

Q3

Quarterly Market Review

Third Quarter 2024



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Quarterly Market Review

This report features world capital market performance and a timeline of events for the past quarter. It begins with an article exploring the impact of falling interest rates on stock and bond performance. It then features the returns of stock and bond asset classes in the US and international markets.

Overview:

Quarterly Topic: It's Going Down: An Update on Interest Rates

Market Summary

World Stock Market Performance

US Stocks

International Developed Stocks

Emerging Markets Stocks

Real Estate Investment Trusts (REITs)

Fixed Income

Global Fixed Income

Commodities

It's Going Down: An Update on Interest Rates



Key Takeaways

- The Fed cut rates by 0.50% in September 2024, with more cuts anticipated through the year and in 2025.
- Historically, we've seen rate cut cycles take a similar path to current expectations. Rates have often fallen quickly once cuts have begun.
- Falling rates have historically benefited intermediate-duration bonds as well as small-value stocks.

In September, the Federal Reserve (Fed) made its first cut to the federal funds rate since March 2020 – a 0.50% reduction. Now, expectations from both the Fed and market participants are for more cuts, and in relatively short order. Recently released Fed estimates project two more 0.25% cuts in the policymakers' last two meetings of the year. They also estimate the fed funds rate to be about 3.4% by the end of 2025. The current target rate is 4.75-5.00%.

As of the market close on September 30, market expectations were slightly more aggressive. Prices on fed futures contracts suggested that the highest probability outcomes are two more cuts in 2024 (total reduction of 0.75% over those two meetings) and cuts in each of the first four meetings of 2025. That would bring the federal funds rate to a target range of 3.00-3.25%. **Figure 1** shows all implied probabilities by target rate range for the next nine Federal Open Market Committee (FOMC) meetings.

Figure 1 | The Market Expects Several More Rate Cuts Ahead

Probability of Federal Funds Rate Target Range by 2024 FOMC Meeting

FOMC MEETING DATE	1.75-2.00%	2.00-2.25%	2.25-2.50%	2.50-2.75%	2.75-3.00%	3.00-3.25%	3.25-3.50%	3.50-3.75%	3.75-4.00%	4.00-4.25%	4.25-4.50%	4.50-4.75%	HIGHEST PROBABILITY ACTION
11/7/24	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	36.70%	63.30%	CUT
12/18/24	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	16.50%	48.60%	34.90%	0.00%	CUT
1/29/25	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	3.60%	23.50%	45.60%	27.20%	0.00%	0.00%	CUT
3/19/25	0.00%	0.00%	0.00%	0.00%	0.40%	5.80%	26.00%	43.60%	24.20%	0.00%	0.00%	0.00%	CUT
5/7/25	0.00%	0.00%	0.00%	0.30%	4.60%	21.40%	39.60%	28.60%	5.50%	0.00%	0.00%	0.00%	CUT
6/18/25	0.00%	0.00%	0.20%	3.10%	15.70%	33.50%	32.30%	13.30%	1.80%	0.00%	0.00%	0.00%	CUT
7/30/25	0.00%	0.10%	1.30%	7.80%	22.40%	33.10%	25.20%	9.00%	1.20%	0.00%	0.00%	0.00%	HOLD
9/17/25	0.00%	0.40%	3.20%	12.10%	25.50%	30.70%	20.40%	6.70%	0.80%	0.00%	0.00%	0.00%	HOLD
10/29/25	0.10%	1.00%	5.00%	14.90%	26.60%	28.60%	17.60%	5.50%	0.60%	0.00%	0.00%	0.00%	HOLD

Data as of 9/30/2024. Source: CME FedWatch.

It's Going Down: An Update on Interest Rates

The History of Fed Rate Cuts

If these predictions on the path of interest rates feel overzealous, take a look at how the Fed has handled interest rate decisions in the past. In **Figure 2 Panel A**, we share details on each time the Fed has lowered the fed funds rate since 1990. Before that, the Fed didn't target a specific fed funds rate.

We observe nine distinct periods of rate cuts, and it's clear that some have quite different characteristics than others. Four of the nine periods saw the fed funds rate decline by less than 1%. During the other five periods, the average rate change from the first to the last rate cut was more than 3% and, in each case, with a cumulative cut of at least 1% occurring within six months. **Figure 2 Panel B** depicts those five periods showing cumulative rate cuts by month after each cycle began. It's evident that historically when the Fed has cut rates in similar magnitudes to their current projections, it has happened fast.

