MONTH IN REVIEW

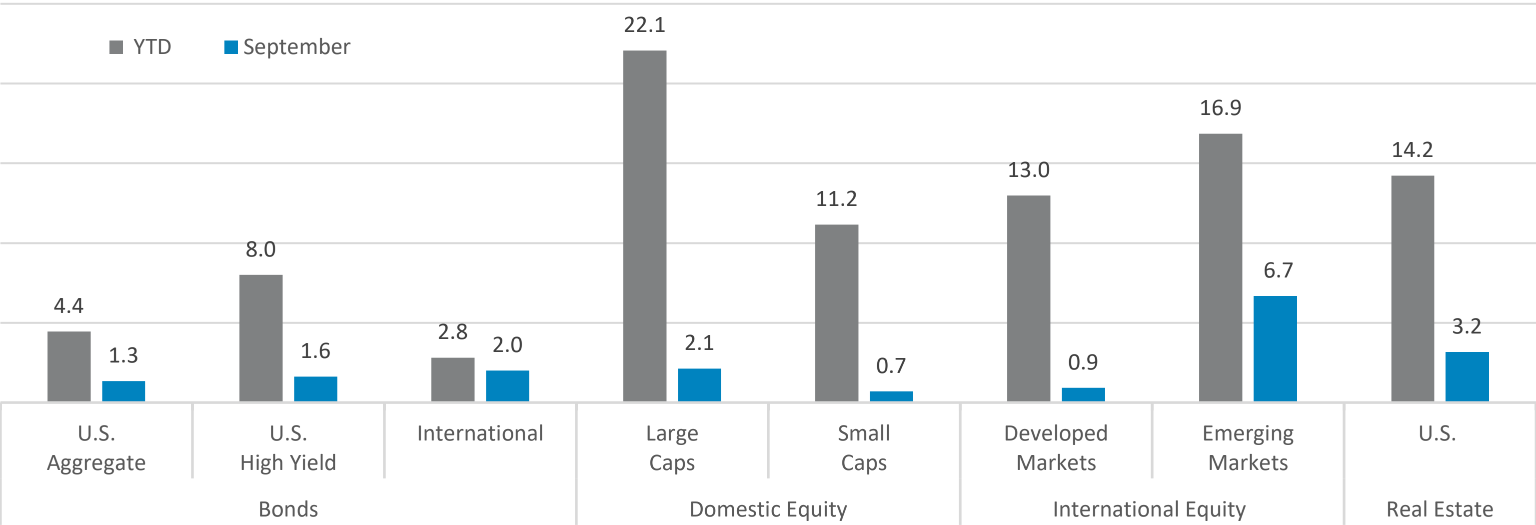
Prime Capital FINANCIAL

Quick Takes

- **Strong Stock Markets.** As in August, the stock market declined before returning to positive territory to close out September. The first week of September saw the S&P 500 decline by over 4% and the Nasdaq decline nearly 6%. Both indices ended the month higher finishing up over 2% each.
- **Inflation and Interest Rates.** The FOMC cut interest rates in September by 50 bps, which boosted stock and bond markets. Core CPI inflation stood at 3.2% in the month while the Fed's preferred metric, the PCE Index, indicated that inflation has now fallen to just 2.2%. Thus, more rate cuts are probably ahead.
- **Geopolitics.** The Middle East will be key to watch in October after Iran launched missiles at Israel in late September as Israel fights a war in Gaza against Hamas and in Lebanon against Hezbollah. This conflict could make the near-term less certain for markets given the importance of the region for global energy supply.
- **Hurricane Helene.** The tropical storm hit the Southeastern US hard at the end of the month, particularly Florida, Georgia, and the Carolinas. The storm destroyed entire communities and caused billions of dollars worth of damage that will likely take years to repair.

Asset Class Performance

Large Caps had a strong September relative to Small Caps, continuing August's pattern. International equities underperformed the U.S. market during the month amid conflict in the Middle East and changes in monetary policy. Asset classes across the board saw gains in the month of September including both fixed-income and equities.



