October 2024

Quarterly Market Review

Third Quarter of 2024

Fed Initiates Cutting Cycle

Ed Goard, CFA
Chief Investment Officer

In Q3 2024, the Federal Reserve initiated its long-awaited rate-cutting cycle, delivering a 50 basis point reduction. This marks a shift in policy in response to softer non-farm payroll reports and rising unemployment over the summer, as the Fed shifts its focus from inflation to the jobs market and aims to prevent a sharper slowdown.

Financial markets celebrated the move, with Treasuries delivering a fifth consecutive month of positive returns in Bloomberg's benchmark Treasury index. The yield curve steepened notably, with the 2/10 spread moving positive for the first time since mid-2022, and both corporate bonds and agency mortgages outperforming Treasuries.

Major U.S. equity indices continued their upward trajectory, with the S&P 500 posting its fourth consecutive quarter of gains. Despite a mid-summer dip, both the S&P 500 and the Nasdaq showed resilience, with the former closing at a new record high by the end of September. One notable development this quarter is the broadening distribution of financial market returns. Equity performance was no longer solely concentrated in a handful of mega-cap technology names. Lower borrowing costs provide relief not only to large corporations but also to smaller businesses and consumers, especially those whose borrowing is tied to the prime rate. This segment of the economy, which has been burdened by high inflation and elevated interest rates, should finally experience some relief as the Federal Reserve cuts policy rates. The equal-weight S&P 500 index (+9.1%) outpaced the traditional cap-weighted version (+5.9%), signaling that a wider range of companies contributed to overall market gains. While the so-called "Magnificent 7" (AAPL, AMZN, GOOGL, META, MSFT, NVDA, TSLA) trailed (+5.4%). Other sectors like utilities, real estate, and financials posted strong gains, reducing overreliance on just a few companies.

Quarterly Market Review

Third Quarter of 2024

Annualized Return	Bloomberg US Aggregate Bond Index	S&P 500 Index	S&P 500 Equal Weight Index	S&P 500 Dividend Aristocrats	S&P Midcap 400 Index	S&P Small Cap 600 Index	Bloomberg Magnificent 7 Index
* Quarter To Date	5.2	5.9	9.6	11.7	6.9	10.1	5.4
* Year To Date	4.4	22.1	15.2	14.2	13.5	9.3	44.4
1 Year	11.6	36.4	28.8	23.7	26.8	25.8	62.5
3 Years	(1.4)	11.9	8.2	9.1	7.4	3.9	25.1
5 Years	0.3	16.0	12.8	11.1	11.7	10.1	47.2
10 Years	1.8	13.4	11.1	11.4	10.3	10.0	-

Source: YCM, Bloomberg, S&P. Performance as of 09/30/2024. Index performance is provided for illustrative purposes only and does not represent the performance of any accounts managed by Yousif Capital Management. It is not possible to invest directly in an index. Actual account performance would be reduced by the impact of advisory fees and transaction costs. At any time, the holdings and performance of any actual portfolio managed will vary from those of the index.

* Quarter To Date and Year to Date returns are not annualized.

