

# QUARTERLY MARKET GUIDE: Q4 2024

*Our View of What's Most Relevant Now*

October 15, 2024



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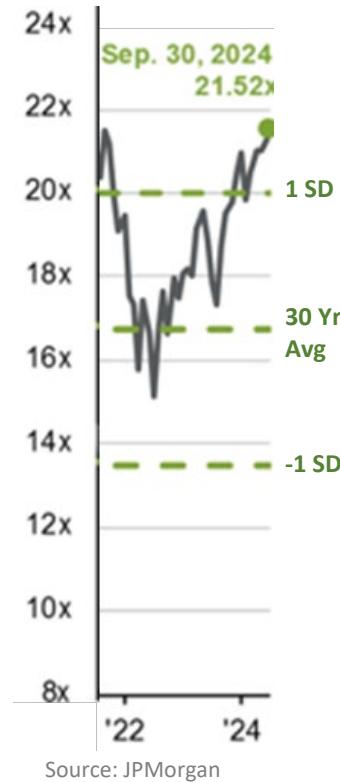
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## Data in Focus: S&P 500 P/E

S&P 500 Index: Forward P/E ratio



The S&P 500's rally since the 2022 downdraft has been driven primarily by multiple expansion. The adjacent chart shows that over recent months the S&P 500's forward P/E has moved increasingly beyond one standard deviation above its 30-year average. (See full chart on page 11.)

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## Index Performance

Index	Asset Class	2024		2023
		Q3	YTD	
<b>Equity Indexes</b>				
NASDAQ 100	Mega Cap U.S. Growth Equity	2.1%	20.0%	55.1%
S&P 500	Large Cap U.S. Equity	5.9	22.1	26.3
S&P 400	Mid Cap U.S. Equity	6.9	13.5	16.4
S&P 600	Small Cap U.S. Equity	10.1	9.3	16.1
MSCI All Country World	Global Equity	6.7	19.1	22.8
MSCI All Country World (Ex U.S.)	International Equity	8.2	14.7	16.2
MSCI Europe, Asia & Far East (EAFE)	International Developed Market Equity	7.3	13.5	18.9
MSCI Emerging Markets (EM)	International Emerging Market Equity	8.9	17.2	10.3
<b>Fixed Income Indexes</b>				
Bloomberg U.S. Aggregate Bond	U.S. Investment Grade Bond	5.2	4.5	5.5
S&P National AMT-Free Municipal Bond	U.S. Investment Grade Muni Bond	2.6	2.3	6.2
S&P Municipal Bond High Yield	U.S. Muni Bonds (Below Investment Grade)	3.5	7.8	8.7
Bloomberg U.S. Corp. High Yield	U.S. Corp Bonds (Below Investment Grade)	5.3	8.0	13.4
<b>Index Blends: Stock/Bond</b>				
80%/20%: Global Equity (MSCI All Ctry World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		6.4	16.0	19.2
60%/40%: Global Equity (MSCI All Ctry World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		6.1	13.1	15.7
40%/60%: Global Equity (MSCI All Ctry World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		5.8	10.1	12.3
20%/80%: Global Equity (MSCI All Ctry World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		5.5	7.3	8.9
Data as of 9/30/2024				

Source: Morningstar, and blended benchmark returns are based on monthly rebalancing.

