MONTHLY
MARKET REVIEW

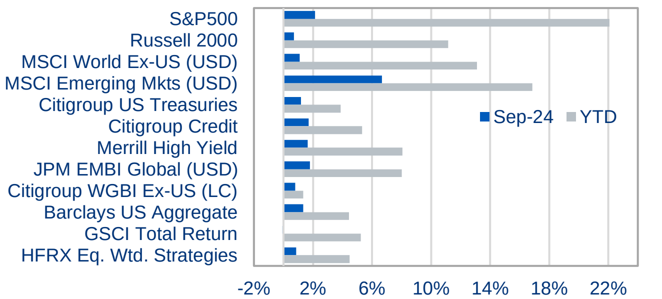
09 2024

Global Market Review

The Fed's 50-basis point rate cut, and a broad-ranging stimulus package announced by China helped send global equity markets higher in September, extending already strong gains. The S&P 500 index closed the month at a record high, buoyed by solid corporate earnings, resilient economic growth, easing price pressures, and expectations for more Fed cuts to come. Chinese equities, which had been lagging other markets, spiked 23% in September, making China the best performing equity market so far this year. Moderating inflation supported advances across sovereign bond markets. The U.S. Treasury yield curve is no longer inverted between 2- and 10-year maturities but remains inverted at the short end. Credit markets benefited from the falling yield environment, but lagged sovereigns. Oil prices plunged in September, despite an increasingly volatile Middle East. Gold prices jumped 10% to another record high. The U.S. dollar index fell.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



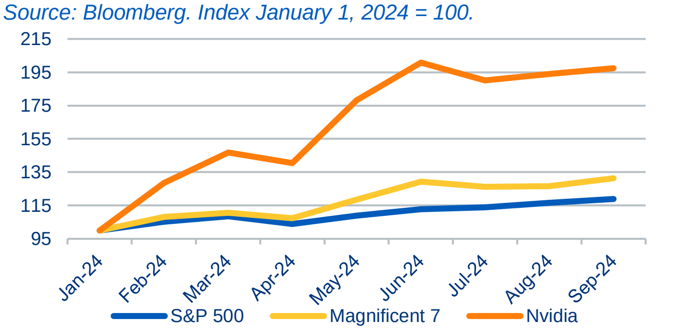
Global equities extend strong gains. China surges ahead.

U.S. Equities Close Month at Record High

The S&P 500 index had another strong month, rising 2.1% in September to close at a record high. The index is up 22.1% in the first nine months of the year. All style categories enjoyed solid gains in September. However, growth handily outperformed value and large cap stocks led small, repeating a pattern that has prevailed for much of the year. Growth stocks are up 24% in the first nine months of 2024 compared to the 16.2% gain of value, while large cap stocks have outpaced small 21.2% versus 11.2%. Technology stocks continue to lead other sectors, reflecting the continued dominance of a few large-cap growth stocks, including notably NVIDIA (Exhibit 1).

Exhibit 1. U.S. Market Hits Record High Led by Large Tech

Source: Bloomberg. Index January 1, 2024 = 100.



A number of factors have supported the U.S. equity market's stellar performance so far this year, notwithstanding the market's significant overvaluation. Corporate earnings growth and margins remain strong and balance sheets healthy. Real income growth and low rates of unemployment are sustaining household consumption, and contributing to continued overall economic growth. Inflation is fast approaching the Fed's 2% target, even as the economy powers on. This has put the Fed in the unusual and welcome position of easing monetary policy not so much to reverse a recession, but rather in recognition of easing price pressures.

Chinese Equities Go from Lackluster to Blockbuster

A litany of economic woes had been weighing on Chinese equity markets, resulting in subpar returns. High debt levels, excess capacity from years of poorly targeted investment, an over-built and over-levered property sector, and a fragile financial sector heavily exposed to the property market were undermining growth and consumer sentiment. Moreover,

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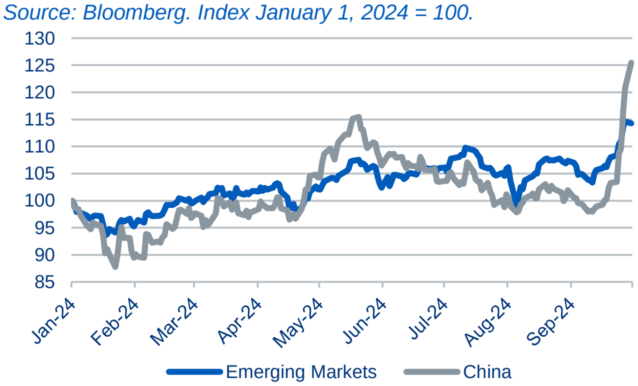
China's strategy of relying heavily on exports as a growth engine seems increasingly at risk. The combination of excess capacity and slowing economic activity contributed to disinflation, compounding the difficulty of managing high levels of debt. Reflecting these economic concerns, Chinese equities had been lagging other emerging and advanced equity markets. However, the announcement in September of a massive stimulus package transformed the performance of the Chinese equity market from lackluster to blockbuster. The stimulus package encompasses a broad range of fiscal and monetary measures and includes support targeted at the property and stock markets. Following a 23.1% spike in September, the Chinese equity market is up 25.5% so far this year, eclipsing other advanced and emerging equity markets (Exhibit 2).

