Q3 2024 Review

Equity Market

The market had a rough patch at the beginning of the quarter which saw the S&P 500 fall nearly 10% but rallied to end the quarter positive. The S&P 500 ended the quarter up 5.9%. Market breadth improved and investors saw greater participation outside of mega-cap Tech. The NASDAQ finished the quarter up only 2.8% as investors rotated out of growth names in favor of more value sectors. Utilities were the top-performing sector during the quarter, finishing up 19.37%[1]. The similar theme of AI helped fuel the rally in utilities as market participants realized the energy demand that AI will have on our infrastructure. Close behind utilities, was real estate ending the quarter in the green by 17.17%.

Earnings came in strong and surprised to the upside with the S&P 500 delivering year-over-year earnings growth of 11.3%, well above the 8.9% analysts were expecting on June 30[2]. Prior to last quarter, technology had driven earnings growth at the index level since Q3 23[3]. Technology once again had strong earnings results with 20% year-over-year growth, but the S&P 500 Index ex-Technology posted earnings growth of 8.5%[3]. Last quarter was a great example of why investors should maintain a diversified strategic allocation. The market shifted and recent out of favor sectors became the market leaders. It's important to look at earnings from a relative perspective, not only on absolute growth. Below is a table that shows sector earnings growth relative to previous quarters[4]. To note, the utilities sector has the greatest earnings momentum and also is the top-performing sector year-to-date.

Sector	YTD 3Q24	CY23/CY22: Upside	CY23/CY22: Downside	YTD24/YTD23: Upside	YTD23/YTD22: Downside
Basic Materials	14.16%	9	19	13	14
Communications Services	25.48%	13	7	15	5
Consumer Discretionary	12.81%	35	18	38	12
Consumer Staples	17.64%	26	11	27	9
Energy	7.30%	8	13	7	15
Financial Services	21.81%	49	21	54	14
Health Care	14.25%	36	23	38	21
Industrials	20.12%	52	19	55	19
Information Technology	17.95%	46	19	45	22
Real Estate	14.22%	12	19	13	18
Utilities	30.42%	16	12	24	5
S&P 500 Index	**22.10%**	**302**	**181**	**329**	**154**

[1] S&P Dow Jones Indices; https://www.spglobal.com/spdji/en/documents/performance-reports/dashboard-us-sector.pdf
[2] FactSet Research Inc; https://insight.factset.com/sp-500-earnings-season-update-august-9-2024
[3] Blackrock; https://www.blackrock.com/us/financial-professionals/literature/presentation/uswa-market-portfolio-insights-deck.pdf
[4] KPS Research, Morningstar Direct

Fixed Income Market

The highlight for the quarter in the fixed-income market was the rate cut on September 18th. Policymakers cut the Fed Fund's rate by 50 basis points, marking the end of the tightening cycle that began in March 2022. The long end of the yield curve remained relatively flat following the cut, but, the yield on the 10-year Treasury fell 0.60 during the quarter and ended at 3.74%. Another important development was the un-inversion of the yield curve. Since July 2022, the 2-year Treasury yield has been higher than the 10-year Treasury yield, which lasted for 783 days marking the longest 2's/10's inversion in history[5]. Following the rate cut, policymakers indicated they were likely to cut rates two more times through the end of the year, but only at a pace of 0.25%. Their data-dependent stance remains, as they move into their easing cycle.

As rates declined last quarter, fixed-income investors were rewarded with positive bond returns. The Bloomberg US Aggregate Bond Index finished the quarter up 5.2%. Credit spreads also remain tight and closed the quarter at 3.03% after a brief spike in early August to 3.93%. The high yield spread measures the yield between riskier "junk" bonds and the maturity equivalent US Treasury securities. This spread is a common measurement of investors' risk-taking appetite. When fear overtakes the market, this spread has historically widened as riskier bonds are sold to purchase the relative security of Treasury Bonds.