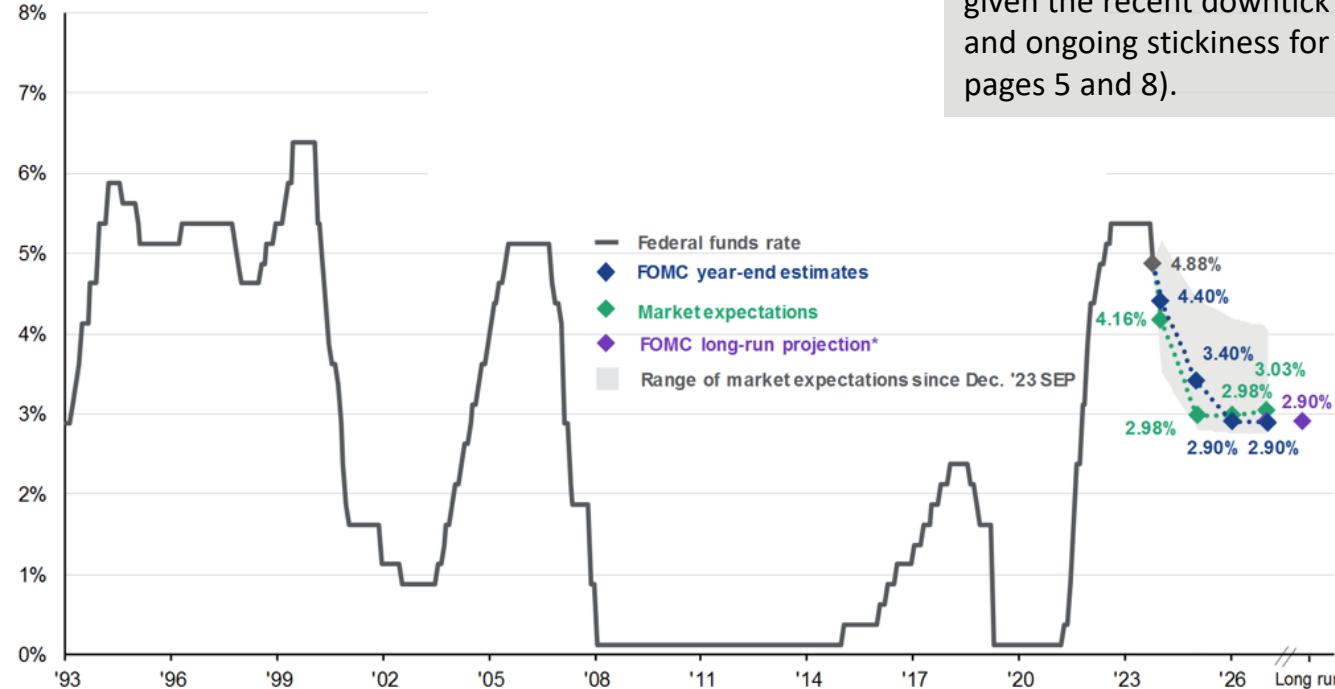
Interesting that 3 asset class indexes had better Q3 returns than their YTD totals – i.e., S&P 600, U.S. Aggregate Bond, and the AMT-Free Muni indexes.

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## Economy

### Federal Funds Rate

**Federal funds rate expectations**  
FOMC and market expectations for the federal funds rate