Source: Bloomberg, as of December 31, 2023. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

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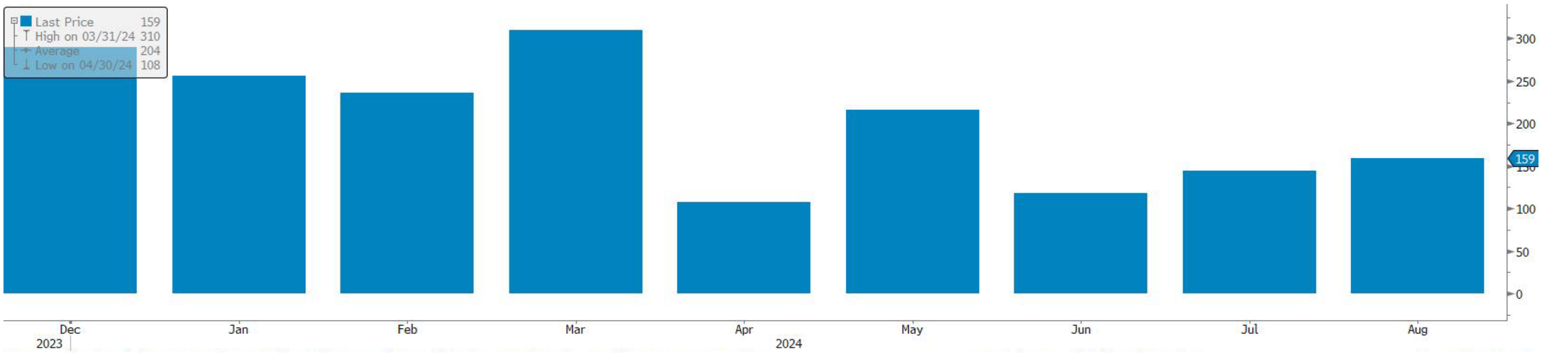
September 2024

