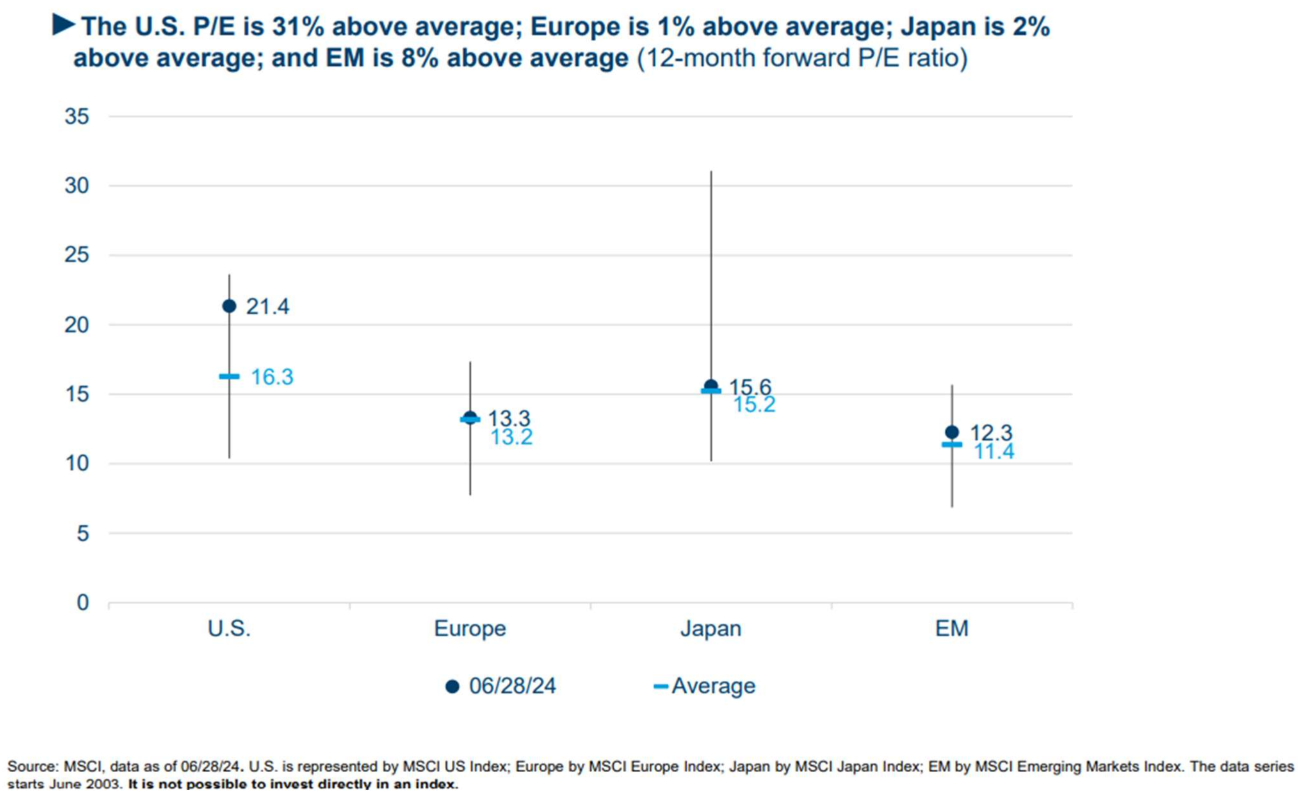
United States exceptionalism appears alive and well. US exceptionalism is the perception that the US has unique economic, financial, and institutional advantages that distinguish it from other countries. These advantages make the U.S. a dominant player and a safe haven in global financial markets, with a more resilient and dynamic economy. Will this trend continue, or is there any merit to diversify internationally?

One of the tailwinds to US assets has been international flows into US dollars, due to higher interest rate differentials. With US interest rates falling and expected to continue to drop, we've started to see the dollar weaken versus other major currencies. The dollar has been historically strong over the past few years, at one point reaching parity with the Euro and buying more Japanese Yen than ever before.