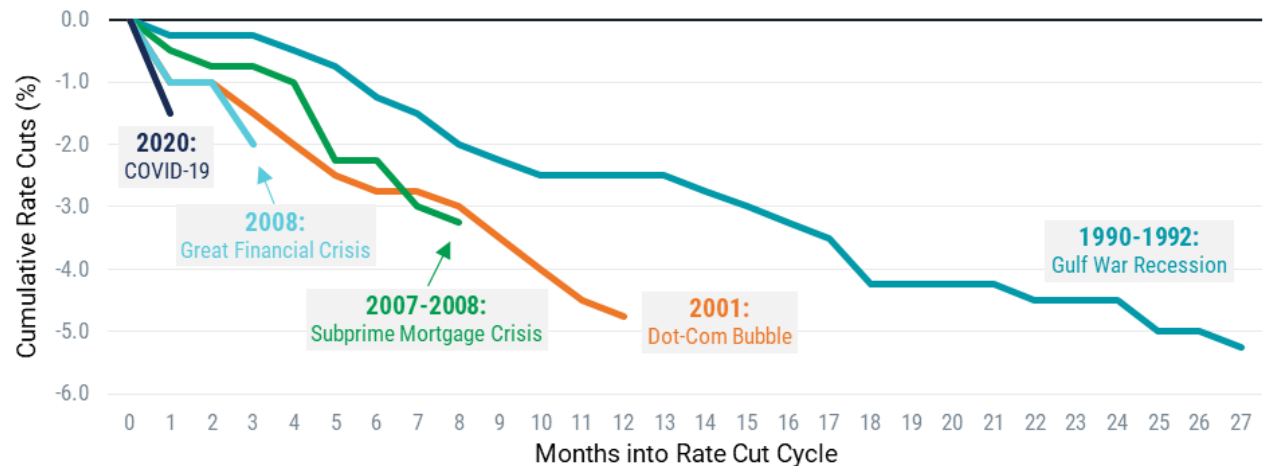
Figure 2 | History of Fed Funds Rate Cuts Since 1990

Panel A | All Historical Rate Cut Cycles

Period	Starting Fed Funds Rate	Ending Fed Funds Rate	# of Rate Cuts	Size of First Rate Cut	# of Months to Cut 1%
July 1990 - September 1992	8.25%	3.00%	18	0.25%	6
July 1995 - January 1996	6.00%	5.25%	3	0.25%	-
September 1998 - November 1998	5.50%	4.75%	3	0.25%	-
January 2001 - December 2001	6.25%	1.75%	11	0.50%*	1
November 2002 - June 2003	1.75%	1.00%	2	0.50%	-
September 2007 - April 2008	5.25%	2.00%	7	0.50%	4
October 2008 - December 2008	2.00%	0.00%	3	0.50%*	1
August 2019 - October 2019	2.25%	1.50%	3	0.25%	-
March 2020	1.50%	0.00%	2	0.50%*	1

*Multiple rate cuts occurred in the first month of the cycle via emergency FOMC meetings. The figure shown reflects only the first rate-cut decision.

Panel B | Past Rate Cut Cycles When the Fed Funds Rate Fell by 1% or More



It's Going Down: An Update on Interest Rates

The Impact of Bond Duration During Falling-Rate Environments

For many investors, the question now is what these expected rate cuts could mean for their portfolios. With more than \$5 trillion currently in government money market funds, a more specific question is what impact will duration have during a period of declining interest rates.

With money market funds, the attraction of late has been yields generally around 5% without much concern for price sensitivity to changes in interest rates given the amortized cost structure of money market funds that allows them to maintain a typically constant \$1 price. That also means that as rates on short-term bonds come down (money market funds are required to maintain a weighted average maturity of 60 days or less), overall yield for money market funds should decline (in particular in the presence of new cash flows diluting existing yields) without any potential benefit from price appreciation.

Bond prices tend to go up as yields go down, but money market investors don't receive this benefit due to the amortized cost structure and short duration of the underlying securities.

We examined how intermediate core bonds have performed in past interest rate environments, using the Bloomberg U.S. Aggregate Bond Index since its inception in 1986. Given the current expectations for fairly quick rate declines, we've computed the analysis over short time horizons: three months and six months.

The results are shown in **Figure 3**, which includes annualized average returns for the index for each time horizon during periods when rates rose by more than 1%, when rates were relatively stable and stayed within plus-or-minus 1%, and when rates fell by more than 1%. We find that historically, intermediate core bonds have delivered significantly higher annualized average returns when rates fall quickly versus in more stable or fast-rising interest rate environments.

Figure 3 | Intermediate Core Bonds Have Delivered Higher Returns When Rates Fall Quickly

Bloomberg U.S. Aggregate Bond Index Annualized Average Return During Different Rate Environments



Data from 1/1/1986 - 8/30/2024. Source: Avantis Investors, Bloomberg, FRED. Number of three-month and six-month periods when rates rise by >1% are 40 and 96, when rates stay within +/- 1% are 469 and 380, and when rates fall by >1% are 63 and 102. Past performance is no guarantee of future results.