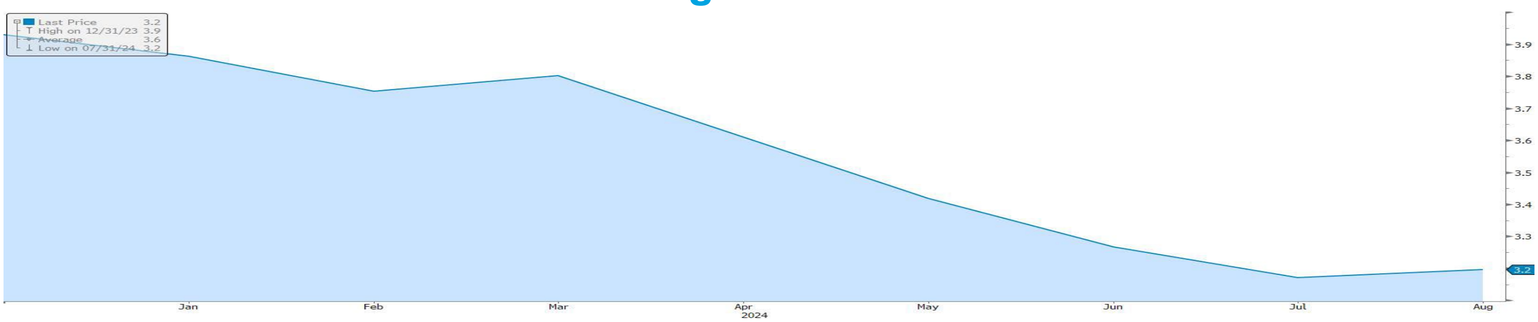
Markets & Macroeconomics

FOMC Cuts Rates 50 bps in September

MoM Changes in Nonfarm Payrolls in the US



YoY Change in US Core CPI



Source: Bloomberg

On September 18, Federal Reserve Chairman Jerome Powell announced that the FOMC had reduced the Fed's policy rate by a half percentage point, or 50 bps. This was a larger cut than had been expected earlier in the month by investors. The stock market rallied on this news as well as on Powell's strong indication that the Fed would continue to loosen policy gradually thanks to the falling rate of inflation that the US has experienced over the last 24 months. The US Core CPI was just 3.2% higher than it was a year ago compared to the peak YoY increase of 6.5% in September of 2022. Meanwhile, the labor market has weakened. Monthly job creation has slowed from well over 200,000 jobs per month to 159,000 in August. Unemployment has risen year to date from 3.7% to 4.2%. In addition to highlighting the progress made on inflation, Powell also highlighted the need to prevent further slowing of the economy or loosening of the labor market. The S&P 500 was up over 2% in September after it recovered from an early decline in the index in the first half of the month. The technology-heavy Nasdaq was up 2.5% in September largely in response to the interest rate reduction. Stock market valuations remain above historical averages as investors remain optimistic about the economy and company results. By the end of September, the S&P 500 was up 21% year to date while the Nasdaq was up 19%. October will be a busy month for earnings releases by companies with major banks and health care companies reporting earnings at the beginning of the month and larger technology, communication services, and consumer companies reporting their results at the end of the month. These reports will be critical in assessing the market outlook for the rest of 2024 and into the beginning of 2025. They will also be essential for assessing if the Federal Reserve has managed to achieve a soft landing. It will also be critical to see how the presidential candidates will talk about their plans for the economy going into the November election and how geopolitical events will impact markets given the conflict in the Middle East. China will also be worth watching as the central bank tries to boost economic growth.

Bottom Line: Easing inflation and loosening monetary policy made investors more optimistic in September. More FOMC interest rate cuts are probable going forward if inflation continues to fall and remain at the long-term target rate of 2%. Weakness in the labor market was a remaining risk at the end of September which could indicate that a slowdown is ahead. The next month of economic releases and new earnings data will be a useful gauge of how well the economy and companies are faring relative to investors' lofty expectations.

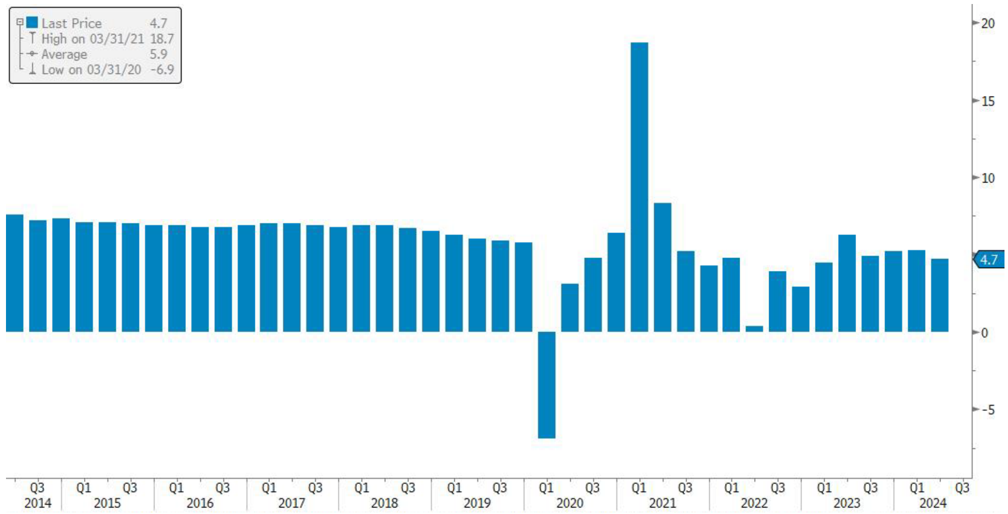
September 2024

What's Ahead

Will the Chinese Economy Reemerge with Stimulus Measures?

