Q3

Economic Review

Third Quarter 2024

US Consumers Continue Spending, Employers Continue Hiring

The US economy accelerated in the second quarter, driven by strong consumer spending. GDP grew at a 3.0% annualized rate in April through June, nearly double its first quarter pace.

The unemployment rate ticked down to 4.1% in September, as employers added over 250,000 jobs last month, the most since March.

Manufacturing activity remained subdued all summer, with weak demand and a slump in hiring. In a sign of potential rebound for the sector, though, new orders increased last month, and input prices fell to a nine-month low.

US home sales fell in August despite the recent decline in mortgage rates. Existing home sales declined 4.1% from a year ago, while the median sale price is up 3.1% over the same period.

Interest Rate Cuts are Here

The Federal Reserve opted for a bold start to its monetary easing, reducing the fed funds rate by 0.50% to a range of 4.75% to 5.00%, its first rate cut since 2020. Fed Chair Jerome Powell stressed that the more aggressive cut is not indicative of a less favorable economic outlook, but rather a decision to support the labor market.

Mr. Powell cautioned that the 0.50% rate cut does not imply a similarly rapid pace of rate cuts going forward. The Fed's latest forecast shows two additional 0.25% rate cuts this year, aligning with current market expectations. In 2025, the Fed expects to reduce the federal funds rate by another 1.00%.

The Fed's updated projections also show a slightly weaker labor market in the next year plus, raising their year-end 2024 unemployment forecast from 4.0% to 4.4%, where they expect it to remain through 2025.

Economic Review

Third Quarter 2024

Europe Sees Moderate Growth; Japan Bounces Back

The eurozone economy modestly expanded by 0.2% in the second quarter, helped by strong government spending. However, there were signs of weakness as household consumption remained stagnant, increasing by only 0.1%. Among the bloc's largest constituents, Spain's economy expanded the most (0.8%), while the German economy contracted by 0.1%.

The European Central Bank (ECB) lowered interest rates again, cutting its deposit rate 0.25% to 3.50%. The ECB expects inflation to decline to its long-term target of about 2% and sees economic risks tilted to the downside. ECB President Christine Lagarde stressed that signs of disinflation or a broadly weakening economy could necessitate quicker and larger rate cuts.

Japan's economy rebounded in the second quarter, expanding 0.7%on robust private consumption. The uptick in consumer spending is likely the result of the success of the salary negotiations between Japan's largest companies and its unions earlier in the year, leading to Japan's most significant wage increase in over 30 years.

The Bank of Japan (BOJ) raised its key interest rate once during the quarter to about 0.25% from the prior range of zero to 0.10%. The BOJ reaffirmed that it stands ready to increase interest rates further if inflation persists. In their latest forecast, the BOJ expects Japan's economy to remain on course for a moderate recovery.

Slowing Momentum in China and India; Brazil Surprises to the Upside

China's economy grew less than expected in the second quarter, expanding 4.7% from the year prior. The central government recently announced a raft of stimulus measures aimed at stoking consumer demand and easing pressure on the country's ailing property market.

Economic growth in India slowed to 6.7% year-over-year in the quarter ending June, as the government pulled back on spending during the election season. Despite the slowdown in momentum, construction and consumer spending ticked up, and growth is expected to remain robust for the rest of this year.

Brazil's economy surged 3.3% year-over-year in the second quarter, handily beating expectations. Strength in the country's industrial and service sectors outweighed the impact of devastating floods earlier this year.

Market Review: Stocks

Third Quarter 2024

Stocks Advance in Q3 Amid Increased Market Volatility

Global equities posted gains in the third quarter, driven by the long-anticipated rate reductions by the Federal Reserve and new stimulus measures in China. Despite bouts of market volatility due to weaker US economic data, thin summer liquidity, and a rare interest rate hike from the Bank of Japan, stocks rallied toward quarter-end, thanks to accommodative policies.

US large cap stocks, represented by the S&P 500 index, **gained** 5.9% in Q3 2024, pushing year-to-date returns to 22.1%. **Amid higher volatility, corporate earnings offered some reassurance.** Value stocks outperformed growth stocks for the first time this year. Investor sentiment was further boosted by expectations of lower interest rates and contributed to the broad rally across nearly all sectors.