It's Going Down: An Update on Interest Rates

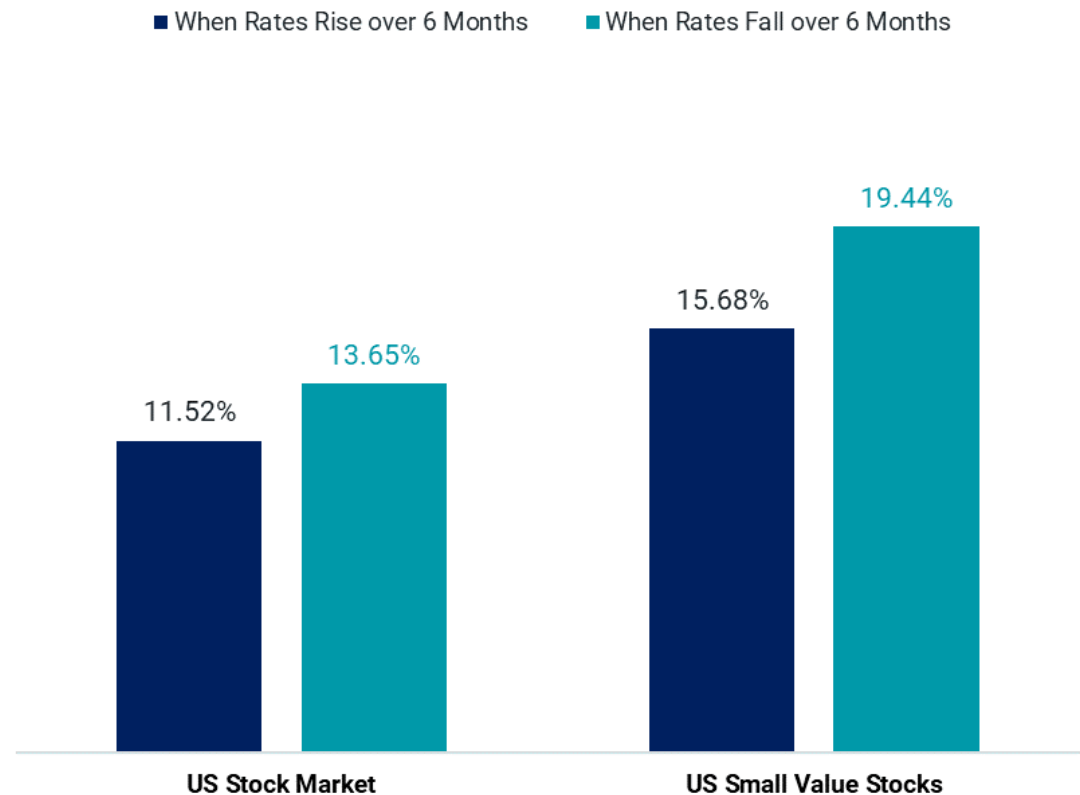
How Stocks Have Performed When Rates Fall

Adding to our analysis on interest rate changes, we calculated the performance of U.S. stocks (total market and small-cap value) since 1976. Now that we are presenting multiple asset classes, we narrow the scenarios to when rates rise and fall over six-month periods for simplicity.

In **Figure 4**, we show that whether rates have risen or fallen over six-month periods, both the total market and small value stocks have delivered strong positive returns. Perhaps more interesting is the spread in average returns between small-value stocks and the total market during the different environments.

The difference in average small value and total market returns when rates rise during the sample period is 4.2%. When rates have fallen, the outperformance for small-value stocks over the market rises to 5.8%. So, while low-priced stocks don't outperform the market every month or even every year, periods of falling rates have historically been favorable for value investors.

Figure 4 | Lower-Priced Stocks Have Historically Fared Well in Falling-Rate Environments
Annualized Average Returns



It's Going Down: An Update on Interest Rates



The Bottom Line

While nothing is ever guaranteed with respect to the path of interest rates, the expectations are clear and largely aligned between the Fed and the market that the fed funds rate is currently well above the so-called “neutral rate” and should decline going forward.

Moreover, the Fed’s expected pace of rate cuts is now even faster than what we observed earlier in the year. The data tells us that historically, in quickly falling rate environments, extending duration beyond cash or money market funds has, on average, led to better outcomes for investor portfolios. And, as we believe is true every day, considering valuations within equity allocations is expected to benefit investors, but historically that benefit has been more impactful when rates are going down.

Endnotes

Duration: Measures how long it takes, in years, for an investor to be repaid a bond’s price by the bond’s total cash flows. It is also a measure of a bond’s interest rate sensitivity. The longer the duration, the more sensitive a bond is to interest rate shifts.

Federal Funds Rate (Fed Funds Rate): An overnight interest rate banks charge each other for loans. More specifically, it’s the interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements.

Fed Futures Contract: An agreement to buy or sell a specific amount of a commodity or financial instrument at a particular price on a stipulated future date, based on the federal funds rate. Futures contracts are typically used as a hedging/risk management tool in portfolio management.

Federal Reserve (Fed): The Fed is the U.S. central bank, responsible for monetary policies affecting the U.S. financial system and the economy.

FOMC (Federal Open Market Committee): The committee that sets interest rate and credit policies for the Federal Reserve System, the U.S. central bank. The committee decides whether to increase or decrease interest rates through open-market operations of buying or selling government securities.

Yield: For bonds and other fixed-income securities, yield is a rate of return on those securities. There are several types of yields and yield calculations. “Yield to maturity” is a common calculation for fixed-income securities, which takes into account total annual interest payments, the purchase price, the redemption value, and the amount of time remaining until maturity.

Quarterly Market Summary

Returns (USD), as of September 30, 2024

	Stocks				Bonds	
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q3 2024	6.23%	7.76%	8.72%	16.04%	5.20%	3.48%
	↑	↑	↑	↑	↑	↑
Since January 2001						
Average Quarterly Return	2.4%	1.7%	2.6%	2.3%	1.0%	1.0%
Best Quarter	22.0%	25.9%	34.7%	32.3%	6.8%	5.4%
	2020 Q2	2009 Q2	2009 Q2	2009 Q3	2023 Q4	2023 Q4
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4	2022 Q1	2022 Q1

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2024, all rights reserved. Bloomberg data provided by Bloomberg.

