ACIMA PRIVATE WEALTH

ECONOMIC & INVESTMENT PERSPECTIVES

# SEPTEMBER: MARKET RALLY CONTINUES

*GLOBAL PERSPECTIVE: STRONG GLOBAL EQUITY RETURNS*

**Figure 1: 9/30/2024 Returns** (source: Bloomberg)

*Conditional formatting: green (high) to red (low) for each time period*

| Bonds | ETF | Month | QTR | YTD | 1YR | vs. 52-wk High | vs. 52-wk Low |
|---|---|---|---|---|---|---|---|
| US Aggregate Fixed Income | AGG | 1.3% | 5.3% | 4.6% | 11.6% | -0.8% | 10.6% |
| Investment Grade Corp Bonds | LQD | 2.0% | 6.6% | 5.1% | 15.8% | -1.0% | 15.0% |
| U.S. Treasury Bonds | GOVT | 1.2% | 4.7% | 3.9% | 9.7% | -1.0% | 8.6% |
| U.S. 20+ YR Treasuries | TLT | 2.0% | 7.9% | 1.8% | 15.0% | -3.5% | 19.0% |
| Muni Bonds | MUB | 1.1% | 2.7% | 2.2% | 9.1% | -0.2% | 7.8% |
| US High Yield | HYG | 1.7% | 5.7% | 8.1% | 15.8% | -0.1% | 12.0% |
| Non-US Corp Bonds | IBND | 1.7% | 7.2% | 4.0% | 15.7% | -0.8% | 14.6% |
| Emerging Markets Bond LC | EMLC | 3.1% | 8.5% | 4.4% | 13.2% | -0.7% | 9.9% |
| **Global Equity** | | | | | | | |
| ACWI Global Equity | ACWI | 2.2% | 6.4% | 18.5% | 31.8% | -0.6% | 35.3% |
| ACWI Global Equity ex US | ACWX | 2.6% | 7.7% | 13.8% | 25.3% | -1.3% | 27.5% |
| International Developed | EFA | 0.8% | 6.8% | 12.9% | 25.0% | -1.1% | 27.3% |
| Emerging Markets | EEM | 5.7% | 7.7% | 14.8% | 24.0% | -2.3% | 26.1% |
| **Global Equity by Region** | | | | | | | |
| United States | VTI | 2.0% | 6.2% | 20.6% | 35.2% | -0.4% | 39.9% |
| Europe | IEUR | 0.7% | 7.0% | 13.0% | 26.5% | -1.4% | 29.3% |
| Asia ex-Japan | AAXJ | 7.5% | 9.0% | 18.3% | 26.2% | -2.2% | 28.8% |
| China | MCHI | 21.7% | 20.7% | 25.5% | 21.1% | -2.9% | 43.1% |
| Japan | BBJP | -0.4% | 5.1% | 12.9% | 21.7% | -2.3% | 24.3% |
| Latin America | ILF | -0.1% | 4.6% | -8.5% | 7.2% | -13.2% | 15.1% |
| **US Equity** | | | | | | | |
| US S&P 500 | IVV | 2.2% | 5.8% | 22.0% | 36.2% | -0.1% | 40.3% |
| NASDAQ 100 QQQ | QQQ | 2.6% | 2.0% | 19.7% | 37.2% | -3.1% | 42.6% |
| US Large Growth | IWF | 2.9% | 3.1% | 24.3% | 42.0% | -1.9% | 46.7% |
| US Large Value | IWD | 1.3% | 9.4% | 16.5% | 27.5% | -0.3% | 32.4% |
| US Eqwt S&P 500 | RSP | 2.3% | 9.5% | 14.9% | 28.5% | -0.4% | 34.4% |
| US Mid Cap | IJH | 1.1% | 6.9% | 13.5% | 26.7% | -0.9% | 34.6% |
| US Small Cap | VTWO | 0.8% | 9.4% | 11.2% | 26.8% | -3.3% | 36.7% |

