MONTHLY MARKET UPDATE

September 2024

OPAL WEALTH ADVISORS

September put a bow on a strong third quarter for both equity and bond markets globally. Healthy economic data and policy developments both factored into favorable returns for capital markets. Key market drivers in September included widely anticipated rate cuts by the FOMC and ECB, notably stimulative policy announcements in China, and increasing consensus that an economic soft landing may be attainable.

The S&P 500 (+2.1%) turned in a fifth consecutive monthly gain, making it ten of the last eleven months. If the S&P manages a gain in October, it will be the first time since 1942 we've enjoyed positive returns in all "seasonally weak" months of May through October. In contrast to the full quarter, U.S. equity market internals in September reverted to the broader 2024 pattern where growth outperformed value and large caps outperformed small and mid-caps. Non-U.S. stocks (+2.7%), particularly emerging markets (+6.7%) with China surging 23.9%, outperformed domestic stocks for the month. Both developed and emerging international markets benefited from a weaker USD in September.

Bond markets enjoyed declining interest rates and tighter credit spreads during the month. The 10yr UST yield fell from 3.91% to 3.81% and we saw a more pronounced decline in shorter maturities where the 2yr UST yield declined from 3.91% to 3.66%. The yield curve steepened to bring the 2yr/10yr slope back into positive territory for the first time since July 2022, reflecting the soft-landing growth narrative and a more dovish monetary policy outlook.

In terms of key policy developments in September we saw the FOMC pivot toward lessening the restrictive level of the Fed Funds rate by announcing a somewhat surprisingly strong 50 bps rate cut. The FOMC was not alone in cutting rates in September where we saw 5 rate cuts and 4 holds from key developed market central banks, where now 70% of developed market central banks now have lower policy rates relative to June.

Economic data through September reflected a resilient labor market in the headline data with a blockbuster 254,000 jobs report and unemployment declining to 4.1% countered by other indications of weakening demand for labor across survey and non-establishment data sources. Inflation data firmed up slightly, but the past few months have been averaging levels within the Fed's formal target range.

Market Anecdotes

- The U.S. and Federal Reserve have plenty of company across developed markets as other central banks are pivoting to rate cuts in response to waning inflation and growth concerns.
- U.S. GDP, which has only seen one quarter since Q2 2022 where the economy posted growth below the 2.0-2.5% long run potential, is bolstering those in the "no-landing" camp.
- A historical look from Market Desk and Ned Davis at prior rate cut cycles and ensuing returns for the S&P 500 reminds how important it is to get the call on the economy correct and that the bull market, at only two years old, is far from dying of old age.
- The $1.5t wall of loan maturities across the U.S. commercial real estate market presents a wide array of challenges and opportunities in what will likely be a slow evolving recovery.
- The U.K's Office of Budget Responsibility published work on the fiscal impact of migrants at different wage/skill levels showing high and middle income migrants are net positive contributors to the government purse whereas the average U.K. resident and low income migrants are net negatives.
- Strategas made note that a key to the soft landing scenario is the need for struggling areas of the economy (manufacturing, housing) to turn up before the softening labor market dries up services spending.
- An interesting cross-asset class perspective from JPMorgan showed how bond markets and base metals are pricing in much higher recession probabilities than equity markets and credit spreads.

- Bloomberg highlighted the outflows occurring in Bitcoin ETFs, estimating investors are sitting on a record $2.2b in unrealized losses. Investor adoption has been overwhelmingly retail (75%-80%) with professional investors the remainder.

Economic Release Highlights

- The September jobs report was a blockbuster with 254,000 new jobs, well above the spot forecast of 132,000 taking unemployment down from 4.2% to 4.1%.
- Average Hourly Earnings grew above estimates for both MoM (0.4% vs 0.3%) and YoY (4.0% vs 3.7%) and Labor Market Participation stayed at 62.7%.
- The release of PCE inflation saw headline (2.2% vs 2.3%) coming in slightly below and core (2.7%) in line. MoM inflation registered 0.1% for both headline and core with the former in line and the latter slightly below estimates.
- Personal income growth of 0.2% and Personal Consumption Expenditures of 0.2% both came in below estimates and registered at the low end of the forecast range.
- CPI YoY Headline (2.5% vs 2.6%) and Core (3.2% vs 3.2%) along with MoM Headline (0.2% vs 0.2%) and Core (0.3% vs 0.2%) were generally in line with consensus estimates.
- PPI YoY Headline (1.7% vs 1.8%) and Core (2.4%) along with MoM Headline (0.2% vs 0.2%) and Core (0.3% vs 0.3%) were generally in line with consensus estimates.
- September U.S. PMIs (C,M,S) registered 54.4, 47.0, 55.4 where the Composite came in ahead of forecast and relatively in line with prior month while services beat consensus (55.2) and manufacturing missed (48.5).
- Non-U.S. PMIs (C,M,S) in September include Eurozone (48.9, 44.8, 50.5) and U.K. (52.9, 51.5, 52.8).
- NFIB Small Business Optimism Index increased marginally from the prior month to 91.5 but registered below the consensus estimate of 91.7.
- The JOLT Survey showed 8.040M job openings, an increase over the prior month's 7.63M and well above the spot forecast of 7.7M.
- Retail Sales grew 0.1%, above the spot forecast of -0.3%. Ex-Vehicles (0.1% vs 0.3%) and Ex-Vehicles & Gas (0.2% vs 0.3%) readings both came in slightly below consensus.
- The UofM Consumer Sentiment Index (69.0 vs 68.0) improved slightly versus prior month and 1-year inflation expectations fell one tick to 2.7%.
- Conference Board Consumer Confidence Index declined to 98.7 in September from 103.3 prior month and well below the spot consensus of 103.0.
- New Home Sales for August of 716k were slightly above the consensus forecast of 700k. Existing Home Sales registered 3.860M, slightly under the spot forecast of 3.90M but within the consensus range. Pending Sales grew 0.6%, slightly below consensus estimate of 3.1%.
- Housing Starts (1.356M) and Permits (1.475M) both came in slightly above forecasts.
- The Housing Market Index registered 41, in line with both the spot consensus (42) and forecast range of 38-42. The Case-Shiller Home Price Index appreciated 0.3% MoM and 5.9% YoY, in line with forecasts.