Chinese Quarterly YoY Change in GDP

GDP Growth has been slowing in recent years amid a property market crisis



Source: Bloomberg

While many major economies have needed to battle unusually high inflation and excess demand since the pandemic, the Chinese economy has had the opposite problem amid weakening economic growth. The Chinese State Council set a growth target of "about 5%" for 2024, but the economy is falling short of even this historically low target. In the 2010s before the Coronavirus Pandemic, the Chinese economy appeared to be slowing, but it was still growing faster than it has managed to in the post-pandemic environment. From 2010 to 2019, the Chinese economy experienced GDP growth rates ranging from 11% at the beginning of the decade to 6% by the end of the decade. Unemployment was also lower during the decade of the 2010s and falling. In 2010, Chinese unemployment was 4.3% at the beginning of the year. By the onset of the Pandemic in mid-to-late 2019, unemployment in China had fallen to just above 3.6% with urban unemployment at about 5.0%. Today, Chinese growth has slowed, demand growth is anemic, and urban unemployment oscillates between 5.0% and 5.3%. Youth unemployment reached 21.3% in June 2023, the last time the Chinese government reported the figure. Largely responsible for this economic slowdown has been weak demand in China's real estate sector after large property developers like Evergrande and Country Garden defaulted on major debt obligations in 2023. In late September, Chinese officials began to make and promise fiscal and monetary policy stimulus in an attempt to boost demand. The People's Bank of China announced interest rate and reserve ratio requirement cuts as well as cuts to key mortgage rates in an effort to boost demand and growth. Days later, the Chinese Politburo pledged more fiscal support for the economy and steps to ease residential housing oversupply. Chinese Premier Li Qiang promised in a speech on Chinese state TV on September 29 that the government would accelerate the implementation of 102 government projects introduced as part of the government's five-year development plan. These policy changes and promises led to a sharp rally in Chinese stocks with the CSI 300 index rising nearly 21% in September with the entire gain coming after these policy change announcements. Many investors remain skeptical of the Chinese government's promises, however, and question the likelihood and strength of a recovery.

<u>Bottom Line</u>: The Chinese economy's woes have finally resulted in some central bank action. Serious questions remain, however, around the fundamental strengths and weaknesses of the Chinese economy and whether China will be able to fight long-term deflationary trends.

