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The "Powell Put" is now firmly in place

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The Fed cut interest rates by a larger-than-usual 50-basis points at their September 18 meeting, the first rate reduction since 2020 and the first half-point cut to start an easing cycle since the cusp of the Global Financial Crisis in September 2007. The move was somewhat unusual as unemployment remains historically low, economic growth is above its long-run average, and inflation still stands above the Fed's target. In the corresponding statement release, as well as during Powell's prepared speech and the Q&A press session that followed, it was readily apparent that keeping the unemployment rate anchored at a low level is now the Fed's main priority, with their inflation goal playing second fiddle.

The S&P 500 Index, which started the month down by nearly 4%, responded favorably to the news, ending the month with a gain of 2.14%, the first gain for the index during the historically unfavorable month of September since 2019. The index also hit its 41st new high for the year.

Bonds also responded positively, with 3-month rates mirroring the 50 basis-point rate cut and yields along the entire curve falling by an average of 24 basis points. With credit spreads remaining stable, the Bloomberg U.S. Aggregate Bond Index gained 1.34% during the month.

For the quarter, the S&P 500 advanced by 5.89% while the Bloomberg Agg was up 5.20%; on a year-to-date basis, the two indexes were up 22.08% and 4.48%, respectively.

SECTOR RETURNS					
SEPTEMBER		3RD QTR		YTD	
Consumer Discretionary	7.09%	Utilities	20.19%	Utilities	30.63%
Utilities	6.60%	Real Estate	18.32%	Technology	30.31%
Communication Services	4.63%	Industrials	12.79%	Communication Services	28.81%
Industrials	3.39%	Marterials	11.42%	Financials	21.91%
Real Estate	3.36%	Financials	10.41%	Industrials	20.20%
Marterials	2.67%	Consumer Staples	9.70%	Consumer Staples	18.74%
Technology	2.49%	Consumer Discretionary	7.02%	Health Care	14.36%
Consumer Staples	0.90%	Health Care	6.67%	Real Estate	14.36%
Financials	-0.54%	Communication Services	1.58%	Marterials	14.18%
Health Care	-1.68%	Technology	0.31%	Consumer Discretionary	13.91%
Energy	-2.68%	Energy	-2.33%	Energy	8.36%

Source: Bloomberg, as of September 30, 2024. Past performance does not guarantee future results.

Long duration and bond surrogate sectors performed well in September

The Consumer Discretionary sector took the pole position in September, and due to its 9.98% weight within the S&P 500 was responsible for around one-third of the benchmark's overall return. Two members of the Magnificent Seven, Amazon and Tesla, are classified in the sector. The pair returned 4.39% and 22.19%, respectively, and were jointly responsible for about 62% of the sector's return during the month.

The next best performer was the Utilities sector, which continues to find buyers due to its traditional strengths of high dividend yield (2.73%) and low beta (0.75), but has lately also benefited from the surge in electricity demand stemming from data centers, artificial intelligence applications, and cryptocurrency mining. The Utilities sector had the second highest earnings per share (EPS) growth rate of all sectors in the S&P 500 during the second quarter (+19.0%)—more than double the consensus expectation entering the period. Those factors helped to push Utilities to the forefront during the third quarter and on a year-to-date basis. It is the first time Utilities have led all sectors for the first nine months of a calendar year since 2011.

The Energy sector wound up as the laggard for multiple time periods as the global supply/demand imbalance continued. Perceived "cheating" on production quotas among the OPEC+ countries and tepid demand from China drove the underlying weakness in oil prices. Warmer-than-usual weather on a global basis has also weighed on natural gas prices. Libya's plan to resume output after reaching a deal with rival governments served as an additional headwind, as did an unexpected OPEC+ announcement to boost production.

The Information Technology and Communication Services sectors, which are home to five of the Magnificent Seven stocks and which trail only Utilities on a year-to-date (YTD) basis, came under recent pressure as investors locked in gains. During the third quarter, the Magnificent Seven returned just 1.69% compared to a gain of 8.02% for the remaining 493 companies in the S&P 500.

Risk characteristics were mixed in September, with the risk-off trade driving Q3 returns

The risk-off factors of high quality and large size were leaders during September, with high beta acting as the sole risk-on factor also led. This was largely due to the aforementioned Consumer Discretionary sector, which at 1.23 carries the highest beta of the eleven sectors in the S&P 500. Risk-on factors have generally been better performers on a YTD basis, except for the size factor, where the Russell 2000 Index of small-cap stocks continued to lag. Investors have been cautious on small caps in part due to the preponderance of non-earning companies (42% of the index) and the fact that many companies rely on bank loans and variable rate debt to finance their operations.

