STONEBRIDGE
Capital Advisors

Monthly Market Commentary

September 2024 Review

MARKET COMMENTARY

Equity Review

Historically known as one of the worst months for the stock market, September bucked the trend posting the S&P's first green month since 2019. It was touch and go for most of trading on Monday and a late day rally sent the S&P up 0.42% on the day and 2.14% for the month. Growth strategies were the clear winner with Russell Growth gaining +2.83% and Russell Value index gaining +1.39% respectively; small caps and international stocks lagged, but still posted modest gains. This relative lack of volatility suggests the market appropriately priced in the Fed's rate cut of 50 basis points at its September policy meeting. Furthermore, the Fed guidance did little to move the market in any direction, implying that equity markets are amiable with current and forecasted policy.

Overall, the third quarter proved exceptionally healthy for market breadth expansion and widespread participation. In terms of the S&P 500 Market Weight index compared to the Equal Weight index, this was the largest outperformance of the average stock in the market over the mega large caps we've seen since 2022. Dividend stocks had their best quarter of performance dating back to the first quarter of 2021. The S&P High Dividend Yield Index returned an impressive 14.75% on the quarter, while the S&P 500 still had an admirable gain off 5.89%; even international stocks rallied with the MSCI EAFE Index up 7.35% (Graph 1). What more can be said other than it was a great quarter worldwide for equity markets, particularly lagging factors.

Last week, China announced broad stimulus plans in an effort to jumpstart its economy. China's plans to cut rates and issue an additional $284 billion in sovereign debt sent Chinese stocks sharply up. The MSCI China index returned 17% last week - the largest weekly increase in over a decade. That said, the Chinese market is still far off from their pre-COVID highs; in fact, the Chinese economy has had slowing economic growth since 2007. Part of this slowdown is due to demographics and simply overall size (the larger an economy gets, the more difficult it becomes to sustain high growth rates), but it remains clear that lack of economic freedom is ultimately a hinderance to sustainable economic development.

This is especially relevant as it relates to capital markets. While the spike in Chinese equity prices is head turning, the long-term chart screams caution to any thoughts of meaningful exposure to this area of the market. In the last 5 years, the U.S. market has outperformed Chinese stocks by 100%, and by 211% in the last 10 years. Provided this historic reference, we foresee very little policy and economic environment changes in China to suggest that the trend will reverse in the coming years (Graph 2).

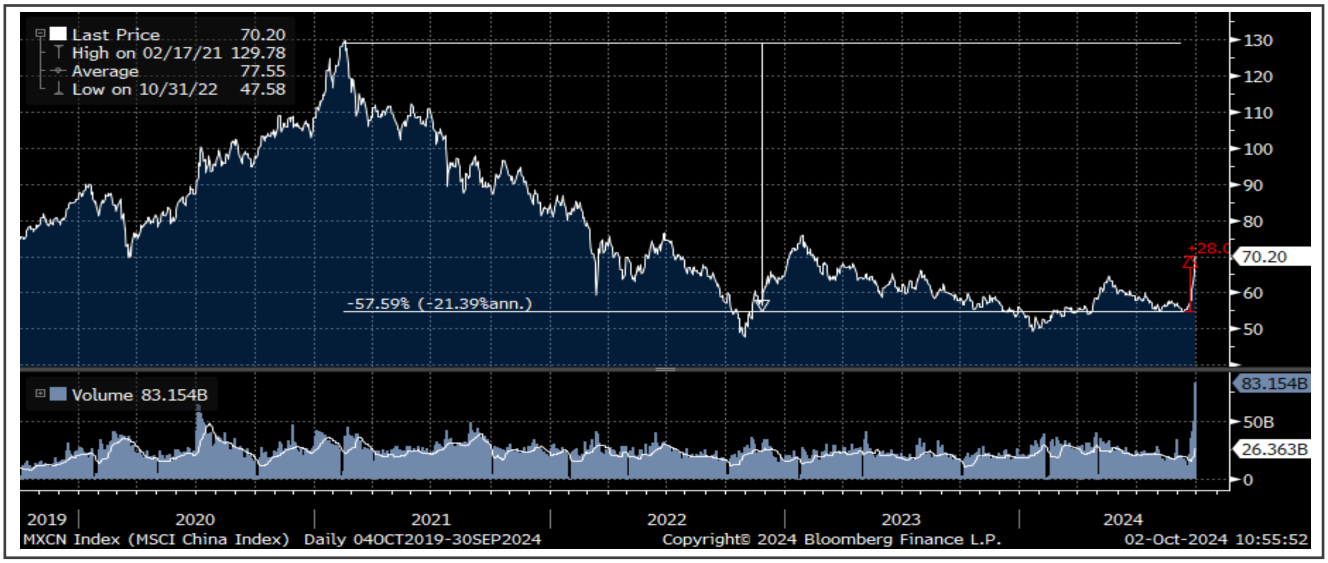
Shifting gears back to the domestic economy, the anticipated lower rates helped reanimate the Real Estate sector - up over 17% for the quarter. Utilities returned 19% fueled by a combination of rate cuts, higher expected electricity demand, and defensive equity positioning. The price of oil continued to trend down on the quarter, making Energy the only negative performing sector in the market. Given the recent increase in geopolitical conflict, particularly in the Middle East, it wouldn't be surprising to see oil drift higher from here if threats of supply become material (Graph 3).