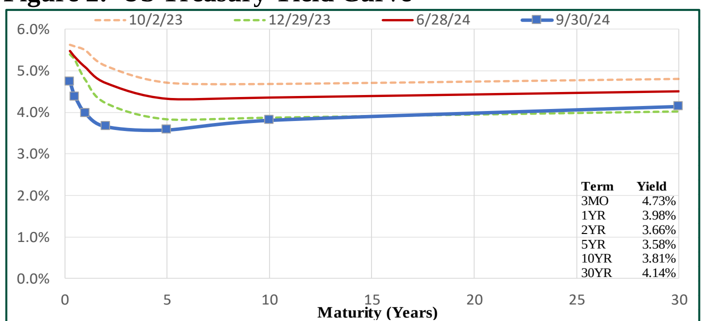
Stocks and bonds continued to rally in September as the Federal Reserve (Fed) began cutting interest rates. Returns were generally positive around the world, especially in China after multiple monetary and fiscal stimulus measures were announced. Performance highlights for the month and third quarter (Q3) are below.

- Bonds: The US Aggregate index (AGG) rose 1.3% this month (+5.3% Q3) as yields fell. Long-term Treasuries (TLT), which are very sensitive to interest rates, gained 2.0% (+7.9% Q3). Corporate bonds (LQD) rose 2.0% (+6.6% Q3), and high yield bonds (HYG) rose 1.7% (+5.7% Q3). Non-US bonds outperformed this month as the US dollar weakened marginally.
- Global equity (ACWI): +2.2% in September (+6.4% Q3).
- US Equity: The broad market (VTI) rose 2.0% (+6.2% Q3). The S&P 500 (IVV) gained 2.2% (+5.8% Q3). After a weak August, small stocks (VTWO) rebounded 0.8% this month (+9.4% Q3). Interest rate-sensitive sectors continued to lead markets higher, including Utilities (XLU) and Real Estate (XLRE), while Energy stocks (XLE) fell 3.0% this month as oil prices declined to $68 per barrel on slowing global demand.
- Non-US Equity: Developed markets (EFA) gained 0.8% this month (+6.8% Q3), with small gains in Europe (IEUR +0.7%, +7.0% Q3) offsetting minor losses in Japan (BBJP -0.4%, +5.1% Q3). Emerging market stocks (EEM) were very strong, rising 5.7% (+7.7% Q3), led higher by China (MCHI +21.7%, +20.7% Q3) after the PBOC and government announced multiple monetary and fiscal stimulus measures in a long-awaited effort to boost their stagnating economy, address real estate market woes and shore up investor and consumer confidence.

## Interest Rates and the Economy

The yield curve (Figure 2) plots the interest rates (vertical axis) for various US Treasury maturities (horizontal axis). Yields fell this month as the Fed cut rates by 0.50% and signaled more cuts in the coming months. CPI fell to 2.5% year-over-year, and the 2.7% reading on core Personal Consumption Expenditures, the Fed's favored inflation metric, is nearing the 2% target. Investors continue to focus on incoming employment and inflation data to calibrate expectations for future cuts, and the inverted yield curve (short-term > long-term yields) signals that significant cuts are priced into the market. US 10-year Treasuries now yield 3.81%.

**Figure 2: US Treasury Yield Curve**

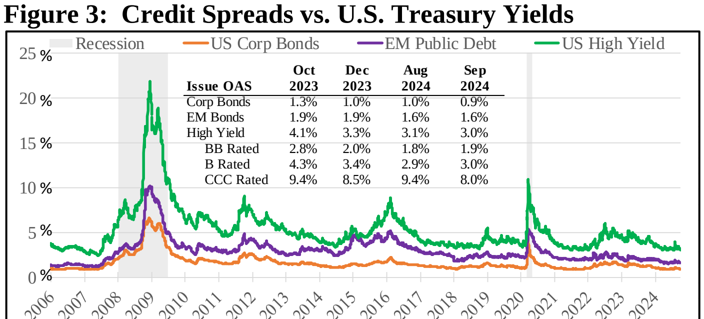



*Source: Board of Governers of the Federal Reserve System via St. Louis Fed (FRED)*

For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between their yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism, while high or widening spreads signal fear. Spreads narrowed in September but ended the quarter relatively unchanged.