The first risk that this carries is a potential tailwind for sticky inflation. As an import driven economy, when the dollar weakens, our dollars buy less international goods and services, and can put upward pressue on prices of imports. The second risk is accretion of investment dollars to international assets, as US interest rates come down. We saw a prime example of this in early August during the Japanese carry trade unwinding. However, outside of Japan, most other major countries are also in a rate cutting cycle of some sort, so interest rate differentials are unlikely to be as stark as the moves we saw in August between US Dollars and Japenese Yen.

Bottom line is, we still see merit to diverisify assets across the globe. Beyond what we've described above, diversifying overseas can provide cheaper valuations, different sector exposure, away from some of the heavy US tech indices, higher dividend yields, and access to high growth emerging markets.

International Equity Index Valuations. 12 Month Forward P/E:



China

Towards the end of September, China released a three pronged approach to spur economic growth, including reducing their policy interest rate, directly lowering mortgage rates, and unveiling a stimilus package. Upon the news, Chinese asset prices soared. But is this sustainable for China? While this measure may do some good in the short-term, governement and central banks only have so much gas in the tank with these policies, as they eventually must shift back to normalcy and allow the mercantilist economy to operate without throwing gasoline on the fire. China still has their fair share of obstacles to overcome, specifically an aging population, population decline, and the capital flight following COVID.

So, where is emerging market capital going these days? Primarily smaller Southeast Asian countries, Latin America, and India. For example, Apple’s Tim Cook, has made visits to India, Vietnam, Indonesia, and Singapore to seek new growth markets and manufacturing sites to offset Apple's ongoing struggles in China. Other CEOshave followed suit. Closer to home in North America, manufacturing growth across Mexico is booming, as nearshoring continues to be a trend among North American businesses and those exporting good to the US.

Portfolio Changes:

Foundaitonal Equity:

We've increased real estate exposure (CSRIX) with a slight up tick, offset by a slight tick down in international equity exposure. Public REITs continue to be in recovery mode following COVID and then the sharp increase in interest rates. As recovery takes place and interest rates have more downward pressure than upward, we prefer a slight increase toward REIT exposure.

Our focus for equities remains investing in high cash flowing businesses, likely to do well throughout business cycles. Our fixed income focus remains staying overweight high quality credit, and remaining slightly below the benchmark duration, as interest rate volatility persist and short term bonds, at large, continue paying the same and sometimes higher yields than the intermediate and longer term conuterparts. There may be opportunities for us to adjust our fixed income positioning, in the fourth quarter, as interest rates continue to adjust to expectations around Fed monetary policy.

Structured Notes:

We have continued to utilize structured notes as replacements for traditional mutual funds or ETFs. Our primary aims of layering in structured notes include, reducing portfolio volatility, aiming to keep upside potential constant or in certain cases enhance the upside potential, and reducing portfolio expense ratios. As we work with multiple adviors, we are able to use our scale and knowledge of the markets to aim for favorable terms through the use of custom structured notes.

Asset Class Positioning

	Short View	Long View	Trend	Fund
Domestic Equity				
Large Blend			Neutral	FXAIX
Large Value			Neutral	VTV
Mid Blend			Neutral	FSMDX
Small Blend			Neutral	JDSCX FSSNX
Real Estate			Up	CSRIX
International Equity				
Foreign Large Blend			Neutral	FSPSX
Foreign Small/Mid Growth			Neutral	FIXIX
Diversified Emerging Mkts			Neutral	ABEMX
Short Term Bonds				
Short Government			Down	EILDX
Short-Term Corp			Down	LUBYX
Core Bonds				
Intermediate Government			Neutral	SCHR
Inflation-Protected Bond			Neutral	STIP
Long Government			Neutral	VLGSX
Investment Grade Corp			Neutral	FGBPX AGG
Securitized			Up	MTGDX
High Yield Bond				
Bank Loan			Down	EIBLX
High Yield Bond			Neutral	BGHIX
Preferred Stock			Neutral	CPXIX

Disclosures

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For more details on structured notes, refer to the product prospectus and consult your financial advisor to ensure these products align with your investment objectives, risk tolerance, and liquidity needs.