Long-Term Market Summary

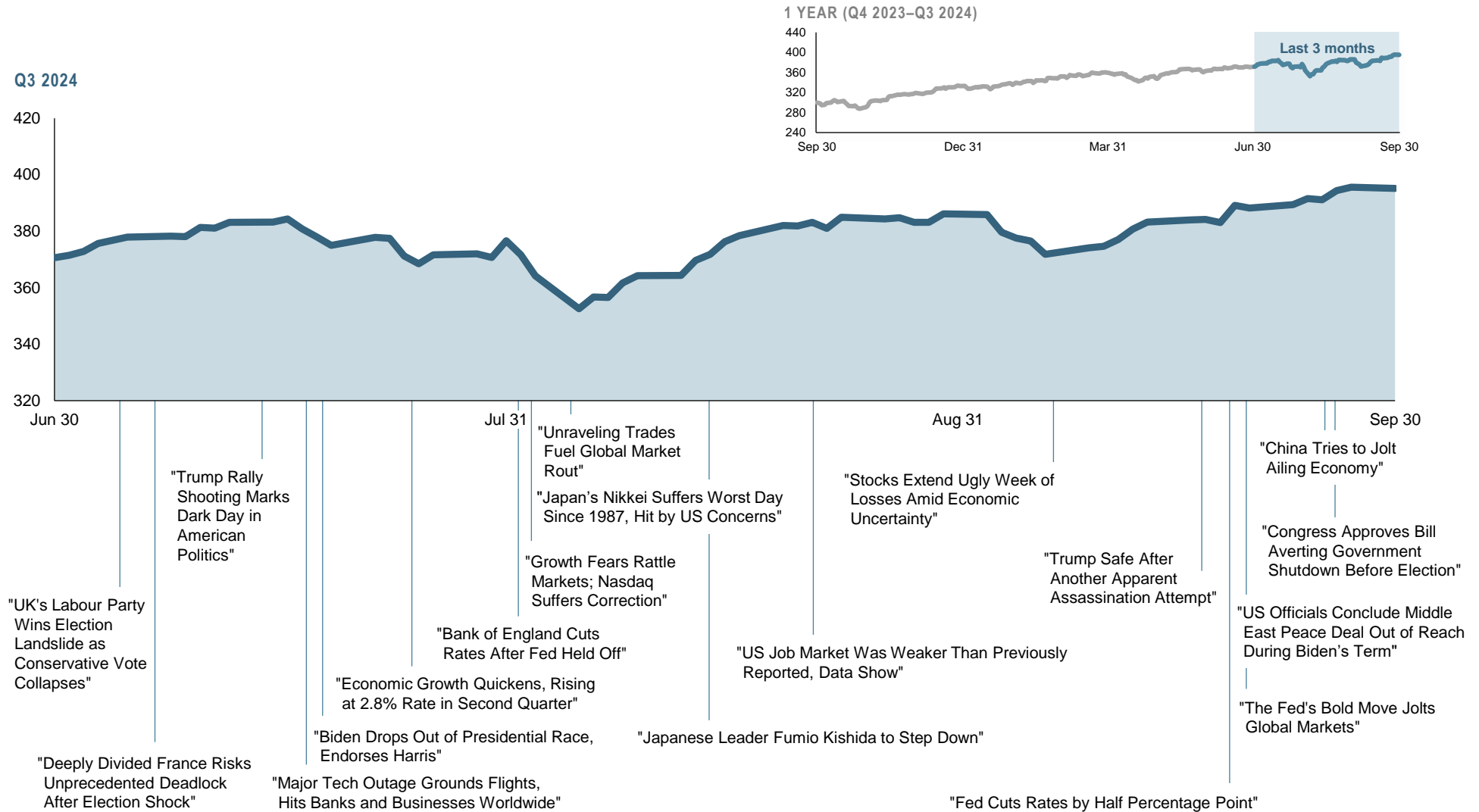
Returns (USD), as of September 30, 2024

	Stocks				Bonds	
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	35.19% ↑	24.98% ↑	26.05% ↑	30.43% ↑	11.57% ↑	9.78% ↑
5 Years	15.26% ↑	8.36% ↑	5.75% ↑	2.54% ↑	0.33% ↑	0.64% ↑
10 Years	12.83% ↑	5.68% ↑	4.02% ↑	4.92% ↑	1.84% ↑	2.62% ↑

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World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2024