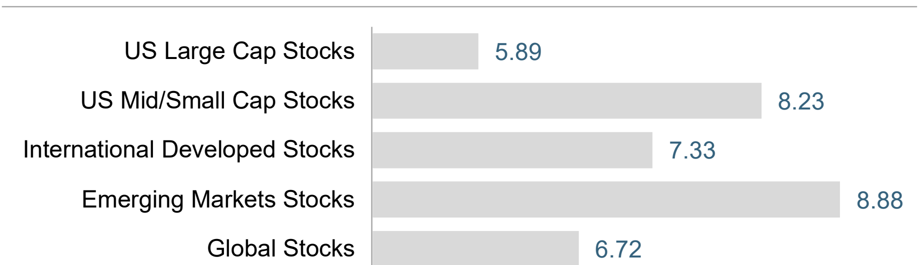
Utilities (up 19.4%) **led all US stock sectors in Q3,** as lower interest rates provided a tailwind for the income-focused sector, putting year-to-date returns at 30.6%. **Industrials** (up 11.5%) and **Financials** (up 10.7%) **also performed well.** Meanwhile, the Technology sector finally cooled off, returning 0.0% (flat), making it the worst performing sector in Q3. Surprisingly, it still leads year-to-date, driven by strong gains in AI-related stocks earlier in 2024.

US mid and small cap stocks outperformed large caps in the third quarter, with the Wilshire 4500 stock index rising 8.2%. The prospect of lower interest rates and reduced borrowing costs contributed to the strong third quarter performance. However, year-to-date mid and small cap returns (up 12.4%) still lag large caps.

International developed and emerging markets posted strong returns in Q3, aided by a weaker US dollar (down 2.3%). The MSCI EAFE index (developed markets) rose 7.3%, supported by strong performances in eurozone and UK stocks, driven by a more accommodative stance from central banks. Emerging markets outperformed, with the MSCI Emerging Markets index up 8.9%, fueled by a rally in Chinese equities following new stimulus measures there.

Market volatility, as measured by the VIX index, **rose for the period**, from 12.4 to 16.7 by quarter-end, with bouts of heightened volatility that saw the index spike as high as 38.6 in early August.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Large Cap Stocks	22.08	36.35	11.91	15.98
US Mid/Small Cap Stocks	12.41	28.53	2.83	12.21
International Developed Stocks	13.50	25.38	6.02	8.72
Emerging Markets Stocks	17.24	26.54	0.82	6.15
Global Stocks	19.08	32.35	8.60	12.72

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. 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 Large Cap (S&P 500 Index), US Mid/Small Cap (Wilshire 4500 Completion Index), International Developed (MSCI Europe Australasia Far East Index), Emerging Markets (MSCI Emerging Markets Index), and Global Stocks (MSCI All Country World Index). Growth of $1,000 chart market segmentations as follows: US Stocks (Wilshire 5000 Index) and Foreign Stocks (All Country World Index ex US).

Market Review: Bonds

Third Quarter 2024

Bonds Rally as Rate Cuts Begin

Fixed income markets rallied in the third quarter of 2024, **driven by the long-awaited start of interest rate cuts** by central banks, including the US Federal Reserve. Following a series of weaker than expected economic data points, **the Fed cut rates by 50 basis points** in September, signaling a shift in monetary policy that had been eagerly anticipated by investors. This move bolstered fixed income investments and helped government and corporate bonds deliver strong returns for the quarter.

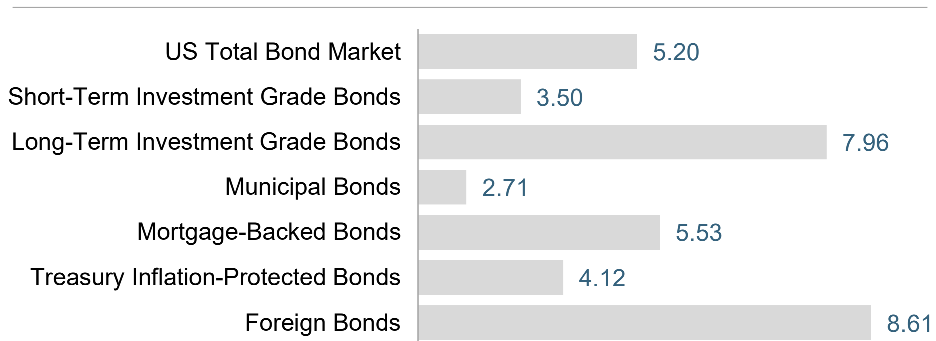
US Treasury yields declined significantly over the period, with the 2-year yield falling from 4.71% to 3.66% by the end of Q3 and the 10-year yield dropping from 4.36% to 3.81%. These yield declines reflect growing confidence of continued Fed easing as both growth and inflation moderate. The Bloomberg US Aggregate Bond Index jumped 5.2%. (Prices of existing bonds rise when market interest rates fall.)