Chinese Residential Housing Prices have been Falling

The latest reading showed a ~2.3% decline in urban home prices

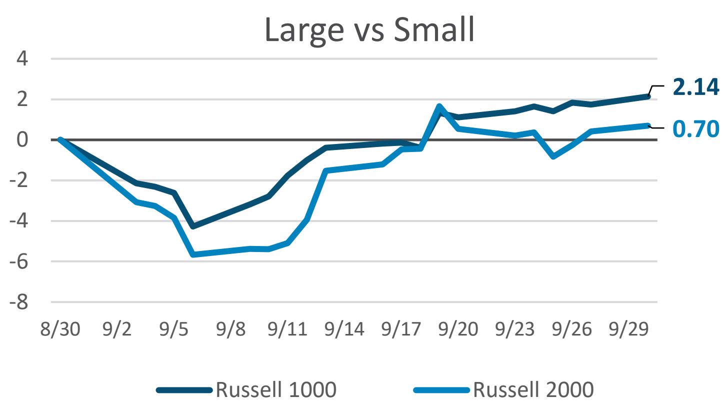
Source: Bloomberg

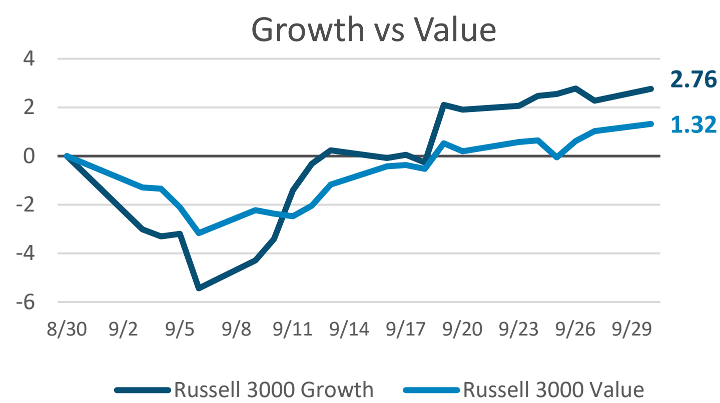
September 2024

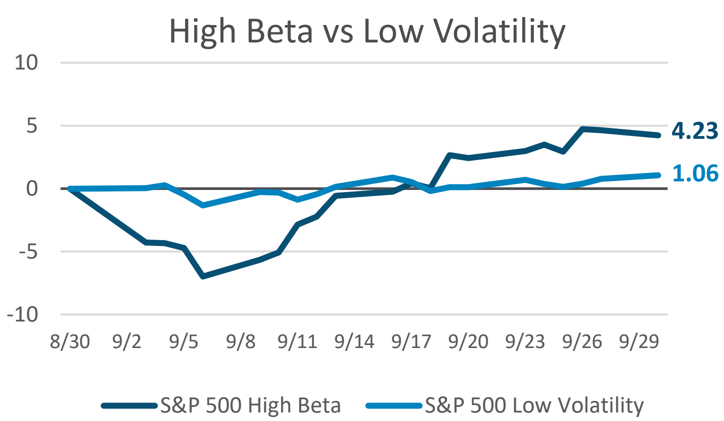
Equity Themes

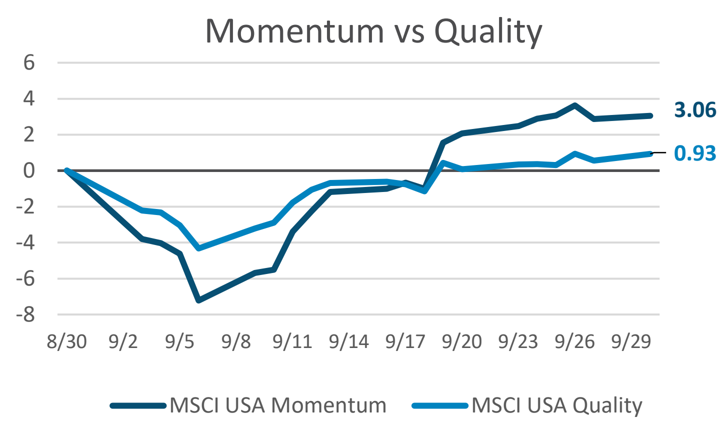
What Worked, What Didn't

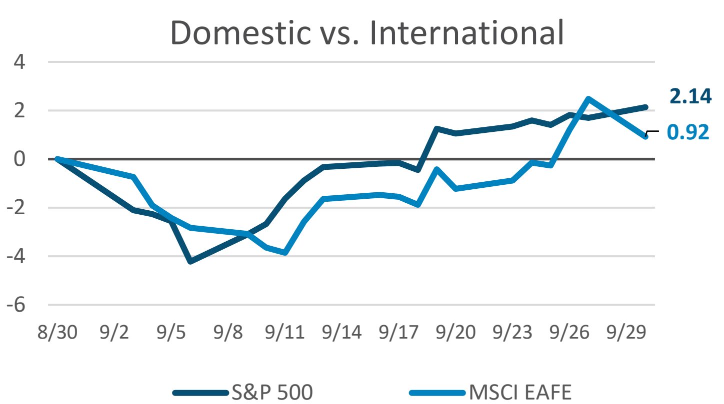
- **Large Outperformed Small while Growth Outperformed Value.** Market participants moved into large-cap growth stocks more so than small-cap or value in September as large-cap tech stocks made a comeback from a volatile August.