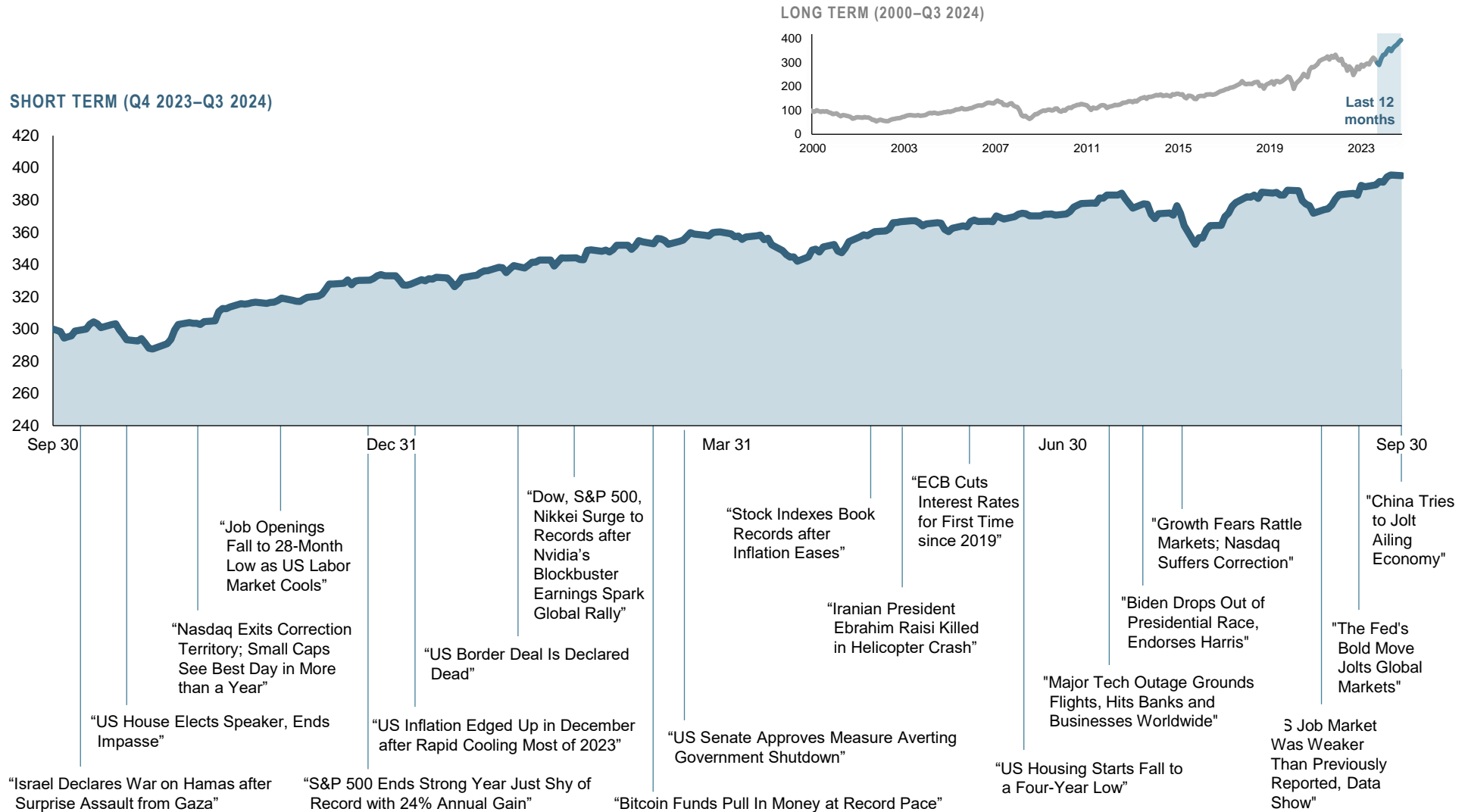
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2000.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2000.

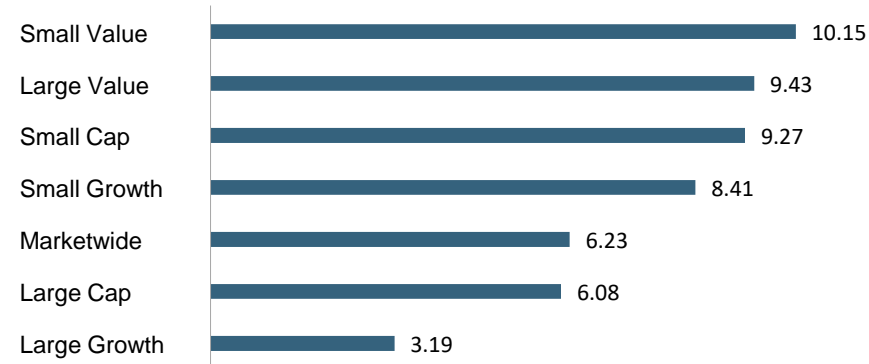
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US Stocks

Returns (USD), 3rd Quarter 2024

- The US equity market posted positive returns for the quarter and underperformed both non-US developed and emerging markets.
- Value outperformed growth.
- Small caps outperformed large caps.
- REIT indices outperformed equity market indices.

Ranked Returns (%)



World Market Capitalization



Periodic Returns (%)

Asset Class	QTR	YTD	ANNUALIZED			
			1 Year	3 Years	5 Years	10 Years
Small Value	10.15	9.22	25.88	3.77	9.29	8.22
Large Value	9.43	16.68	27.76	9.03	10.69	9.23
Small Cap	9.27	11.17	26.76	1.84	9.39	8.78
Small Growth	8.41	13.22	27.66	-0.35	8.82	8.95
Marketwide	6.23	20.63	35.19	10.29	15.26	12.83
Large Cap	6.08	21.18	35.68	10.83	15.64	13.10
Large Growth	3.19	24.55	42.19	12.02	19.74	16.52

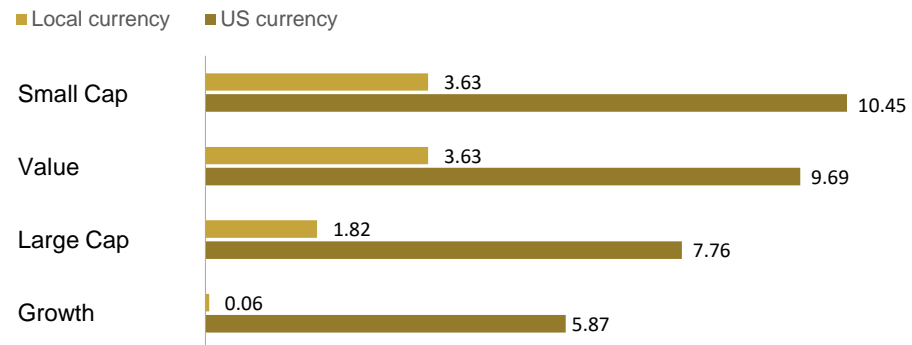
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International Developed Stocks

Returns (USD), 3rd Quarter 2024

- Developed markets outside of the US posted positive returns for the quarter and outperformed the US market, but underperformed emerging markets.
- Value outperformed growth.
- Small caps outperformed large caps.