Exhibit 2. Chinese Equity Market Surges Ahead

Source: Bloomberg. Index January 1, 2024 = 100.



Buoyed by the soaring Chinese equity market, the broad emerging equity market index gained 6.7% in September, bringing its gain so far this year to 16.9%. Advanced economy bourses also posted gains. The MSCI World ex-U.S. index of advanced economy stocks rose 1.1%. It is up 13.1% so far this year. Following the tumultuous unraveling of the yen carry trade in August, Japanese equity markets were considerably less volatile in September, although they did decline further in both yen and U.S. dollar terms. European equities managed a small gain (0.4%) in September. With euro area growth slowing, most notably in Germany, and price pressures easing, the ECB is widely expected to cut rates further in its October meeting.

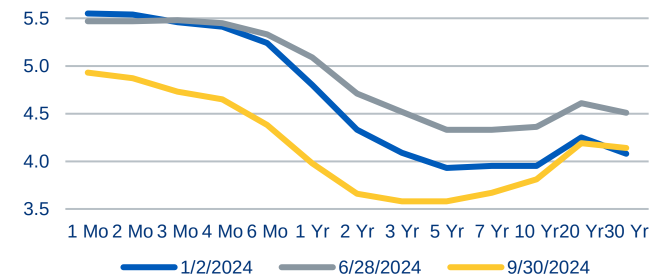
Fed Meets Expectations, Whets Appetite for More

As telegraphed by FOMC members and widely anticipated by the market, the Fed lowered the federal funds rate by 50 basis points to a target range of 4.75% to 5%. The FOMC's projections point to more rate cuts to come, albeit in smaller increments. Fed Chair Powell commented that: "This recalibration of our policy will help maintain the strength of the economy and the labor market and will continue to enable further progress on inflation as we begin the process of moving toward a more neutral stance." The FOMC's summary of economic projections suggests that a neutral stance implies a fed funds rate of 2.4% - 2.8% over the long run.

U.S. Treasury yields declined across the maturity spectrum in September, with the largest declines focused on the short end of the curve. Although the yield curve remains inverted between three-month and 10-year maturities, it is positively sloped between two- and 10-year maturities (Exhibit 3). The broad U.S. Treasury index rose 1.2% in September. In the credit markets, investment grade and high yield bonds were up 1.3% and 1.6%, respectively in September. For the year as a whole, their respective gains are 4.5% and 8.2%, respectively.

Exhibit 3. Treasury Yield Curve Reflects Shift to Easing

Source: Bloomberg. U.S. Treasury yields in percent at different maturities at specified dates.

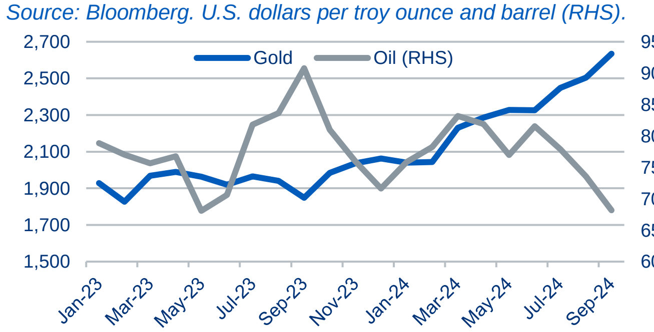


Oil Slumps Despite Middle Eastern Turmoil

Oil prices plunged 7.3% in September, notwithstanding a volatile geopolitical situation in the Middle East (Exhibit 4). They are down 4.9% so far this year, largely reflecting abundant supplies and the prospect of more coming on stream. Gold prices, in contrast, rose to a record high after jumping 10% higher in September. Gold's rise this year has been driven largely by central bank purchases, notably by China and Russia.

Exhibit 4. Gold Hits New Record High, Oil Prices Plunge

Source: Bloomberg. U.S. dollars per troy ounce and barrel (RHS).



Performance of Major Market Indices through 09-30-2024

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	2.1%	5.9%	22.1%	36.4%	11.9%	16.0%
Russell 2000	0.7%	9.3%	11.2%	26.8%	1.8%	9.4%
MSCI World Ex-US (USD)	1.1%	7.8%	13.1%	25.0%	5.6%	8.4%
MSCI Emerging Mkts (USD)	6.7%	8.7%	16.9%	26.1%	0.4%	5.7%
Citigroup US Treasuries	1.2%	4.7%	3.9%	9.7%	-1.7%	-0.2%
Citigroup Credit	1.7%	5.8%	5.3%	13.9%	-1.2%	1.1%
Merrill High Yield	1.6%	5.3%	8.1%	15.7%	3.1%	4.5%
JPM EMBI Global (USD)	1.8%	6.1%	8.0%	18.0%	-0.1%	1.2%
Citigroup WGBI Ex-US (LC)	0.8%	3.0%	1.3%	6.6%	-3.2%	-2.2%
Barclays US Aggregate	1.3%	5.2%	4.4%	11.6%	-1.4%	0.3%
GSCI Total Return	-0.1%	-5.3%	5.2%	-6.1%	8.8%	8.0%
HFRX Eq. Wtd. Strategies	0.9%	2.3%	4.5%	6.8%	1.4%	2.9%