- **High Vol and Momentum Outperform.** High Beta significantly outperformed Low Volatility in September as investors sought growth amid loosening monetary policy. Momentum considerably outperformed quality in September, reversing August's market behavior.
- **Domestic Over International, Emerging Over Developed.** Domestic equities in August performed well amid geopolitical concerns, while Emerging equities considerably outperformed Developed markets.

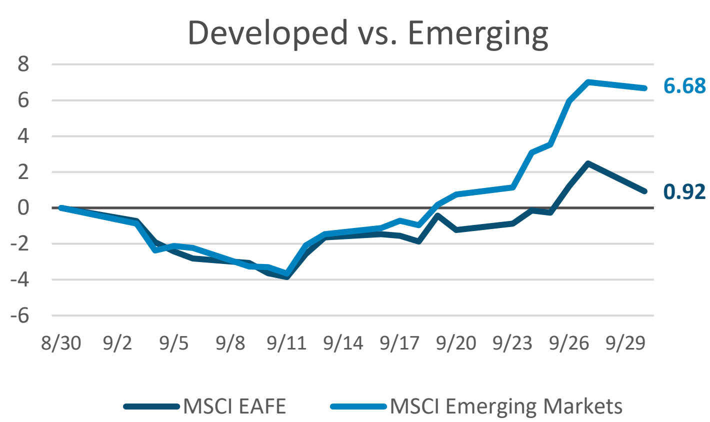












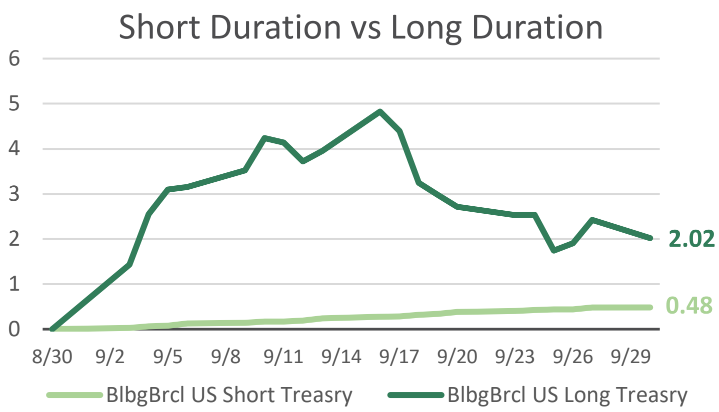
Source: Bloomberg.