Ranked Returns (%)



World Market Capitalization



International Developed Market
\$22.9 Trillion

Periodic Returns (%)

Asset Class	QTR	YTD	ANNUALIZED			
			1 Year	3 Years	5 Years	10 Years
Small Cap	10.45	11.53	23.36	0.05	6.85	5.99
Value	9.69	14.12	23.90	9.14	8.51	4.69
Large Cap	7.76	13.10	24.98	5.65	8.36	5.68
Growth	5.87	12.14	26.18	2.02	7.78	6.41

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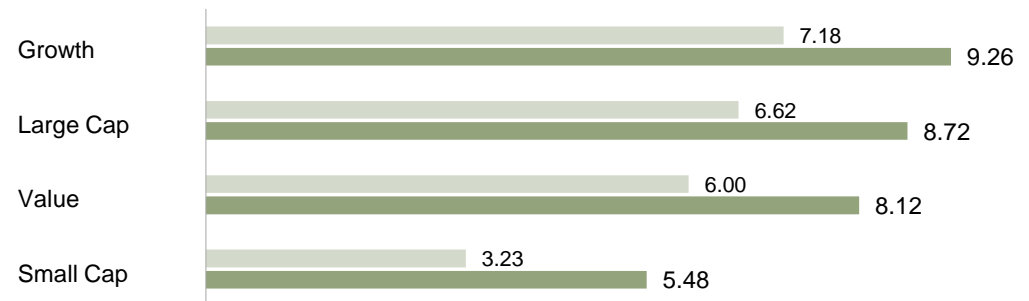
Emerging Markets Stocks

Returns (USD), 3rd Quarter 2024

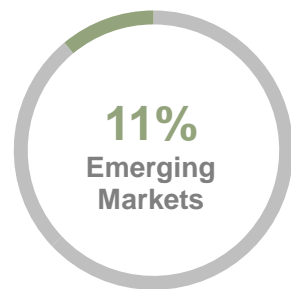
- Emerging markets posted positive returns for the quarter and outperformed both US and non-US developed markets.
- Value underperformed growth.
- Small caps underperformed large caps.

Ranked Returns (%)

Local currency US currency



World Market Capitalization



Emerging Markets
\$9.7 Trillion

Periodic Returns (%)

Asset Class	QTR	YTD	ANNUALIZED			
			1 Year	3 Years	5 Years	10 Years
Growth	9.26	18.49	27.64	-2.26	5.45	4.81
Large Cap	8.72	16.86	26.05	0.40	5.75	4.02
Value	8.12	15.11	24.38	3.29	5.94	3.12
Small Cap	5.48	12.91	23.01	5.14	12.22	5.86

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Real Estate Investment Trusts (REITs)

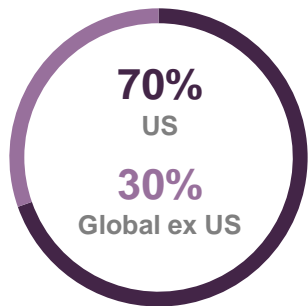
Returns (USD), 3rd Quarter 2024

- US real estate investment trusts underperformed non-US REITs during the quarter.

Ranked Returns (%)



Total Value of REIT Stocks



US
\$1,104 billion
102 REITs

Global ex US
\$482 billion
272 REITs
(25 other countries)

Periodic Returns (%)

Asset Class	QTR	YTD	ANNUALIZED			
			1 Year	3 Years	5 Years	10 Years
Global ex US REITs	16.75	8.91	25.22	-2.36	-1.18	2.03
US REITs	15.56	14.92	33.71	4.36	4.41	7.03

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Fixed Income

Returns (USD), 3rd Quarter 2024

Interest rates decreased in the US Treasury market for the quarter.

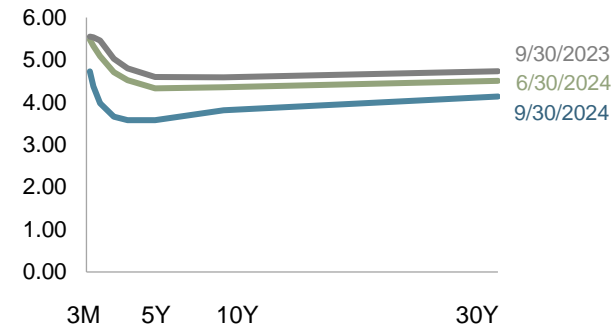
On the short end of the yield curve, the 1-Month US Treasury Bill yield decreased 54 basis points (bps) to +4.93%, while the 1-Year US Treasury Bill yield decreased 111 bps to +3.98%. The yield on the 2-Year US Treasury Note decreased 105 bps to +3.66%.