Long-term investment grade bonds (up 8.0%) **saw the biggest lift**, as corporate debt benefited from both lower interest rates and rising confidence that a recession is no longer on the horizon. **High yield bonds performed well,** up 5.3% for the same reasons and are the top-performing bond sector year-to-date, with an impressive 8.0% return.

Municipal bonds (up 2.7%) **benefited from the broad-based rally in fixed income**, though returns were more subdued compared to taxable bonds. The outlook for state and local government finances remains positive, supported by robust tax revenues and strong balance sheets.

Looking ahead, **fixed income markets may continue to experience volatility as investors continue to assess the pace and extent of future rate cuts.** However, with inflation moderating and central banks signaling their readiness to support growth, bond investors have reason for cautious optimism.

Returns for the Quarter (%)



Period Returns (%)

*Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Total Bond Market	4.45	11.57	-1.39	0.33
Short-Term Investment Grade Bonds	4.50	8.10	0.94	1.54
Long-Term Investment Grade Bonds	3.54	17.24	-6.17	-1.97
Municipal Bonds	2.30	10.37	0.09	1.39
Mortgage-Backed Bonds	4.50	12.32	-1.20	0.04
Treasury Inflation-Protected Bonds	4.85	9.79	-0.57	2.62
Foreign Bonds	1.92	12.02	-6.25	-3.42

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Market Review: Alternatives

Third Quarter 2024

REITs and Gold Surge in Q3, While US Energy and Commodities Disappoint

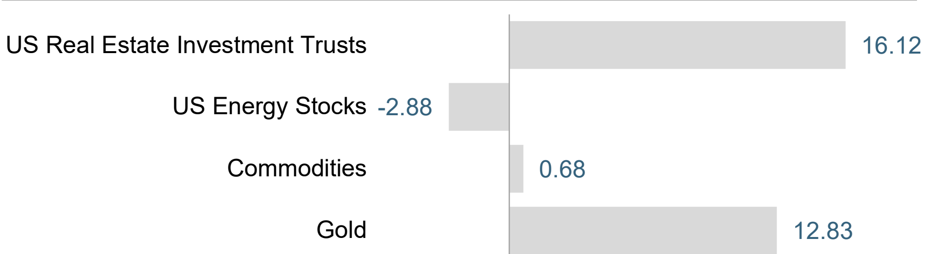
Alternative investments posted mixed results in the third quarter, with standout performances from real estate and gold, while US energy stocks lagged. Commodities were up modestly but lagged both stock and bond returns on the quarter.

US energy stocks faced headwinds in Q3, declining 2.9%, as oil prices fell sharply, with Brent Crude down 17%. Concerns over global economic growth and weakened demand weighed on the sector. Meanwhile, **commodities posted a modest gain** of 0.7%, with agriculture, industrial metals, and precious metals making up for the weakness in energy. Year-to-date through September, US energy stocks have risen 7.4%, while commodities are up 5.9%.

Real estate investment trusts (REITs) **had a stellar quarter**, surging 16.1% **as lower interest rates and expectations of further rate cuts fueled a rally in the sector**. This marked a sharp turnaround after several challenging quarters, with investors reassessing the sector's prospects in a more favorable interest rate environment. Despite ongoing concerns about commercial vacancy rates, the outlook for REITs has improved, with year-to-date returns now sitting at 15.8%.

Gold continued its impressive run, rising 12.8% in Q3 and bringing its year-to-date return to 27.5%. The precious metal's performance was driven by lower short-term interest rates. **Gold remains one of the best-performing alternative investments in 2024,** offering diversification and potential protection against instability in global markets.