Federal Reserve Chair Powell recently provided unusually specific guidance for two more Fed Fund rate cuts by yearend of 25bp each. It'll be interesting to see if his guidance is fulfilled given the recent downtick in unemployment and ongoing stickiness for core inflation (see pages 5 and 8).

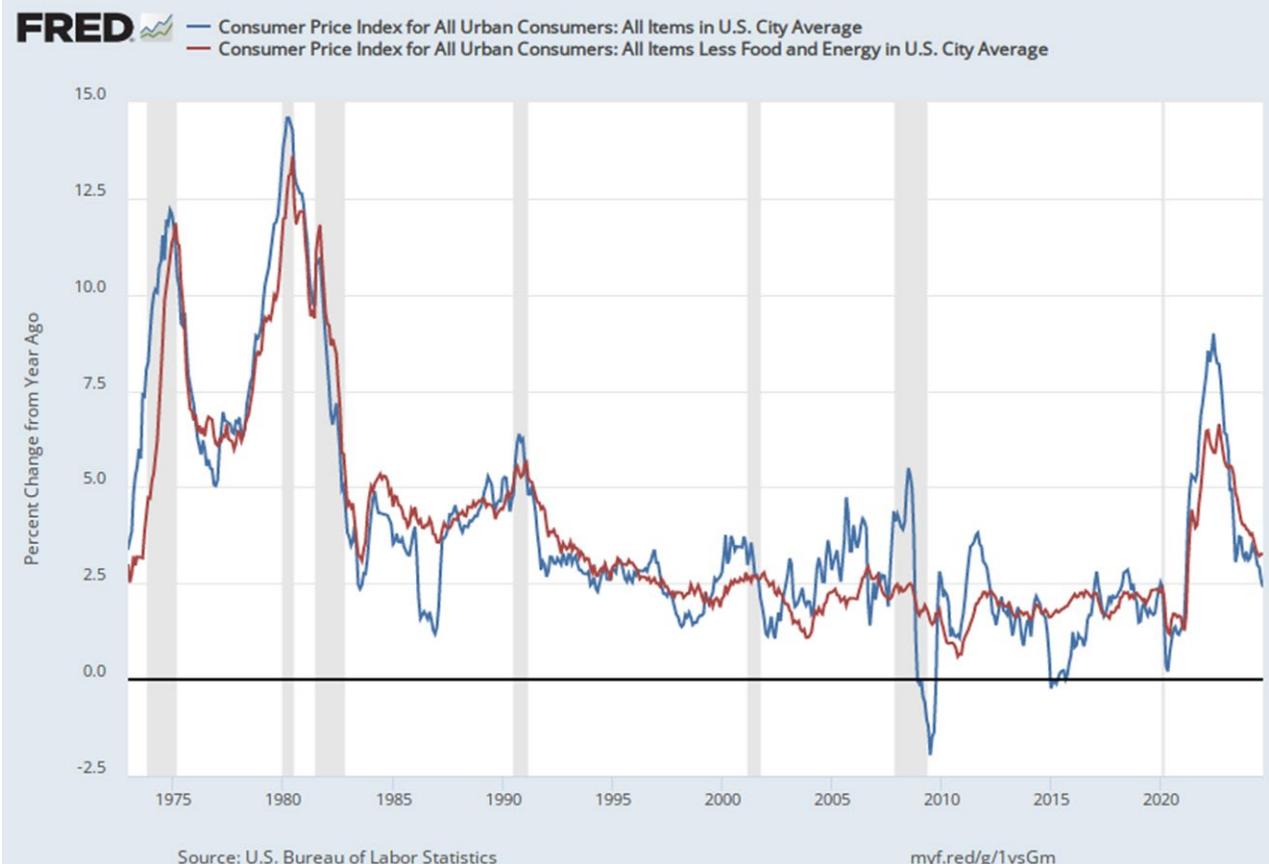
Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