- Investment grade corporate bond spreads were narrowed to +0.9% and are slightly tighter than +1.0% spreads last quarter.
- High yield (non-investment grade) spreads have narrowed to +3.0% from +3.2% three months ago. Spreads of the riskiest bonds (rated CCC & below) narrowed measurably to +8.0%, signaling investors' increasing appetite for risk.
- Emerging market spreads have stabilized at +1.6% but have tightened over the past year; investors see low risk in EM debt.

**Figure 3: Credit Spreads vs. U.S. Treasury Yields**



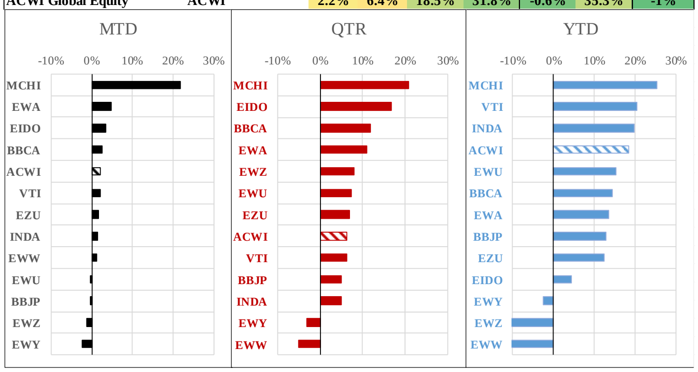

*Source: Ice Data Indices, LLC via St. Louis Fed (FRED)*

## Global Perspective: Strong Equity Returns

US stocks have notched all-time highs and extended their impressive rally. So far this year, the broad market is up almost 21%. Interestingly, equity markets around the world have begun to join the rally. Chinese stocks are now up over 25% this year, gaining 22% in September after the Chinese central bank (PBOC) and government unveiled aggressive monetary and fiscal stimulus measures aimed at resolving their on-going real estate crises, supporting equity markets and restoring consumer and investor confidence. India's stock market is also up 20% this year. Figure 4 lists recent returns for the largest global economies, which account for nearly 80% of global GDP in aggregate.

**Figure 4: Global Equity Returns (source: Bloomberg)**

| Largest Countries by GDP | ETF | Global %GDP | MTD | Q3 | YTD | 9/30/23 | Current vs. 52-wk High | Current vs. 52-wk Low | Current vs. All-Time High |
|---|---|---|---|---|---|---|---|---|---|
| United States | VTI | 25.4% | 2.0% | 6.2% | 20.6% | 35.2% | -0.4% | 39.9% | 0% |
| China | MCHI | 17.9% | 21.7% | 20.7% | 25.5% | 21.1% | -2.9% | 43.1% | -48% |
| Eurozone | EZU | 14.2% | 1.7% | 7.0% | 12.4% | 27.2% | -1.6% | 30.1% | -18% |
| Japan | BBJP | 4.2% | -0.4% | 5.1% | 12.9% | 21.7% | -2.3% | 24.3% | -4% |
| India | INDA | 3.4% | 1.4% | 4.9% | 19.9% | 32.4% | -1.6% | 37.2% | -2% |
| United Kingdom | EWU | 3.1% | -0.3% | 7.3% | 15.4% | 23.3% | -1.2% | 24.1% | -32% |
| Canada | BBCA | 2.1% | 2.6% | 11.9% | 14.6% | 27.5% | -0.7% | 32.4% | -15% |
| Brazil | EWZ | 1.9% | -1.3% | 7.9% | -12.9% | 2.9% | -17.5% | 12.4% | -71% |
| Australia | EWA | 1.7% | 4.8% | 11.0% | 13.6% | 31.1% | -0.4% | 32.5% | -22% |
| South Korea | EWY | 1.7% | -2.4% | -3.2% | -2.4% | 11.4% | -8.0% | 17.4% | -34% |
| Mexico | EWW | 1.5% | 1.3% | -5.1% | -20.2% | -5.6% | -24.5% | 5.8% | -30% |
| Indonesia | EIDO | 1.3% | 3.4% | 16.8% | 4.4% | 5.4% | -4.7% | 24.4% | -38% |
| **ACWI Global Equity** | **ACWI** | | **2.2%** | **6.4%** | **18.5%** | **31.8%** | **-0.6%** | **35.3%** | **-1%** |