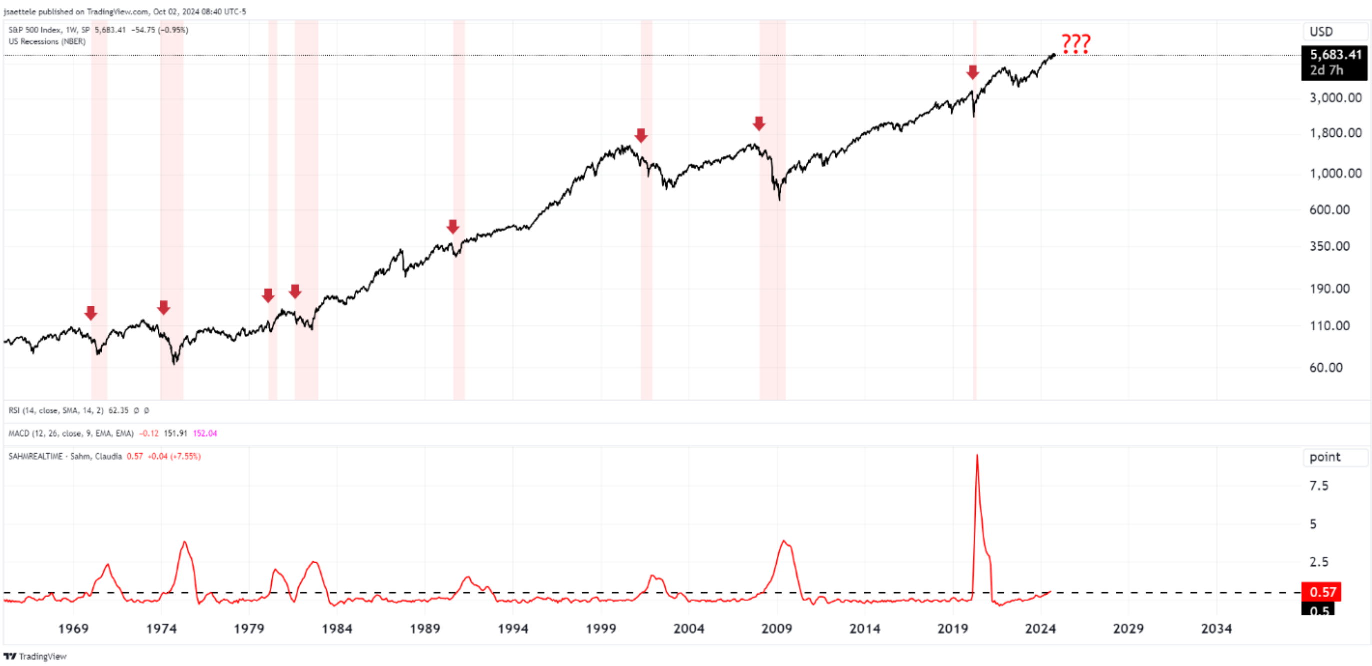
Economic

The most notable economic development from the quarter was the continued slowing of inflation, which led the interest rate cut in September. In August, the Fed's preferred inflation gauge, the Personal Consumption Expenditures Price Index (PCE), hit its lowest level since February 2021. The headline reading showed price increases of 2.2% year-over-year and the core reading, which excludes food and energy, rose 2.7% year-over-year. While still not at the 2% target, inflation has significantly improved since the peak in June 2022 of 7.1%.

Economic data continues to come in mixed, however. The labor market has continued to cool with the unemployment rate reaching 4.3% in July, but ticked down to 4.2% in August. While these are not concerning numbers by themselves, it may indicate a trend development featuring continued weakening in the labor market. The reading in July triggered the recently popular *Sahm Rule*. This indicator aims to be a more timely indicator of labor market weakness and ultimately economic slowdowns. When the three-month average of unemployment increases by 0.5% or more from its 12-month low, the likelihood of a recession in the near-term increases, from a historical perspective. The chart below shows the Sahm Rule trigger points going back 50+ years and S&P 500 price chart[6].

[5] U.S. Global Investors, https://www.usfunds.com/resource/the-yield-curve-inversion-just-ended-but-economic-risks-remain/#:~:text=Typically%2C%20the%20spread%20between%20the,such%20period%20in%20U.S.%20history.
[6] KPS Research, Trading View

S&P 500 Index (black) and Sahm Rule Indicator (red)