Returns for the Quarter (%)



Period Returns (%)

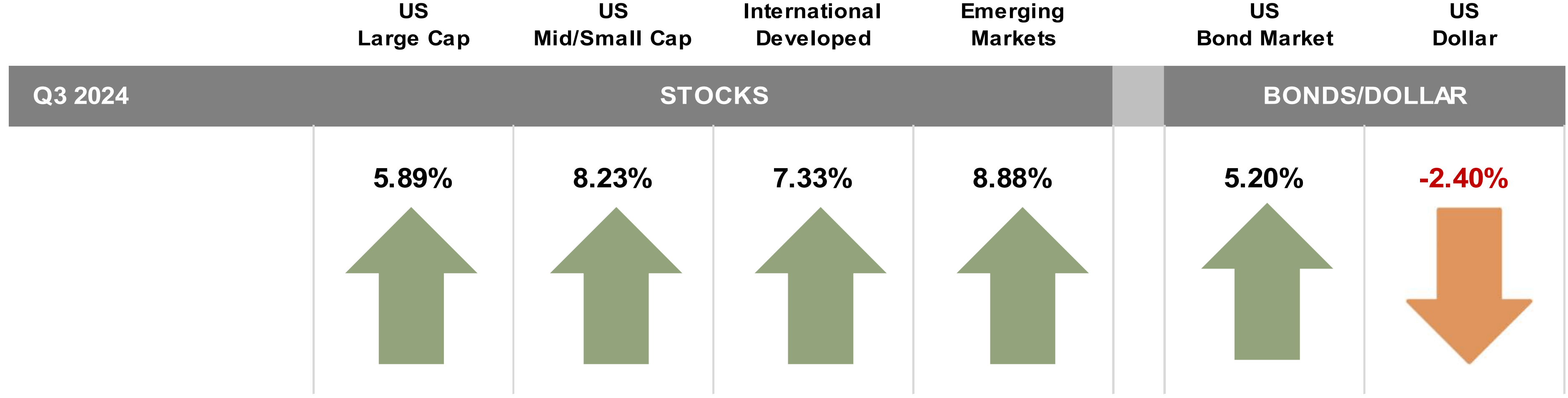
** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Real Estate Investment Trusts	15.84	34.38	4.98	5.47
US Energy Stocks	7.40	0.58	23.75	13.85
Commodities	5.86	0.96	3.66	7.79
Gold	27.52	40.60	14.70	12.61

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. 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 Real Estate Investment Trusts (MSCI US REIT Index), US Energy Stocks (S&P 500 Energy), Commodities (Bloomberg Commodity Index), and Gold (London Bullion Market Association Gold P.M. Price). Gold spot price data obtained from Federal Reserve Economic Data.

Market Summary

Index Returns



	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
Q3 2024	**STOCKS**				**BONDS/DOLLAR**	
	5.89%	**8.23%**	**7.33%**	**8.88%**	**5.20%**	**-2.40%**
Since Jan. 2001						
Avg. Quarterly Return	2.4%	2.8%	1.7%	2.5%	1.0%	0.4%
Best Quarter	20.5% **Q2 2020**	30.3% **Q2 2020**	25.8% **Q2 2009**	34.8% **Q2 2009**	6.8% **Q4 2023**	7.1% **Q1 2020**
Worst Quarter	-21.9% **Q4 2008**	-27.9% **Q1 2020**	-22.7% **Q1 2020**	-27.6% **Q4 2008**	-5.9% **Q1 2022**	-5.8% **Q2 2009**

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Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), 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 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.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2024

420
400
380
360
340
320

Jun 30 | Jul 31 | Aug 31 | Sep 30

"UK's Labour Party Wins Election Landslide as Conservative Vote Collapses"

"Deeply Divided France Risks Unprecedented Deadlock After Election Shock"

"Trump Rally Shooting Marks Dark Day in American Politics"

"Major Tech Outage Grounds Flights, Hits Banks and Businesses Worldwide"

"Biden Drops Out of Presidential Race, Endorses Harris"

"Economic Growth Quickens, Rising at 2.8% Rate in Second Quarter"

"Bank of England Cuts Rates After Fed Held Off"

"Growth Fears Rattle Markets; Nasdaq Suffers Correction"

"Unraveling Trades Fuel Global Market Rout"

"Japan's Nikkei Suffers Worst Day Since 1987, Hit by US Concerns"

"Japanese Leader Fumio Kishida to Step Down"

"US Job Market Was Weaker Than Previously Reported, Data Show"

"Stocks Extend Ugly Week of Losses Amid Economic Uncertainty"

"Trump Safe After Another Apparent Assassination Attempt"

"Fed Cuts Rates by Half Percentage Point"

"The Fed's Bold Move Jolts Global Markets"

"US Officials Conclude Middle East Peace Deal Out of Reach During Biden's Term"

"China Tries to Jolt Ailing Economy"

"Congress Approves Bill Averting Government Shutdown Before Election"

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 2001.
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.**

Inflation

Third Quarter 2024

The chart below shows US inflation rates over the past 50 years, both Core, which omits the more volatile food and energy sectors, and Headline, which includes all categories. Over time, the two end up in the same place, so many feel Core is a more reliable indicator. Inflation is now below 3% by both measures, but still above the Federal Reserve's much discussed 2% target. Many economists now think the 2% target is outmoded and that something closer to 3% better reflects a rate at which economic growth is compatible with a stable inflation rate. Despite inflation still running well above the stated 2% target, the Fed cut short-term interest rates by 0.50% in September, suggesting that the central bank may be tacitly adapting to a higher inflation target.