Outlook

Our outlook for equity markets became marginally more constructive in September following a more aggressive FOMC rate cut than markets were expecting coming into the month and the persistently resilient U.S. consumer. While the relatively aggressive 50 bps rate cut by the Fed does address the 'behind the curve' risk, we find ourselves focusing more and more on the possibility that they risk re-igniting inflationary pressures.

That said, the consensus of our investment committee is that the proper course was to upgrade our intermediate-term view on equity market beta in September from an underweight (-1) back to neutral (0). Commensurate with our more constructive view on equity market beta and early signs in the third quarter of a market rotation toward value and small caps, we have upgraded our view on both value and small/mid caps to overweight (+1) from neutral. Additionally, we are maintaining a neutral stance with respect to U.S. versus non-U.S. equity markets as we await more clarity on prevailing geopolitical considerations and currency dynamics. From a duration standpoint, while acknowledging an upside bias on rates due to the improved growth outlook and potential inflationary pressures, we are maintaining a neutral duration stance at this time. Our view on corporate credit risk has marginally improved in sympathy with our view on the overall growth backdrop and the fact that you really need to squint to see an imminent consumer-led recession, leading us to upgrade both high yield and loan market outlooks from underweight (-1) to neutral.

Equity	**Level**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
Dow Jones	42330	1.96	8.72	13.93	28.85	9.97
NASDAQ	18189	2.76	2.76	21.84	38.64	8.84
S&P 500	5762	2.14	5.89	22.08	36.35	11.91
Russell 1000 Growth		2.83	3.19	24.55	42.19	12.02
Russell 1000 Value		1.39	9.43	16.68	27.76	9.03
Russell 2000		0.70	9.27	11.17	26.76	1.84
Russell 3000		2.07	6.23	20.63	35.19	10.29
MSCI EAFE		0.97	7.33	13.50	25.38	6.02
MSCI Emg Mkts		6.72	8.88	17.24	26.54	0.82
Fixed Income		**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate		1.34	5.20	4.45	11.57	(1.39)
High Yield		1.63	5.28	8.03	15.66	3.08
Municipal		0.99	2.71	2.30	10.37	0.09

Commodities	**9/30/24**	**7/31/24**	**4/30/24**	**1/31/24**
Oil (WTI)	77.76	79.36	83.49	76.28
Gold	2630.00	2426.30	2307.00	2053.30
Currencies	**9/30/24**	**7/31/24**	**4/30/24**	**1/31/24**
USD/Euro ($/€)	1.12	1.08	1.07	1.08
USD/GBP ($/£)	1.34	1.28	1.25	1.27
Yen/USD (¥/$)	143.25	150.38	157.54	146.26
Treasury Rates	**9/30/24**	**7/31/24**	**4/30/24**	**1/31/24**
3 Month	4.73	5.41	5.46	5.42
2 Year	3.66	4.29	5.04	4.27
5 Year	3.58	3.97	4.72	3.91
10 Year	3.81	4.09	4.69	3.99
30 Year	4.14	4.35	4.79	4.22

Style Returns

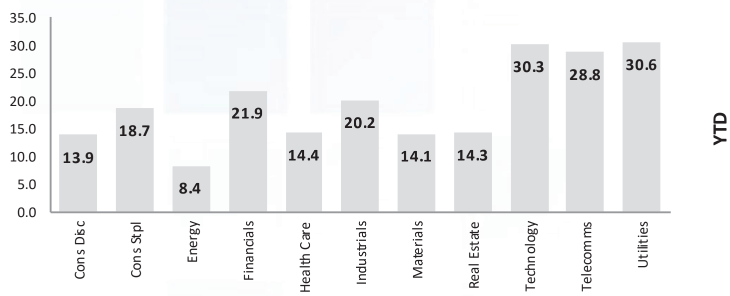
MTD

	V	B	G
L	1.39	2.14	2.83
M	1.88	2.23	3.33
S	0.06	0.70	1.33

YTD

	V	B	G
L	16.68	21.18	24.55
M	15.08	14.63	12.91
S	9.22	11.17	13.22

S&P 500 Sector Returns



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Opal Wealth Advisors / 2 Jericho Plaza / Suite 208 / Jericho, NY 11753 / t. 516.388.7980 / f. 516.388.7968 / **opalwealthadvisors.com**