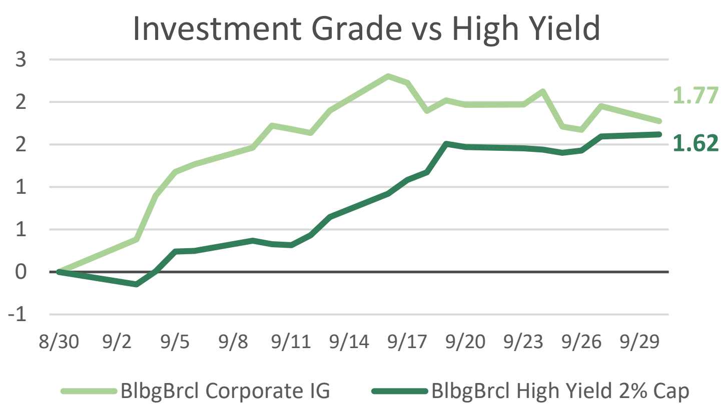
September 2024

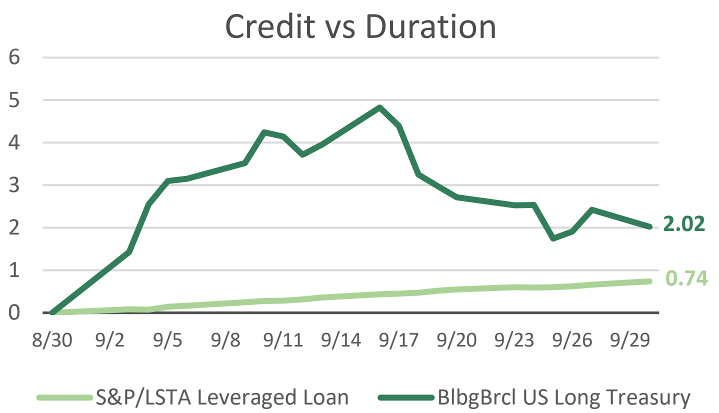
Bond Themes

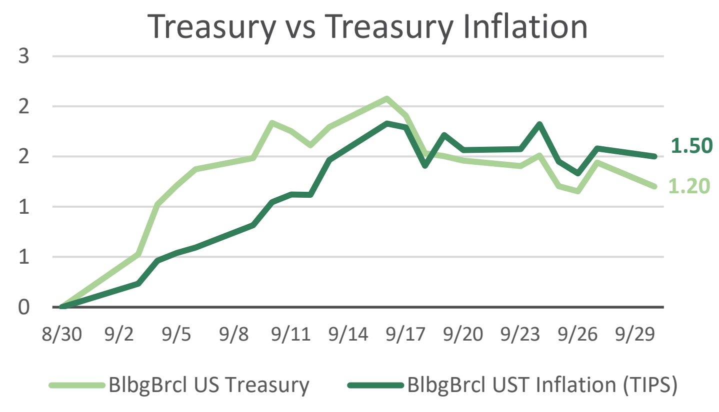
What Worked, What Didn't

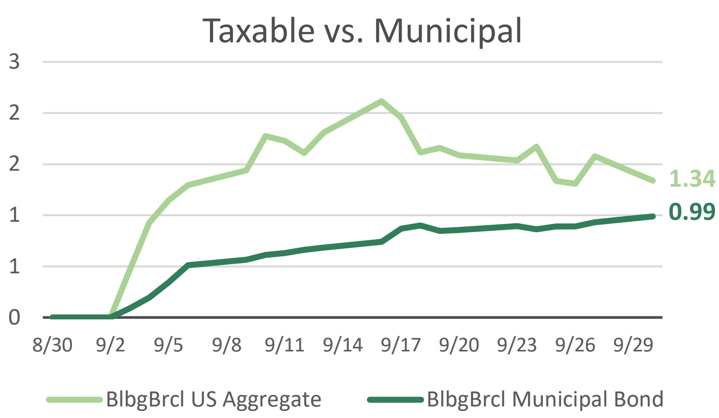
- **Long Duration and Investment Grade Outperform.** Long Duration Treasuries performed well in September, beating Short Duration by over 150 bps. High Yield had a strong month in September outperforming Investment Grade by 15 bps.
- **Duration Tops Credit while TIPS Outperforms.** In September, Long Duration considerably outperformed Credit while TIPS outperformed Treasuries by 30 bps.
- **Taxables and International Outperform.** Taxable Aggregate outperformed tax-exempt Municipal bonds, while International bonds outperformed their U.S. peers, mostly due to the weakening dollar again in September after interest rate cuts.

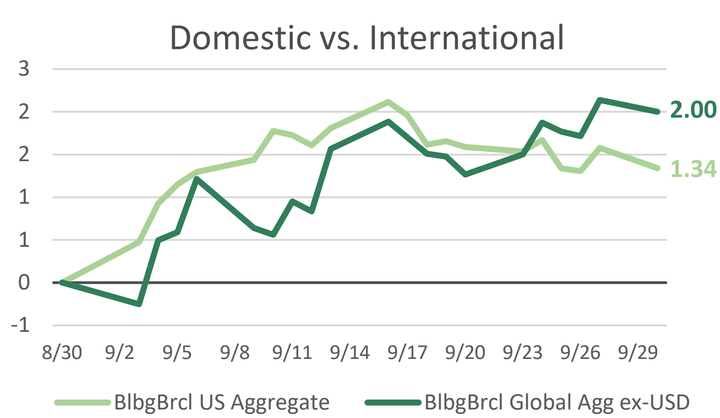












Source: Bloomberg.

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Asset Class Performance

The Importance of Diversification. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.