CPI and core CPI

% change vs. prior year, seasonally adjusted

15%
12%
9%
6%
3%
0%
-3%

Recession

	50-yr. avg.	Jul. 2024	Aug. 2024
Headline CPI	3.7%	2.9%	2.6%
Core CPI	3.8%	3.2%	3.3%
Food CPI	3.6%	2.2%	2.1%
Energy CPI	4.0%	1.0%	-4.0%
Headline PCE deflator	3.2%	2.5%	2.2%
Core PCE deflator	3.2%	2.6%	2.7%

'74 '76 '78 '80 '82 '84 '86 '88 '90 '92 '94 '96 '98 '00 '02 '04 '06 '08 '10 '12 '14 '16 '18 '20 '22 '24

Source: BLS, FactSet, J.P. Morgan Asset Management. CPI used is CPI-U and values are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs evolving chain-weighted basket of consumer expenditures of the fix-weighted basket used in CPI calculations. *Guide to the Markets – U.S.* Data are as of September 30, 2024.

The Fed and Interest Rates

Third Quarter 2024

The chart below shows both historical and forecasted fed funds rates, the short-term interest rate set by the Federal Reserve. Note that after plateauing at 5.50%, the Fed finally began an easing cycle, cutting the rate by 0.50% in September. Two forecasts are shown. The blue diamonds show the forecast of the Fed, while the green diamonds show the market's forecast as derived from the current US Treasury yield curve. For a change, the two are in close alignment and suggest a bottoming at around 3.00% (compared to today's 5.00%) in about a year. The gray shaded area shows the range of recent market forecasts. Today's forecasts are at the bottom of that range.

Federal funds rate expectations

FOMC and market expectations for the federal funds rate

FOMC September 2024 forecasts

Percent

	2024	2025	2026	2027	Long run*
Change in real GDP, 4Q to 4Q	2.0	2.0	2.0	2.0	1.8
Unemployment rate, 4Q	4.4	4.4	4.3	4.2	4.2
Headline PCE inflation, 4Q to 4Q	2.3	2.1	2.0	2.0	2.0
Core PCE inflation, 4Q to 4Q	2.6	2.2	2.0	2.0	

Federal funds rate
FOMC year-end estimates
Market expectations
FOMC long-run projection*
Range of market expectations since Dec. '23 SEP

4.88%
4.40%
4.16%
3.40%
3.03%
2.98%
2.90%
2.98%
2.90% 2.90%

8%
7%
6%
5%
4%
3%
2%
1%
0%

'93 '96 '99 '02 '05 '08 '11 '14 '17 '20 '23 '26 Long run

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management. Market expectations are based off of USD Overnight Index Swaps.
*Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate policy measure. *Guide to the Markets – U.S.* Data are as of September 30, 2024.

Yields

Third Quarter 2024

The US Treasury yield curve shows the interest rate of Treasury debt securities—from the shortest to the longest maturities—at a single point in time. Most of the time, the yield curve is upward sloping—investors usually require a higher rate of interest to compensate them for committing capital for a longer period. The yield curve is said to be “inverted” when the opposite prevails and short-term rates are above long-term. An inverted yield curve often precedes a recession. The chart below compares the yield curve at two different points in time. The blue curve (7/3/23) shows rates at the point of recent maximum inversion, a time when markets were forecasting a recession. As the recession has failed to materialize and the Fed has begun cutting interest rates, the shape of the yield curve has mostly normalized (orange curve, 9/30/24), with a positive slope from 2 years out to 30 years. Further Fed rate cuts could soon restore the entire yield curve to a positive slope.

U.S. Treasury Yield Curve

6%
5%
4%
3%

Jul. 3, 2023 (Peak inversion)

Sep. 30, 2024 (Current)

3m 1y 2y 3y 5y 7y 10y 20y 30y

Source: U.S. Department of Treasury