Looking Forward

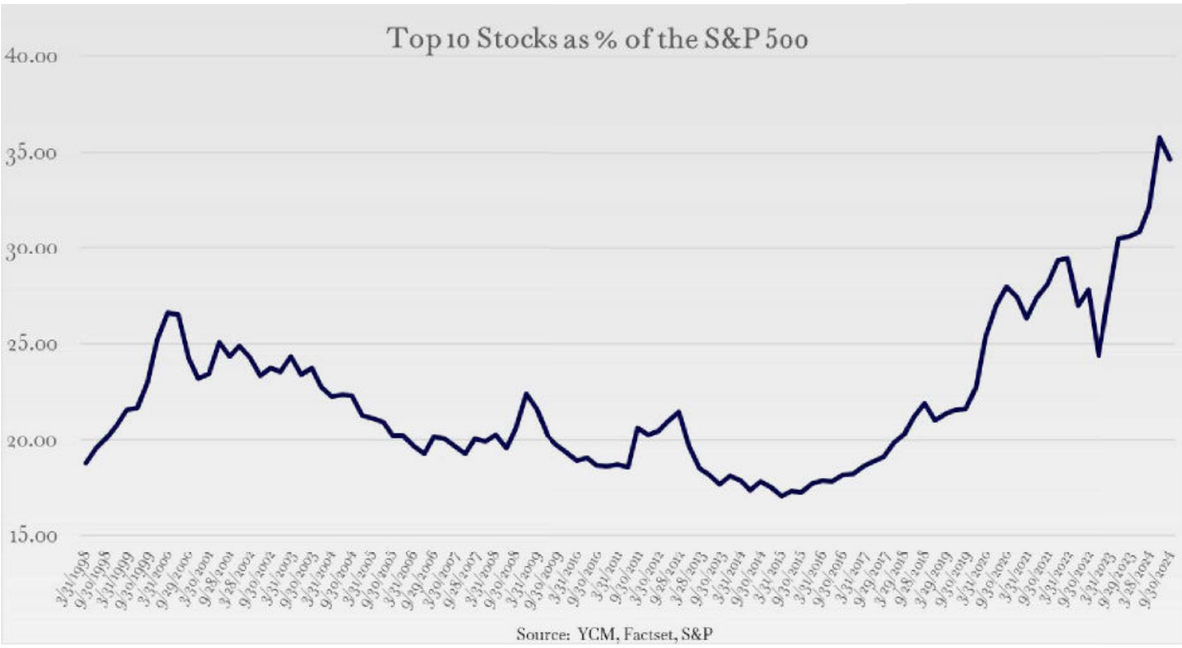
We believe the likelihood of a recession in 2025 is relatively low at this juncture and expect GDP will grow between 2.5% and 3.0% over the next 12 months. The increase in jobless claims and softening of non-farm payrolls over the summer is a natural response to restrictive monetary policy, but it is not an immediate precursor to a recession. Consider that U3 unemployment before and after the Global Financial Crisis averaged in the low to mid-5% range, and the economy continued to expand. One of the standout stories of Q3 is the resilience of consumer spending. Despite the softening labor market and rising unemployment, inflation-adjusted spending remains strong, particularly in services. This underscores the health of the U.S. consumer, who has thus far managed to weather the combined pressures of inflation and higher interest rates. This points to an economy that is adjusting, not collapsing. Furthermore, rate cuts should help ease restrictive financial conditions that have been weighing on capital-intensive sectors, particularly manufacturing. The Fed's rate cuts are designed to prevent a sharp downturn, and we believe they will be effective in moderating any economic slowdown without tipping into recession territory. We anticipate further easing of between 100 and 150 basis points over the next 12 months as inflation continues to moderate.

The risk of economic downturns, inflation spikes, and market volatility cannot be completely ruled out. Risks remain, particularly in the form of elevated valuations, geopolitical risks, and ongoing labor disputes. Markets tend to overreact in both directions during monetary policy inflection points. And, concentration risk within the S&P 500 is elevated, with the top ten largest companies making up 35% of the index. This concentration leaves the market vulnerable to sharp corrections if investor sentiment shifts.

October 2024

Quarterly Market Review

Third Quarter of 2024



As we move into the final quarter of 2024, the focus will be on the Fed's rate-cutting pace and its ability to manage inflation without stalling economic growth. While risks remain, we expect steady moderation of inflation, resilient consumer spending, and a stable, if slowing, labor market to support a positive outlook for the economy and markets heading into 2025.

Disclosures

All data contained in this document is based on information and estimates from sources believed to be reliable. Past performance of investment strategies discussed is no guarantee of future results or returns. Forward-looking statements (including words such as "believe", "estimate", "anticipate", "may" "should" and "expect") are founded on certain assumptions involving significant elements of subjective judgement/analysis, based on information available at the date of this material. Views regarding the economy, securities markets, or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to an investor. YCM believes the facts and information to be accurate and credible but makes no guarantee to the complete accuracy of this information. Opinions expressed reflect subjective judgements and will evolve as future events unfold. Yousif Capital Management, LLC ("YCM") is a registered investment advisor based in Bloomfield Hills, MI. A more detailed description of YCM, its management team and practices can be found the firm's brochure, Form ADV Part 2A which can be requested by contacting the company or at https://adviserinfo.sec.gov.