The yield on the 5-Year US Treasury Note decreased 75 bps to +3.58%. The yield on the 10-Year US Treasury Note decreased 55 bps to +3.81%. The yield on the 30-Year US Treasury Bond decreased 37 bps to +4.14%.

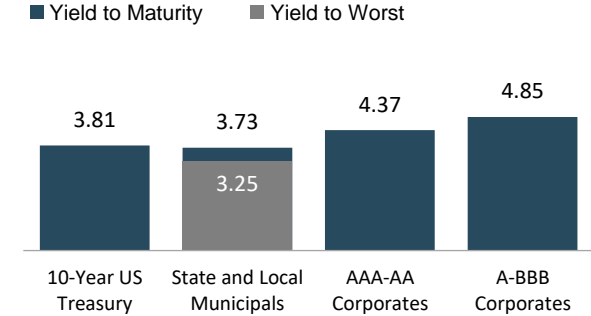
In terms of total returns, short-term US treasury bonds returned +3.43% while intermediate-term US treasury bonds returned +3.97%. Short-term corporate bonds returned +3.75% and intermediate-term corporate bonds returned +4.66%.¹

The total returns for short- and intermediate-term municipal bonds were +2.31% and +3.09%, respectively. Within the municipal fixed income market, general obligation bonds returned +2.77% while revenue bonds returned +2.70%.²

US Treasury Yield Curve (%)



Bond Yield Across Issuers (%)



Periodic Returns (%)

Asset Class	QTR	YTD	ANNUALIZED			
			1 Year	3 Years	5 Years	10 Years
Bloomberg U.S. Government Bond Index Long	7.81	2.44	15.43	-8.32	-4.25	1.09
Bloomberg U.S. High Yield Corporate Bond Index	5.28	8.00	15.74	3.10	4.72	5.04
Bloomberg U.S. Aggregate Bond Index	5.20	4.45	11.57	-1.39	0.33	1.84
FTSE World Government Bond Index 1-5 Years	5.09	3.61	8.74	-0.77	0.36	0.14
Bloomberg U.S. TIPS Index	4.12	4.85	9.79	-0.57	2.62	2.54
FTSE World Government Bond Index 1-5 Years (hedged to USD)	2.98	4.15	7.37	1.36	1.43	1.71
Bloomberg Municipal Bond Index	2.71	2.30	10.37	0.09	1.39	2.52
ICE BofA 1-Year US Treasury Note Index	2.03	4.01	5.87	2.48	1.99	1.55
ICE BofA US 3-Month Treasury Bill Index	1.37	4.03	5.46	3.49	2.32	1.65

1. Bloomberg US Treasury and US Corporate Bond Indices.

2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results.** Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2024 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2024 ICE Data Indices, LLC. S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg data provided by Bloomberg.

Global Fixed Income

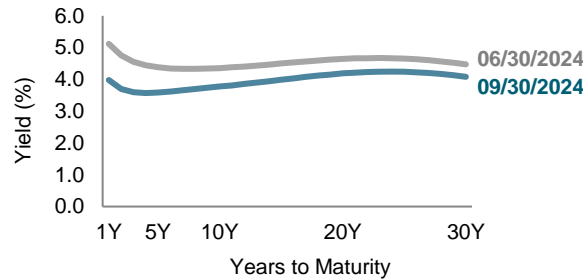
Yield curves, 3rd Quarter 2024

Interest rates generally decreased across global developed markets for the quarter.

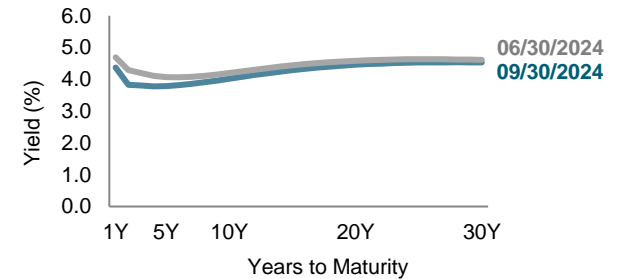
Realized term premiums were broadly positive across global developed markets as longer-term bonds generally outperformed shorter-term bonds.

In Japan, short-term interest rates increased while longer-term interest rates generally decreased. The short-term segment of the yield curve remained inverted in Australia, UK, Germany, and Canada.

