MARKETS & MORSELS

QUARTERLY NEWSLETTER

Q3 Recap **2024**

STIFEL

1 Quarterly Markets & Economy Bullets:

- The S&P 500 had a total return of 5.89% over Q3
- Utilities were the best performing U.S. sector of Q3 based on the S&P 500 Utilities index
- Emerging Markets* outperformed large cap U.S. stocks based on the MSCI Emerging Markets index
- The Federal funds target rate is 4.75-5.00% following a 50 basis point (bp) rate cut in September
- Latest Consumer Price Index (CPI) reading sits at 2.5% on an annual basis
- Q3 ended with an unemployment rate of 4.2%

2 Our Thoughts

Q3 was a great quarter for a lot of equities. The S&P 500 delivered a solid 5.89% return[i], but it wasn't tech driving all the gains this time. Utilities led the charge, with the S&P 500 Utilities sector surging 19.37%, while information technology posted a more modest 1.61% return[ii]. Historically, the S&P 500 has averaged a -1.17% return in September from 1928-2023[iii]. However, this year's September defied expectations, ending with a 2.14% gain, highlighting the market's resilience and the strength of the U.S. economy. Inflation continues to edge downward, and the unemployment rate remains well below historical norms.

On a broader scale, global markets also performed exceptionally well. The MSCI Emerging Markets Index posted an impressive 8.72% total return for the quarter, with China's markets surging 23.9% in September alone[iv].

This year marks the third-best start to an election year for U.S. stocks on record.[v] Importantly, this rally isn't solely driven by mega-cap stocks, as we've seen in past years. Most sectors are participating, a strong sign of a more balanced and healthy market. Gains in sectors like utilities and financials emphasize the importance of proper asset allocation and diversification. In investing, underperformance in some areas is inevitable—this is the nature of risk in the capital markets. But diversification is important because while some holdings may lag, others have the potential to lead at different times, underscoring the long-term importance of a well-rounded portfolio.

3 What Else We Are Seeing

A market comparison I heard a couple of months ago has stuck with me, and I think it's one worth keeping in mind. The analogy came from Ben Carlson, drawing on Roger Federer's commencement address at Dartmouth back in June.

To paraphrase, Federer mentioned that he played 1,526 singles matches over his career and won nearly 80% of them. However, in those victories, what percentage of total points did he win? Just 54%. One of the greatest tennis players of all time won the majority of his matches, but each individual match was closely contested.

This "win rate" is strikingly similar to the market. Since 1927, the S&P 500 has been positive on about 52% of trading days—essentially a coin toss for any given day[vi]. But, as with Federer, if we zoom out and let that small edge compound over time, the picture changes dramatically. Over a one-year period, the S&P 500 has been positive 73% of the time. Over five years, that jumps to 88%. Federer's career spanned 25 years, and when we look at any 25-year period in the last century, the market has never posted a negative return. In this respect, the S&P 500 even outperforms Federer[vii].

This comparison illustrates the power of resilience and patience. Each day in the market may feel like a struggle to stay positive, much like Federer's daily battle on the court. But over time, those small daily wins can have the potential to accumulate, with a winning percentage.

4 Recipe of the Quarter

One recipe that's been in constant rotation for me is Spaghetti al Pomodoro. Here's what you'll need: a pound of thick spaghetti, 20 to 24 ounces of cherry tomatoes, three cloves of garlic, olive oil, fresh basil, Pecorino Romano or Parmesan, salt, and pepper.

Start by bringing a large pot of salted water to a boil. While that's heating, slice the cherry tomatoes in half. In a cold pan, add two tablespoons of olive oil, then thinly slice the garlic and add it to the oil. Turn the heat to medium-low and let the garlic gently heat up with the oil until it becomes fragrant and starts to bubble.

Once the garlic is aromatic, add the halved cherry tomatoes to the pan. Season with salt and pepper, and stir occasionally as the tomatoes blister and release their juices. When the water is boiling, add your spaghetti.

As the tomatoes soften and break down, toss a few sprigs of basil (still attached to the stem) into the sauce. Just before the pasta reaches al dente, scoop out about half a cup of pasta water and add it to the sauce. Remove the basil sprigs once the flavor has infused.

Drain the pasta, then toss it directly in the pan with the tomato sauce. Plate it up and finish with freshly grated Pecorino or Parmesan and some thinly sliced basil. Enjoy!

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Due to their narrow focus, sector-based investments typically exhibit greater volatility.

Indices are unmanaged and are not available for direct investment. Past performance is no guarantee of future results. Index returns include the reinvestment of dividends but do not include adjustments for brokerage, custodian, and advisory fees. The S&P 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The MSCI Emerging Markets Index captures large and mid cap representation across 24 emerging markets countries, covering approximately 85% of the free float-adjusted market capitalization in each country.

* There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

*** Past performance is not an indication of future results. Diversification and asset allocation do not ensure a profit or protect against loss.

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[i] First Trust Portfolios. (2024). *Client Resource Kit*. https://www.ftportfolios.com/Commentary/Insights/2024/10/3/equity-client-resource-kit---third-quarter-2024

[ii] First Trust Portfolios. (2024). *Client Resource Kit*. https://www.ftportfolios.com/Commentary/Insights/2024/10/3/equity-client-resource-kit---third-quarter-2024

[iii] Fool, M. (n.d.). Here's the average stock market return in every month of the year. *Nasdaq*. https://www.nasdaq.com/articles/heres-the-average-stock-market-return-in-every-month-of-the-year

[iv] Stifel Investment Strategy. (2024). Wealth management insights from Stifel's CIO Office. In Bloomberg, *MARKET PERSPECTIVES* [Report]. https://grapevinesix.s3.amazonaws.com/pdf/8b0435d0-b5aa-4744-bcad-be75f8a7c3dd.pdf

[v] Student of the market. (2024). In *Student of the Market* (pp. 1–12). https://www.blackrock.com/us/financial-professionals/literature/investor-education/student-of-the-market.pdf

[vi] Carlson, B. (2024, June 16). Roger Federer vs. the Stock Market - A Wealth of Common Sense. *A Wealth of Common Sense*. https://awealthofcommonsense.com/2024/06/roger-federer-vs-the-stock-market/

[vii] *Time, not timing, is what matters*. (n.d.). CapitalGroup NACG. https://www.capitalgroup.com/individual/planning/investing-fundamentals/time-not-timing-is-what-matters.html