Going forward, we expect to see more volatility in the markets as we navigate through the "soft landing" economic landscape. We believe the trend of market rotation still has legs and anticipate best in class companies to outperform. Looking beyond, the Mag 7 has proven to be a winning strategy in recent months, and this may continue for the next several quarters. Absent unexpected inflation shocks, we are likely on the other side of peak interest rates for this cycle. It will take time but otherwise stressed areas of the market, of the last 3 years, should begin seeing improvement. Retail and consumer stocks, particularly durables and apparel have dramatically underperformed the market year to date, lagging nearly 20%. As the U.S. consumer rebounds, these are areas of much needed improvement.

Graph 1: Quarterly Index Returns

Source: Bloomberg Financial L.P. (10/02/2024)

Graph 2: MXCN Index (MSCI China Index)



Source: Bloomberg Financial L.P. (10/02/2024)

Graph 3: Quarterly Sector Returns

Source: Bloomberg Financial L.P. (10/02/2024)

MARKET COMMENTARY

Fixed Income Review

The monthslong expectation for the Fed to begin loosening monetary policy became a reality this month with a 50-basis point cut in short-term interest rates. Bonds have largely been rallying since the 4th quarter of 2023 in anticipation of lower future rates, producing solid gains and strong performance for holders. The U.S. Aggregate Bond Index has returned 4.45% so far this year and around 11.5% on a one-year basis; only three months this year have seen returns in the red.

Since April, monthly performance has been positive. Such strong performance for bonds could make finding entry points for new cash or reinvesting maturities challenging; however, given that we are closer to the beginning of the loosening cycle than the end, bonds still offer relatively attractive future income streams and the potential for further price appreciation. While rates have dropped along the curve, it remains inverted with the shortest maturities higher than the longest. Beyond the very short end, it has steepened, beginning to now compensate investors with higher rates for moving longer in duration. That brings up the last point—short-term rates (including money market yields, which have been spoiling investors with fat returns for hoarding cash) have begun to fall.

As we have mentioned here before, competitive rates on cash will quickly diminish as the Fed makes additional cuts. Now would be an opportune time to consider moving excess cash, beyond near-term liquidity needs, into bonds to lock in current rates before cash returns retreat to more historically normal levels.

> You have to be constantly reinventing yourself and investing in the future.
>
> - *Reid Hoffman*

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OVERVIEW

Key Market Moves

Equity Market Moves

08/30/2024 - 09/30/2024

S&P 500:
5648.40 to 5762.48 (up 114.08)

Dow:
41563.08 to 42330.15 (up 767.07)

NASDAQ:
17713.63 to 18189.17 (up 475.55)

Fixed Income Market Moves

08/30/2024 - 09/30/2024

2-Year Treasury:
3.91% to 3.66% (down 25 bps)

10-Year Treasury:
3.91% to 3.81% (down 10 bps)

10-Year A-rated Corporate:
4.80% to 4.63% (down 17 bps)

10-Year AAA-rated Municipal:
2.71% to 2.60% (down 9 bps)

Equities

Stonebridge's equity investment style provides a method for growth and income generation. Within this style, we utilize three equity strategies to invest in industry-leading, domestic companies with solid fundamentals. Principally, we focus on large-cap equities because they are more mature companies who offer attractive growth potential and generally experience lower volatility.

Our equity strategies are designed to achieve varying client investment goals and risk tolerances.

LARGE CAP GROWTH
est. January 2001

GROWTH & INCOME
est. March 2015

DIVIDEND INCOME
est. March 2011

Fixed Income

Stonebridge's approach to fixed income seeks to provide principal protection, asset liquidity and income generation. We manage two fixed income strategies - taxable bond and tax-exempt municipal bond - that both utilize individual securities, and are broadly diversified across sectors and issuers. We maintain a conservative risk profile, focusing on investment-grade credit. Individual security selection is made through a bottom-up approach that identifies relative value among issuers within each sector.

Our fixed income strategies are custom tailored to meet each individual client's unique investment goals and income requirements.

TAXABLE
est. December 1998

TAX-EXEMPT
est. June 1997

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As the firm's Director of Equity, Michael Dashner is responsible for trading, analysis, allocation, and management of the firm's equity strategies. As one of the portfolio managers on the investment management team, he works directly with clients and advisors to establish customized investment portfolios for high-net-worth clients.

Having earned his BA in Economics from the University of South Dakota in 2007 and his MBA from the University of South Dakota in 2009, Michael joined Stonebridge in 2009 as a portfolio manager. In 2014, Michael completed and received his CFA from the Chartered Financial Analyst Institute. He is also a member of the CFA Society of Minnesota, along with the Minnesota Society of Municipal Analysts.

As the firm's Director of Fixed Income, one of the portfolio managers, and an owner of Stonebridge, Jon is responsible for leading the taxable and tax-exempt fixed-income team. As a member of the Stonebridge Investment Review Committee and Research Committee, he oversees credit analysis, trading, and portfolio management.

Having earned his BA from the University of North Dakota in 1999, Jon joined Stonebridge in 2006 as a senior analyst and portfolio manager. With almost 25 years of business and financial experience, Jon is also an active member of the National Federation of Municipal Analysts and previously served on the board of the Minnesota Society of Municipal Analysts.