RISK FACTOR RETURNS

	SEPTEMBER	3RD QTR	YTD
Quality			
S&P "B+" or Better	1.62%	9.68%	12.60%
S&P "B" or Lower	1.38	7.18	18.43
Beta			
S&P 500 Lowest Quintile	0.21	10.28	18.73
S&P 500 Highest Quintile	3.47	3.33	37.97
Size			
Russell 1000	2.14	6.08	21.18
Russell 2000	0.70	9.27	11.70

Source: BofA, Bloomberg, as of September 30, 2024. Past performance does not guarantee future results. It is not possible to invest directly in an index. See last page for index definitions.

STYLE RETURNS ACROSS MARKET CAPS

	SEPTEMBER	3RD QTR	YTD
Russell 1000 Value	1.39%	9.43%	16.68%
Russell 1000 Growth	2.83	3.19	24.55
Russell Mid-Cap Value	1.89	10.08	15.08
Russell Mid-Cap Growth	3.33	6.54	12.91
Russell 2000 Value	0.06	10.15	9.22
Russell 2000 Growth	1.33	8.41	13.22

Source: Bloomberg, as of September 30, 2024. Past performance does not guarantee future results. It is not possible to invest directly in an index. See last page for index definitions.

INTERNATIONAL MARKET RETURNS

	SEPTEMBER	3RD QTR	YTD
EAFE			
Local Currency	-0.35%	0.89%	12.48%
U.S. Dollars	0.97	7.33	13.50
Emerging markets			
Local Currency	5.60	6.77	18.73
U.S. Dollars	6.72	8.88	17.24
Currencies			
U.S. Dollar Index (DXY)	-0.90	-4.84	-0.55
MSCI EM Currecy Index	1.69	4.02	2.98
United States			
S&P 500 Index	2.14	5.60	22.08
S&P 500 Equal Weight	2.34	9.59	15.16

Source: *MSCI, Bloomberg, as of September 30, 2024. International markets are represented by MSCI indexes. Past performance does not guarantee future results. It is not possible to invest directly in an index. See last page for index definitions.

Style returns were mixed in September and YTD, while value stocks dominated in Q3

Although growth returned as the dominant style factor in September, the resounding strength of value in July and August kept the style on top for the quarter. During September, the biggest contributors to growth's gains from a sector standpoint came from Financials in the large and small-cap space and from Utilities in mid-caps. For the quarter, value led growth across all market capitalizations, helped by a broadening of market returns that saw the equal-weighted S&P 500 beating its cap-weighted counterpart, returning 9.59% versus 5.89%. For the year-to-date period, growth remains the leader across all three style capitalizations primarily due to the relative outperformance of the Technology sector within each of the growth categories.

Non-U.S. stock returns remained a mixed bag

Returns for developed market international stocks lagged results for the S&P 500 Index in September, both in local currency and U.S. dollar terms, while emerging-market stocks soared in both categories. Within EAFE, Demark had the largest negative effect on the benchmark's return during the month, falling by 10.00%, though the loss was mostly due to just one stock, Novo Nordisk, which dropped by 15.39% and makes up nearly two-thirds of the country's weight. U.S. government pressure to stop alleged price gouging related to the company's blockbuster weight-loss drug Ozempic was the main reason for the sell-off.

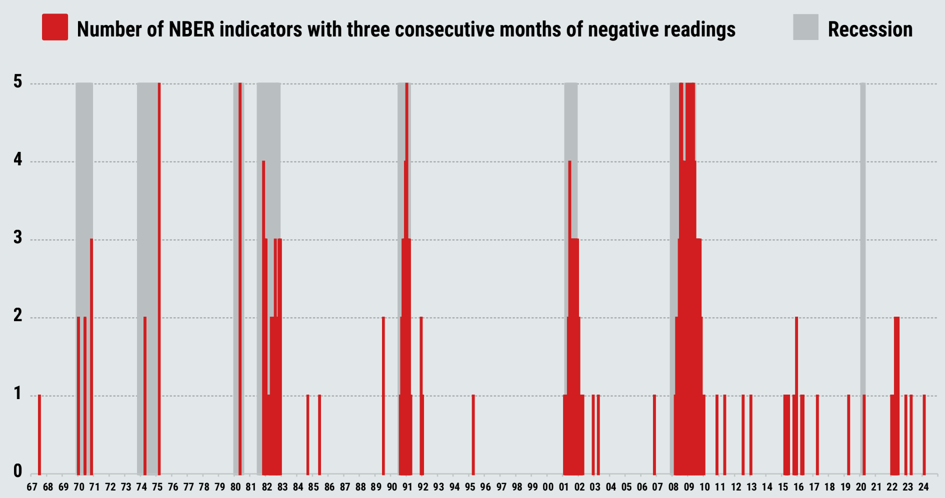
The gain in emerging markets during the month was almost entirely due to China, which jumped by 23.74% on the back of a double-barreled stimulus plan from the People's Bank of China (PBOC)— monetary — and the Politburo of the Chinese Communist Party — fiscal. The PBOC stimulus package ranged from cutting interest rates and bank reserve requirements to providing additional liquidity to stock investors. Meanwhile, the Politburo pledged to boost economic growth, halt the property rout, support the stock market, and stabilize employment. It was the second-best monthly return for China on record.