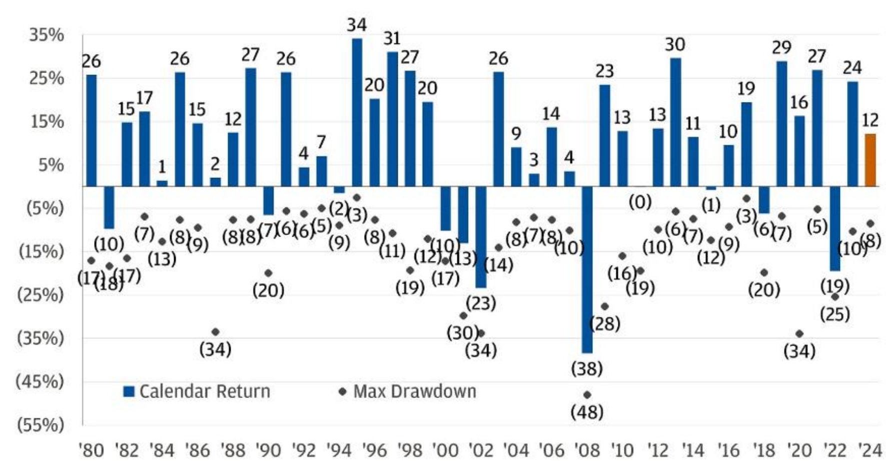
The Federal Reserve has a dual mandate, price stability, and a strong labor market. They have made significant progress on price stability but as we see weakness forming in the labor market, we believe the latter mandate will begin to take the spotlight.

Q4 2024 Outlook

Equity Market

The market is ripe for elevated volatility. The election will be here in a matter of weeks and we continue to get signals for a weaker economic road ahead. Economic weakening, slowing earnings, or even a recession, do not point to an automatic market meltdown. Historically, the S&P 500 intra-year drawdown is roughly 14%, the chart to the right from JP Morgan shows the max drawdown for a given year and its

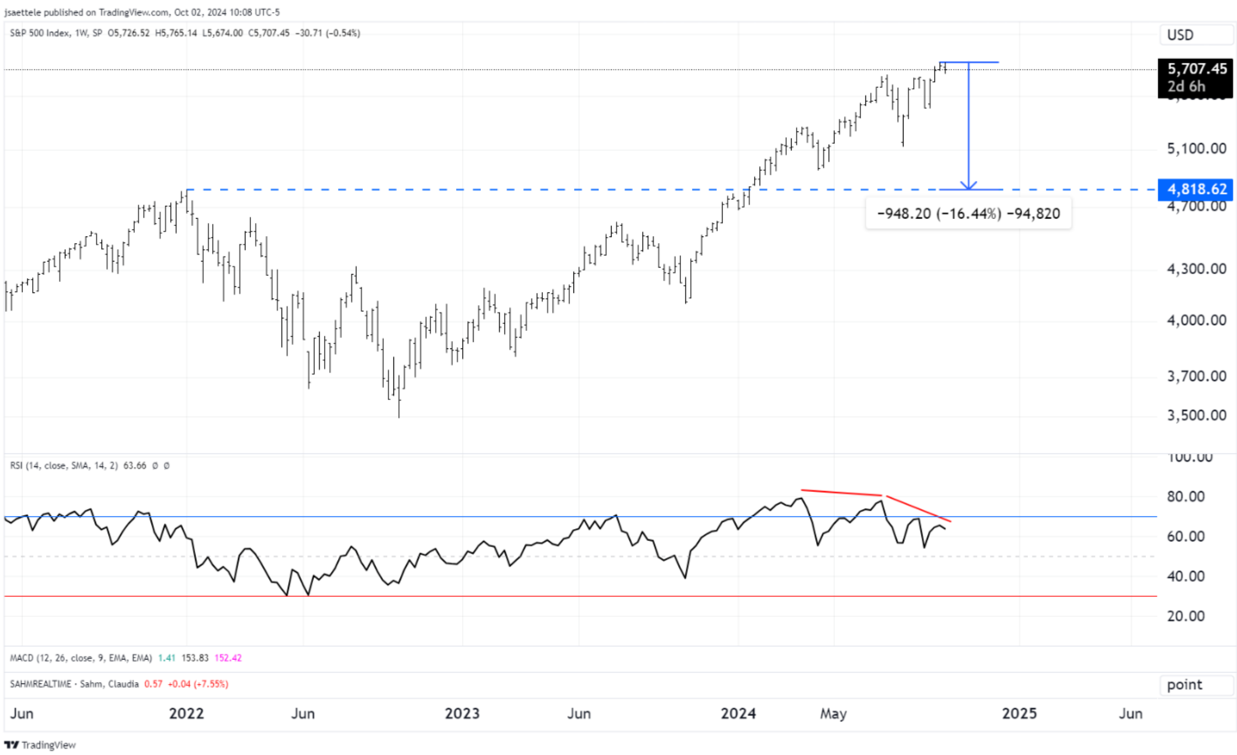
S&P 500 intra-year declines (max drawdowns) & calendar year price returns