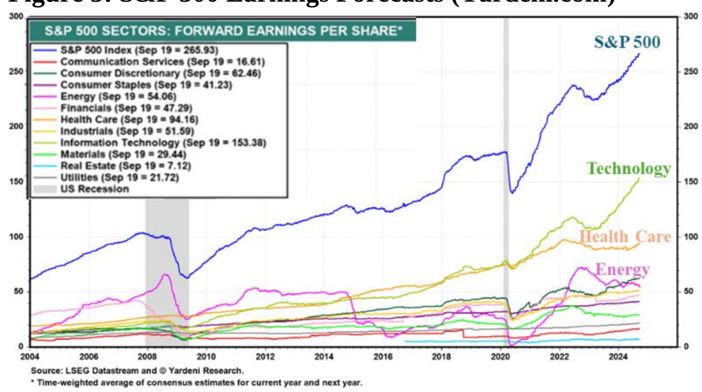

US investors tend to focus on the US economy, inflation and the Federal Reserve. It is important to note that most of the developed world has experienced similar circumstances since the pandemic; inflation rose dramatically around the world, causing global central banks to hike interest rates aggressively. With inflation moderating in the US, Europe, Canada and Australia, the Fed and their global counterparts (European Central Bank, Bank of England, Bank of Canada, etc.) are cutting rates, and their corresponding equity markets have enjoyed double-digit gains this year.

Emerging economies have followed more idiosyncratic paths. Unlike the western world, China responded to the pandemic by shutting down rather than injecting massive stimulus; as a result, they have battled deflation, and their economic recovery has been much more uneven, exacerbated by declining real estate values. Only time will tell if the massive stimulus packages announced recently prove to be a turning point. Even though stocks in China roared 20+% higher in the wake of those announcements, they are still 48% below all-time highs – a long way to go.

Meanwhile, stocks in India have continued to notch all-time highs due to business-friendly reforms and balanced election results, but Latin American stocks continue to lag. Brazilian equities are still 71% below all-time highs (from 2008) amid persistent inflation and political upheaval. Mexico's economy is closely tied to the US (strong trade alliance), and Mexican stocks were performing very well until June, when partisan and populist election results soured investors' confidence and sent markets tumbling.

While global investors have been hyper-focused on macro issues (inflation, employment, interest rates), corporate earnings growth continues to drive stock prices. Earnings have remained strong in the US, especially in the tech sector, as illustrated in Figure 5. Almost all of the S&P 500 earnings growth in the past several years has been driven by a handful of huge technology stocks. If recession can be avoided, lower interest rates should allow earnings growth to broaden to other sectors via lower borrowing costs, improved business investment and resilient consumer demand.

**Figure 5: S&P 500 Earnings Forecasts (Yardeni.com)**




Meanwhile, earnings growth outside of the US has been muted (Figure 6), where aggregate earnings have not fully recovered from the GFC in 2008. Some countries have seen strong earnings (and stock market) growth, including Japan, India and Mexico, while others have made little progress in the past 15 years.

**Figure 6: Global ex-US Earnings Forecasts (Yardeni.com)**


## Bottom Line

We find ourselves at a turning point. Central banks around the world are loosening financial conditions to offset slowing growth. Investors remain focused on in-coming economic data to assess the pace and magnitude of interest rate cuts in the US and beyond, but future stock market gains will be driven by corporate earnings growth. Strong tech earnings in the US have more than offset meager growth across most sectors in recent years, but sustaining those gains depends on continued economic strength and broader growth. While a soft landing in the US and other economies is not a foregone conclusion, the odds improve with each rate cut or, in the case of China, each injection of stimulus. Volatility is likely to continue, especially with heightened geopolitical tensions and looming US elections. Diversification remains critical.