Gains in U.S. dollar terms for both the developed and emerging markets were aided by dollar losses against virtually all major currencies, the result of the Fed jump-starting the rate reduction cycle with their aggressive 50 basis point rate cut, coupled with the ongoing deterioration of the government's fiscal condition. Both factors have helped lift the returns of overseas markets closer to the S&P 500 on a year-to-date basis.

No recession on the horizon

The probability of a recession occurring is low if one looks at the six indicators that the National Bureau of Economic Research (NBER) uses to gauge whether that U.S. is in a recession or not. This year, only one indicator (household payrolls) has had three consecutive months of negative readings, and that occurred back in February.

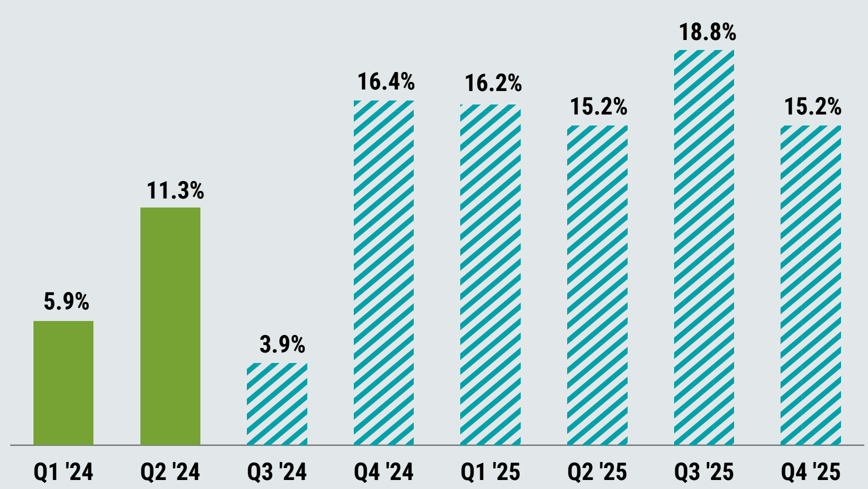
TYPICAL RECESSION INDICATORS AREN'T SIGNALING TROUBLE



Source: Federal Reserve of St. Louis, Bloomberg, Boston Partners. Data through August 2024.

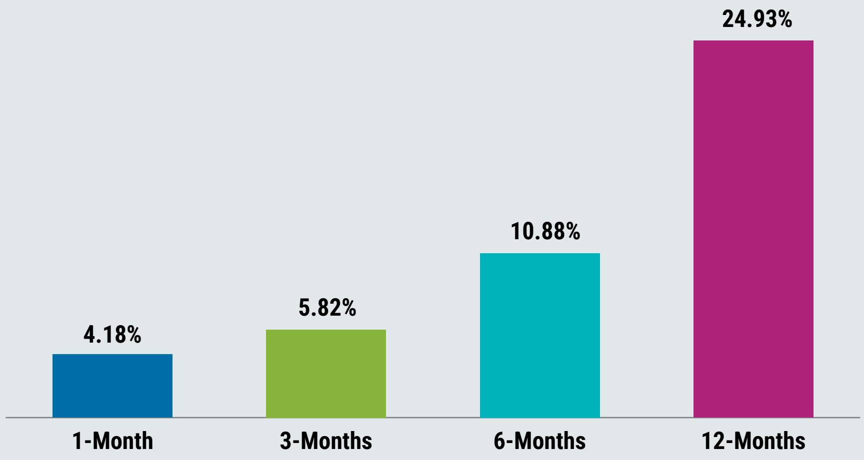
With no earnings recession in sight, the backdrop for stock returns should remain positive. Earnings for U.S. large caps are expected to climb in Q4 and remain in double-digit territory for the whole of 2025. Meanwhile, the historical performance for the S&P 500 in those rare instances of a rate cut and no recession have been attractive.

S&P 500 INDEX EPS GROWTH IS ANTICIPATED TO REMAIN SOLID



Source: FactSet, as of October 1, 2024. Shaded bars represent estimates. See last page for index definitions.