Sources: FactSet, Standard & Poor's, J.P Morgan Asset Management – Guide to the Markets. Returns are based on price index only and do not include dividends. Intra-year drawdowns refer to the largest market declines from a peak to a trough during the year. Return shown are calendar year returns from 1980 to present year. Data as of July 31, 2024.

respective annual return going back to 1980[7].

A pullback that would be average according to historical standards would put the S&P 500 near 4,819 which is the January 2022 high. The level can be seen below[8]:



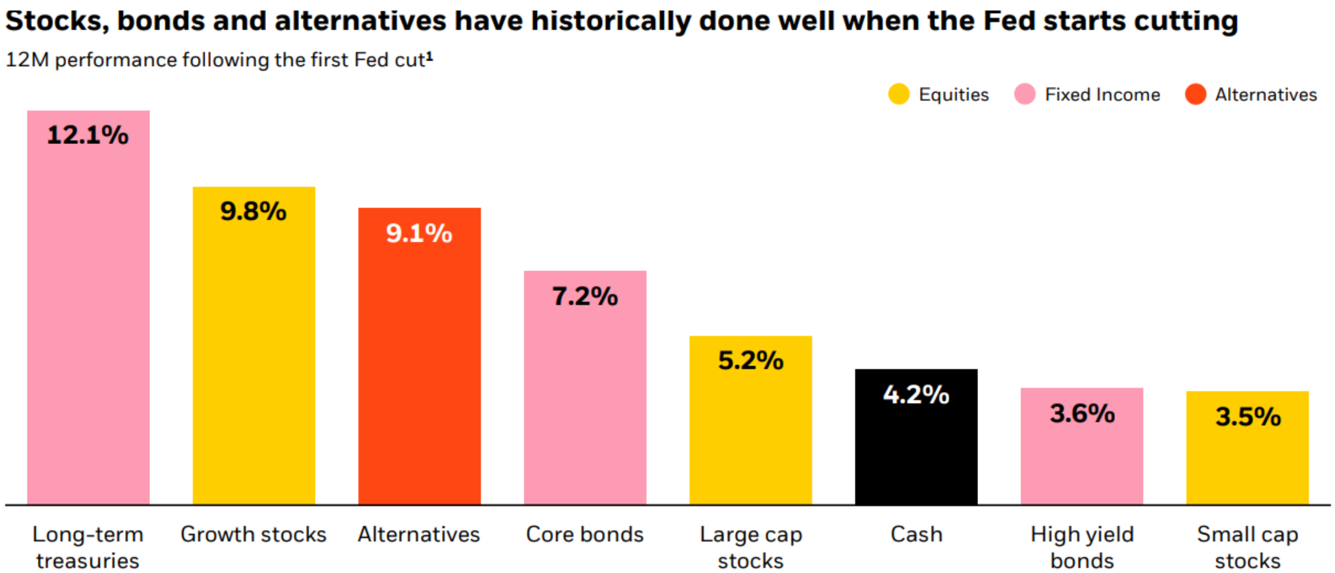
We believe indicators have a reason for existence. They are not 100% right, but they can be a guide to understanding risk-taking environments and times to be slightly more guarded. While we do not see a material breakdown in the markets as a high probability, we see pockets of weakness in economic data, labor market cracks, valuations, and downward earnings revisions all increasing the probability of a market pullback.