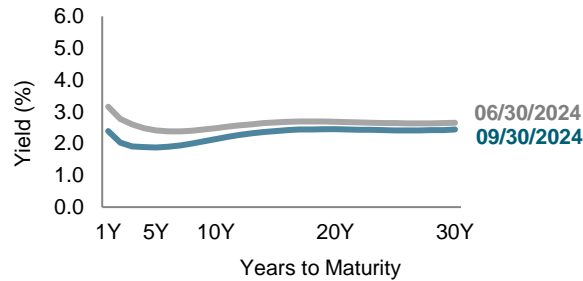
US



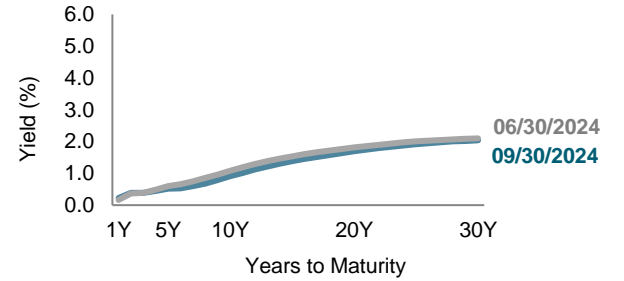
UK



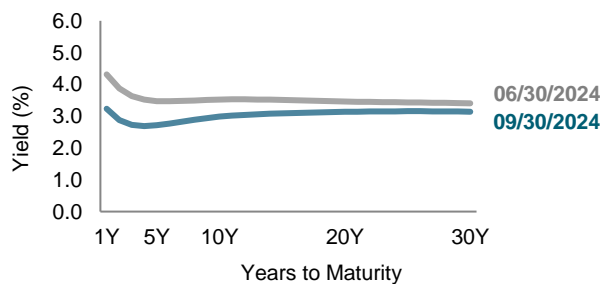
Germany



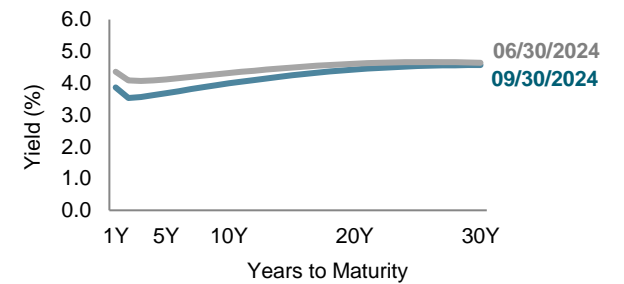
Japan



Canada



Australia



Changes in Yield (bps) Since 6/30/2024

	1Y	5Y	10Y	20Y	30Y
US	-114.0	-79.3	-58.3	-45.7	-39.5
UK	-32.2	-28.6	-17.8	-12.9	-8.0
Germany	-77.0	-53.9	-34.4	-23.9	-21.3
Japan	6.1	-8.4	-17.9	-12.4	-5.9
Canada	-108.0	-75.9	-53.9	-32.8	-26.1
Australia	-48.7	-43.7	-32.5	-18.2	-7.4

Commodities

Returns (USD), 3rd Quarter 2024

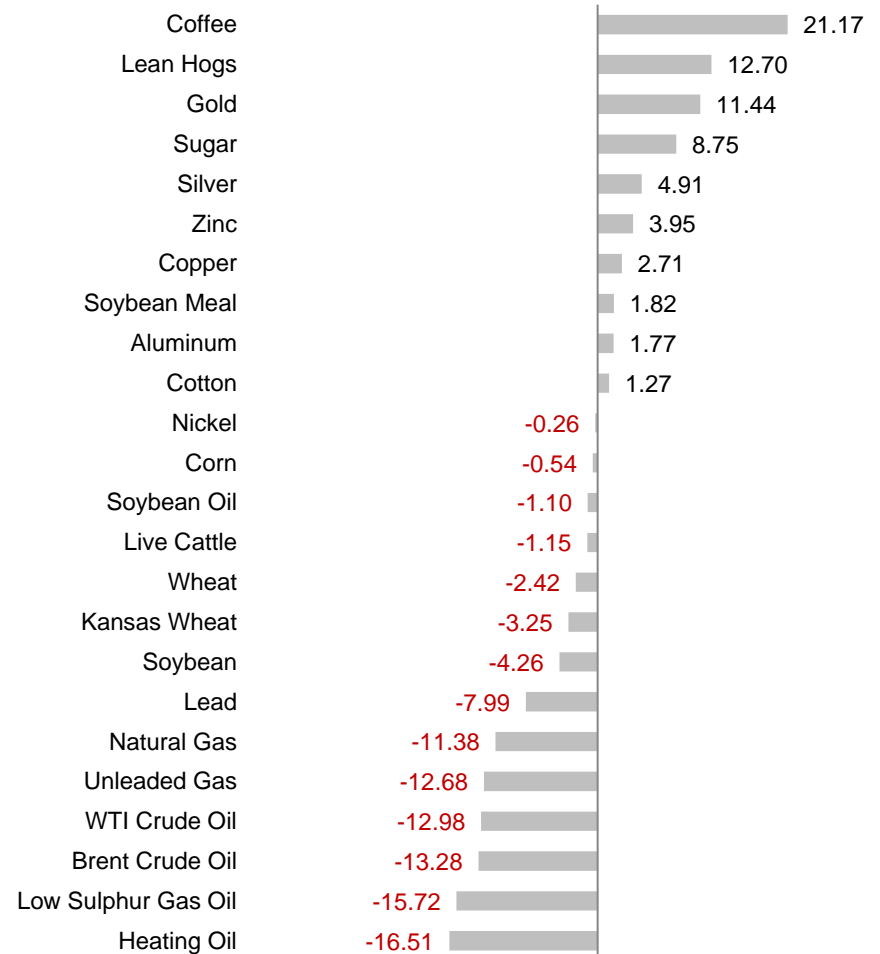
The Bloomberg Commodity Total Return Index returned +0.68% for the third quarter of 2024.

Coffee and Lean Hogs were the best performers, returning +21.17% and +12.70% during the quarter, respectively. Heating Oil and Low Sulphur Gas Oil were the worst performers, returning -16.51% and -15.72% during the quarter, respectively.

Commodities Periodic Returns (%)

QTR	YTD	ANNUALIZED			
		1 Year	3 Years	5 Years	10 Years
0.68	5.86	0.96	3.66	7.79	0.03

Commodities Ranked Returns (%)



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