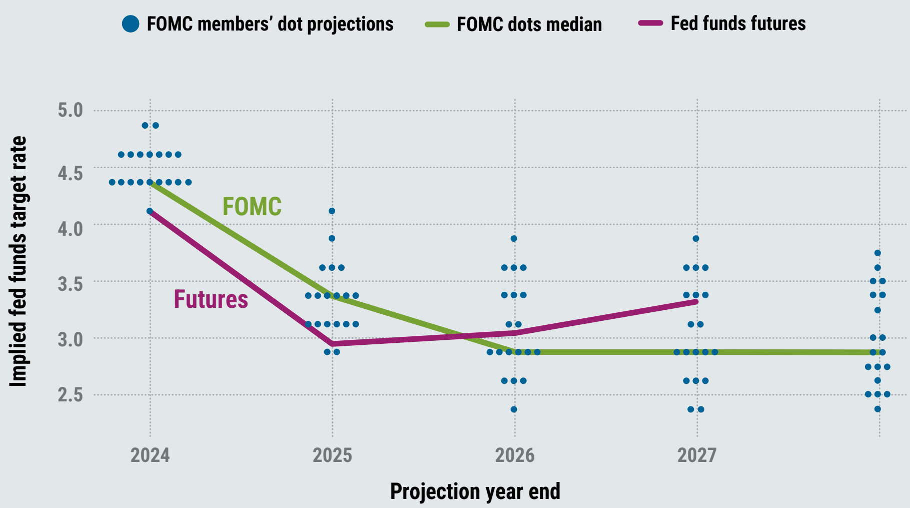
S&P 500 INDEX PERFORMANCE AFTER INITIAL RATE CUT IN PERIODS WITHOUT A RECESSION



Source: Bloomberg, Boston Partners. Data from 1980 to 2019. Returns are cumulative. Past performance does not guarantee future results. It is not possible to invest directly in an index; see last page for index definitions.

The only potential snafu on the horizon has to do with rates: Fed funds futures continue to price in a string of more aggressive interest rate cuts through the end of 2025 than the Fed itself has forecast in its latest "Dot Plot."

FED DOT PLOT LEVELS VS. FED FUNDS FUTURES PRICING



Source: U.S. Federal Reserve, CME, as of October 1, 2024.

If the Fed's rate target comes to fruition, the bond market will need to reprice towards higher rates, which could pressure price/earnings multiples lower. The markets, like the Fed, will likely remain data dependent, but will also be prone to swaying in the political winds of the upcoming election and geopolitics more broadly.

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Terms and definitions:

Beta is a measure of a portfolio's market risk relative to its benchmark. In general, a beta higher than 1.00 indicates a more volatile portfolio and beta lower than 1.00 indicates a less volatile portfolio in relation to its benchmark.

Bond credit ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest).

Dividend yield, shown as a percentage, measures the relationship between how much a company pays out in dividends per share and its share price.

The Magnificent Seven stocks are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

The Organization of the Petroleum Exporting Countries (OPEC) is an alliance of 12 oil-producing and exporting countries designed to influence the global supply of petroleum and maximize profits. The plus designation includes an additional 10 countries that also follow OPEC policies.

The Politburo of the Chinese Communist Party is a group of 24 high-ranking officials who oversee the party and central government.

The Bloomberg U.S. Aggregate Bond Index tracks the performance of intermediate-term investment-grade bonds traded in the United States. **The MSCI Emerging Markets (EM) Currency Index** tracks the performance of emerging market currencies relative to the U.S. dollar where the weight of each currency is equal to its country weight in the MSCI Emerging Markets Index. **The MSCI EAFE Index** tracks the performance of large- and mid-cap equities traded across global developed markets, excluding the United States and Canada. **The MSCI Emerging Markets Index** tracks the performance of large- and mid-cap equities traded in global emerging markets. **The Russell 1000 Index** tracks the performance of the 1,000 largest companies traded in the United States. **The Russell 2000 Index** tracks the performance of the 2,000 smallest companies traded in the United States. **The Russell 1000 Growth and Value Indexes** track the performance of those large-cap U.S. equities in the Russell 1000 Index with growth and value style characteristics, respectively. **The Russell 2000 Growth and Value Indexes** track the performance of those small-cap U.S. equities in the Russell 2000 Index with growth and value style characteristics, respectively. **The Russell Midcap Index** tracks the performance of the roughly 800 smallest U.S. companies in the Russell 1000 Index. **The Russell Midcap Growth and Value Indexes** track the performance of those mid-cap U.S. companies in the Russell 1000 Index with growth and value style characteristics, respectively. **The S&P 500 Index** tracks the performance of the 500 largest companies traded in the United States. **The U.S. Dollar Index (DXY)** is used to measure the value of the dollar against a basket of six foreign currencies. The value of the index is a fair indication of the dollar's value in global markets. It is not possible to invest directly in an index.

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