Fixed Income Market

Now that the Fed has started their easing cycle, we encourage investors to review their cash holdings and differentiate between the portions for near-term liquidity needs and what can take risks in the bond market. Historically, cash has been inferior to bonds through rate-cutting cycles. The bond market has doubled the performance of cash during a rate-cutting cycle going back to 1970[9]. As the Fed continues to lower rates on the short end investors should anticipate a precipitous drop in cash yields. Policymakers have a much greater influence on the short end of the curve while market dynamics, with monetary policy, influence mid and long-term yields. We believe that after identifying what percentage of your allocation currently in cash/cash alternatives can take on slightly more risk, investors should look to extend out in

[7] JP Morgan Private Bank, https://privatebank.jpmorgan.com/apac/en/insights/markets-and-investing/tmt/7-considerations-to-make-the-most-of-market-volatility
[8] KPS Research, Trading View
[9] Blackrock; https://www.blackrock.com/us/financial-professionals/insights/investment-directions-fall-2024

maturity to lock in, what we consider, attractive yields. The chart below from Blackrock shows various asset class returns during a cutting cycle[10].



Source: Morningstar as of 7/31/2024. **1** The first Fed cut refers to the first time the Federal Reserve cuts the federal funds rate after an interest rate hiking or pause cycle. This can begin to impact other types of interest rates across the public and private sectors. Long-term treasuries represented by the Bloomberg US Treasury 20+ Year Index, Growth stocks represented by the Russell 1000 Growth TR Index, Alternatives by the Credit Suisse Hedge Fund Index, Core bonds by the Bloomberg US Agg Bond Index, Large caps by the S&P 500 Index, Cash by the Money Market Taxable Fund average, High yield by the Bloomberg High Yield Corporate Index, and U.S. small cap stocks represented by the Russell 2000 TR index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

In prior market updates, we have noted that the un-inversion of the yield curve has historically been a better indicator of a nearing recession. While recessions have historically begun following the un-inversion, the yield curve un-inverting does not mean there will be a recession. Policymakers are still on pace to achieve the ever-elusive "soft-landing" but risks of a slowing economy remain. Quality fixed income has historically been a portfolio stabilizer during times of equity market weakness. Through the end of the year, we expect the 10-year Treasury yield to stay rangebound in the 4.5-5% range. The Fed is expected to cut rates two more times this year. The pace of these cuts is still up for debate. We believe that a cadence of 25 basis points will be a sufficient path to the ultimate neutral rate and if we were to see larger cuts this year, it would likely accompany a material deterioration in the economic environment.

Conclusion

As long-term investors, we believe reviewing your strategic allocations close to market highs is more prudent than during a fear-driven market panic. This allows you to identify potential concentrations in risk that could lead to emotional decision-making during times of volatility. Ensuring your allocations and risk exposures align increases the probability of meeting your long-term financial goals.

At Krilogy®, we are committed to helping you effectively navigate the ever-changing market environment. As long-term investors, we believe it is critical to remain patient and stick to the plan that was developed for your unique situation to arrive at a personal allocation target. Our entire team remains dedicated to helping you achieve your financial goals.

**Please See the Following Page for Important Disclosures*

[10]Blackrock; https://www.blackrock.com/us/financial-professionals/literature/presentation/uswa-market-portfolio-insights-deck.pdf