	Sep-03	Sep-04	Sep-05	Sep-06	Sep-09	Sep-10	Sep-11	Sep-12	Sep-13	Sep-16	Sep-17	Sep-18	Sep-19	Sep-20	Sep-23	Sep-24	Sep-25	Sep-26	Sep-27	Sep-30	Sep	YTD
High	USB 0.42	IBD 0.73	HYB 0.34	USB 0.13	MCG 1.38	RE 1.58	LCG 2.11	SCG 1.27	SCV 2.56	IEQ 0.81	SCV 0.74	SCV 0.13	LCG 2.36	HYB 0.12	RE 0.88	EM 3.41	LCG 0.15	EM 3.66	SCV 0.67	RE 0.71	EM 6.50	LCG 22.61
	IBD 0.01	USB 0.44	USB 0.26	RE -0.09	LCG 1.23	LCG 0.94	MCG 1.17	SCV 1.18	SCG 2.48	MCG 0.79	SCG 0.74	HYB 0.09	SCG 2.18	IBD 0.12	EM 0.78	IEQ 0.59	HYB -0.11	IEQ 2.20	SCG 0.60	LCG 0.47	RE 2.45	LCV 16.00
	RE 0.00	HYB 0.37	IBD 0.23	HYB -0.13	RE 1.22	MCG 0.36	EM 0.74	LCG 1.11	MCV 1.24	LCV 0.77	MCG 0.33	SCG 0.00	EM 2.12	MCG -0.08	MCV 0.56	IBD 0.52	USB -0.38	60/40 0.80	MCV 0.51	SCV 0.27	MCG 2.45	EM 15.67
	HYB -0.35	RE 0.28	EM 0.14	IBD -0.16	IEQ 1.00	USB 0.31	SCG 0.72	EM 0.83	MCG 1.16	MCV 0.67	MCV 0.32	IBD -0.10	IEQ 1.98	LCG -0.09	MCG 0.55	60/40 0.48	MCG -0.39	MCV 0.76	LCV 0.37	LCV 0.27	HYB 1.65	MCV 14.26
	60/40 -1.02	60/40 0.05	LCG 0.10	60/40 -0.95	LCV 1.00	60/40 0.08	IEQ 0.60	MCG 0.82	RE 0.92	IBD 0.66	EM 0.12	MCG -0.17	SCV 1.83	USB -0.09	LCV 0.46	LCG 0.40	60/40 -0.49	LCV 0.69	USB 0.29	SCG 0.20	USB 1.60	RE 12.68
	LCV -1.25	SCG 0.02	IEQ 0.02	LCV -0.99	EM 0.84	SCV 0.01	60/40 0.40	IEQ 0.82	LCV 0.82	SCV 0.62	LCG 0.11	MCV -0.17	MCG 1.68	RE -0.19	IEQ 0.38	SCG 0.28	IEQ -0.54	SCV 0.60	HYB 0.25	MCV 0.19	IBD 1.54	IEQ 12.11
	MCV -1.56	EM -0.02	60/40 -0.01	MCV -1.16	SCG 0.76	IBD -0.10	HYB 0.15	MCV 0.73	60/40 0.51	RE 0.46	HYB 0.03	LCV -0.18	MCV 1.22	EM -0.21	60/40 0.21	MCG 0.23	RE -0.58	SCG 0.48	IBD 0.21	MCG 0.04	60/40 1.53	MCG 11.81
	IEQ -1.58	LCV -0.04	RE -0.32	MCG -1.50	MCV 0.75	HYB -0.19	MCV 0.09	60/40 0.48	EM 0.47	60/40 0.42	LCV 0.01	RE -0.18	60/40 1.08	LCV -0.30	LCG 0.11	MCV 0.14	IBD -0.65	IBD 0.28	RE 0.20	HYB -0.07	LCG 1.46	SCG 11.64
	EM -1.98	MCV -0.25	MCG -0.37	SCV -1.60	60/40 0.64	LCV -0.20	USB -0.03	LCV 0.45	LCG 0.47	EM 0.33	60/40 -0.09	60/40 -0.25	LCV 1.01	60/40 -0.32	USB -0.04	USB 0.14	LCV -0.67	LCG 0.18	MCG 0.10	60/40 -0.15	MCV 1.25	60/40 10.98
	MCG -2.61	LCG -0.28	MCV -0.45	EM -1.83	HYB 0.24	SCG -0.20	IBD -0.10	IBD 0.40	HYB 0.28	HYB 0.25	USB -0.10	USB -0.31	IBD 0.48	SCG -0.62	IBD -0.18	LCV 0.05	MCV -0.82	HYB 0.16	60/40 0.03	USB -0.23	LCV 0.94	HYB 8.04
	SCV -2.71	SCV -0.31	SCV -0.49	IEQ -1.88	USB 0.15	MCV -0.24	LCV -0.13	RE 0.35	IEQ 0.23	USB 0.24	IBD -0.23	IEQ -0.32	HYB 0.30	MCV -0.63	HYB -0.19	RE 0.03	SCG -0.93	MCG 0.13	EM -0.19	IEQ -0.35	IEQ 0.04	SCV 7.24
	LCG -2.92	MCG -0.36	SCG -0.69	SCG -2.06	SCV -0.15	EM -0.38	SCV -0.13	HYB 0.14	USB 0.21	SCG 0.14	IEQ -0.56	LCG -0.34	USB 0.01	IEQ -0.99	SCV -0.25	HYB 0.01	EM -1.05	USB 0.02	LCG -0.53	IBD -0.42	SCG 0.00	USB 4.83
Low	SCG -3.46	IEQ -0.44	LCV -0.79	LCG -2.27	IBD -0.20	IEQ -0.50	RE -0.35	USB -0.09	IBD 0.20	LCG -0.34	RE -0.82	EM -0.35	RE -0.11	SCV -1.44	SCG -0.43	SCV 0.01	SCV -1.43	RE -0.92	IEQ -0.60	EM -1.61	SCV -1.48	IBD 3.82

Legend

- 60/40 Allocation (60/40)
- Large Growth (LCG)
- Large Value (LCV)
- Mid Growth (MCG)
- Mid Value (MCV)
- Small Growth (SCG)
- Small Value (SCV)
- Intl Equity (IEQ)
- Emg Markets (EM)
- U.S. Bonds (USB)
- High Yield Bond (HYB)
- Intl Bonds (IBD)
- Real Estate (RE)

Source: Sources for this market commentary derived from Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Financial. The performance of those funds June be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate. 080223006 - MAH