Important Disclosures

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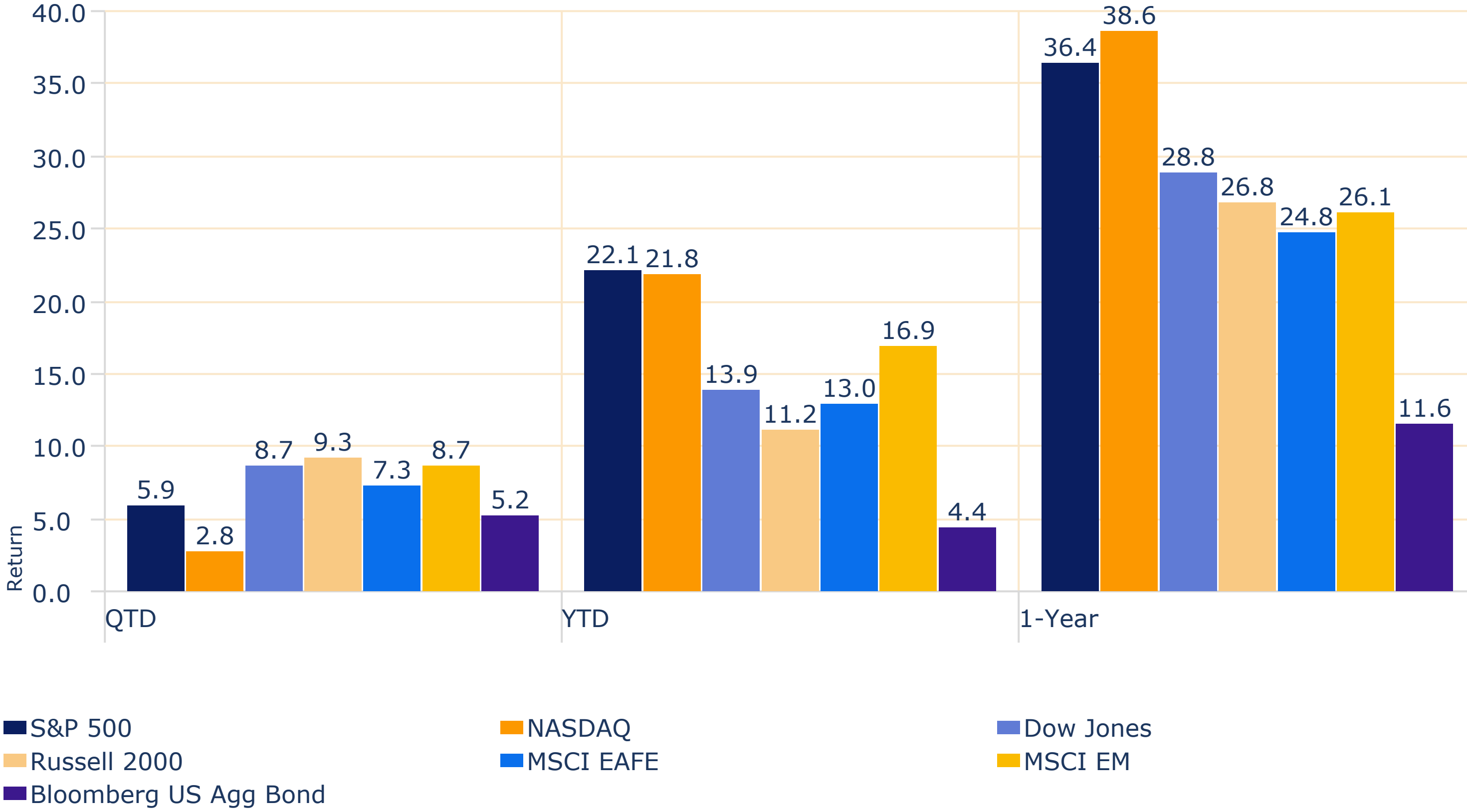
Market Data

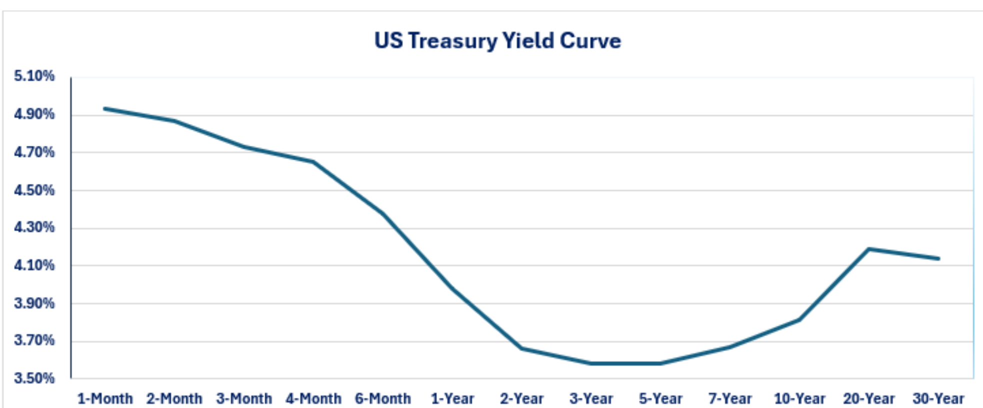
Index Returns

As of Date: 9/30/2024



Sector Returns - YTD

	YTD
Communications	25.48
Consumer Staples	17.64
Energy	7.30
Financials	21.81
Health Care	14.25
Industrials	20.12
Materials	14.16
Real Estate	14.22
Technology	17.95
Utilities	30.42
Consumer Discretionary	12.81



As of 9/30/2024: https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2024

Source: Morningstar Direct