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 monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Guide to the Markets - U.S. Data are as of September 30, 2024.

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## Economy

### Inflation

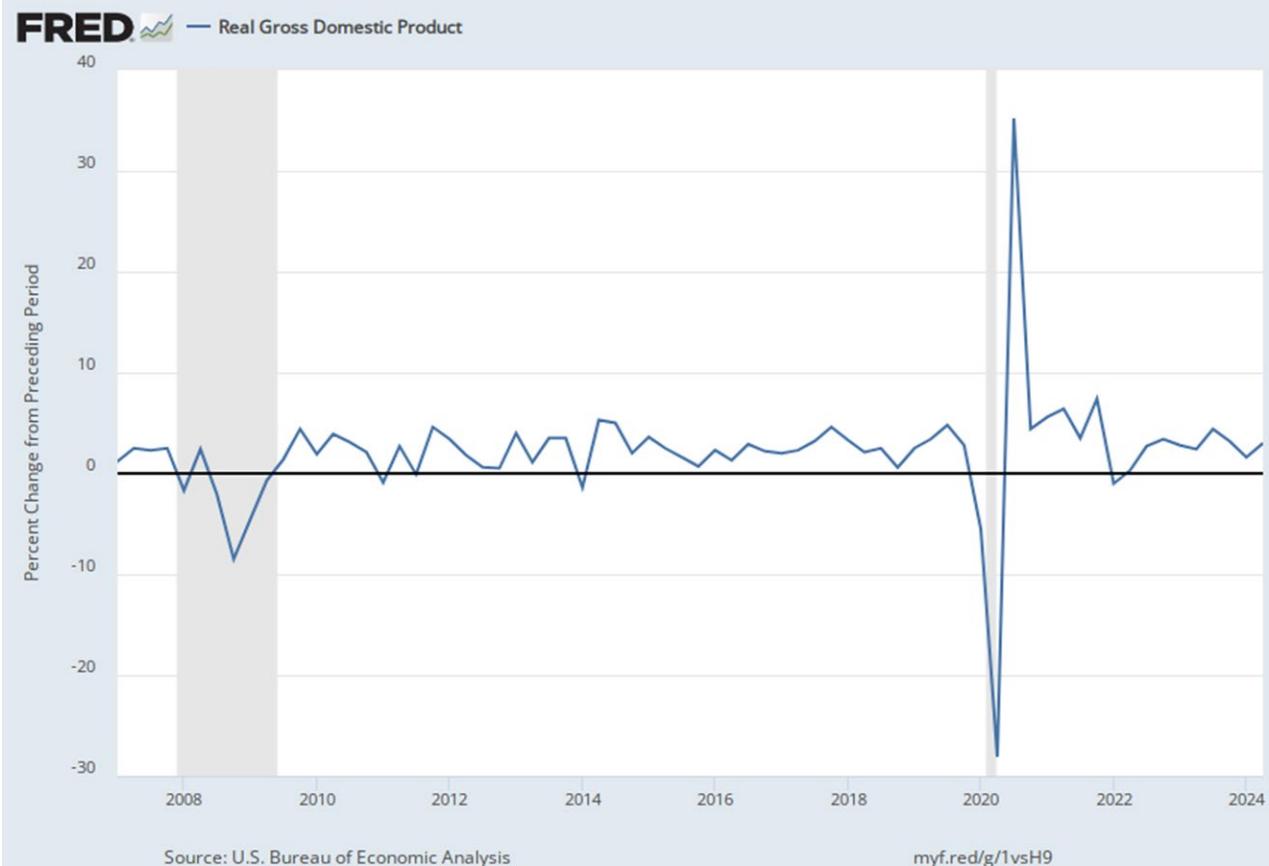


The just reported September CPI came in at an annual rate of 2.4%, and 3.3% for the so-called core inflation rate which excludes Food & Energy. These compare with the Fed's mandate for "stable prices" commonly defined as an inflation rate of 2% over time.

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## Economy

### Real GDP



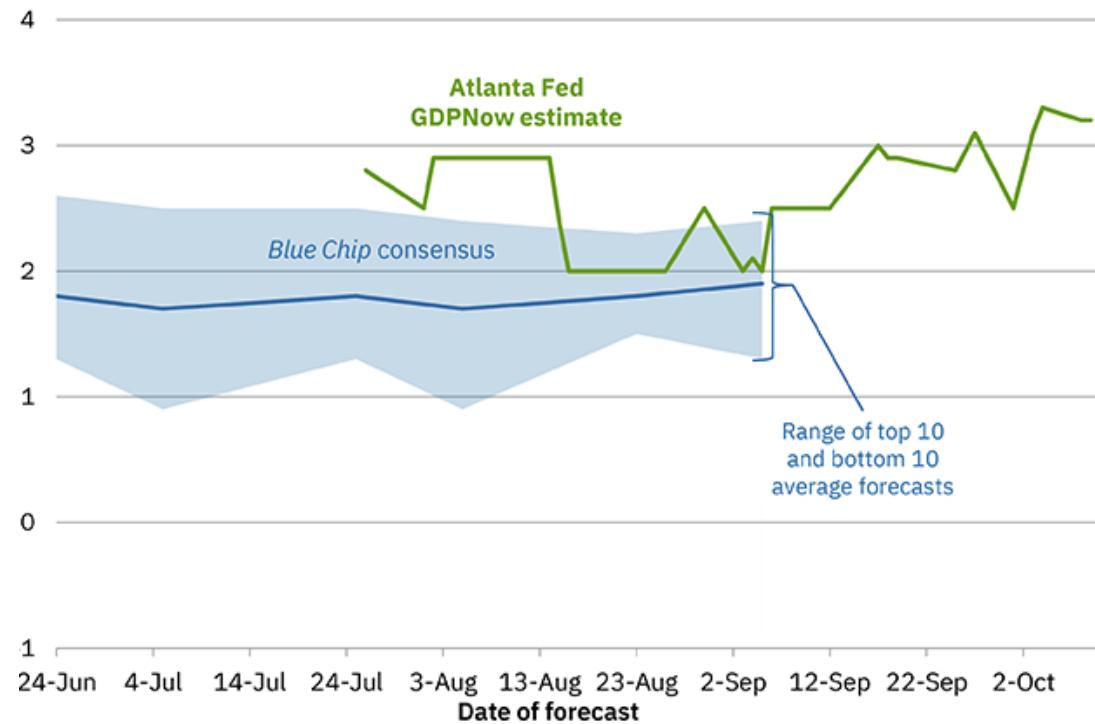
Q2 GDP was reported at +3.0% (quarter over quarter). This was a very healthy number and comfortably above the expectations of both the Atlanta Fed and consensus.

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## Economy

### Real GDP Estimate – Atlanta Fed GDPNow

Evolution of Atlanta Fed GDPNow real GDP estimate for 2024: Q3  
Quarterly percent change (SAAR)

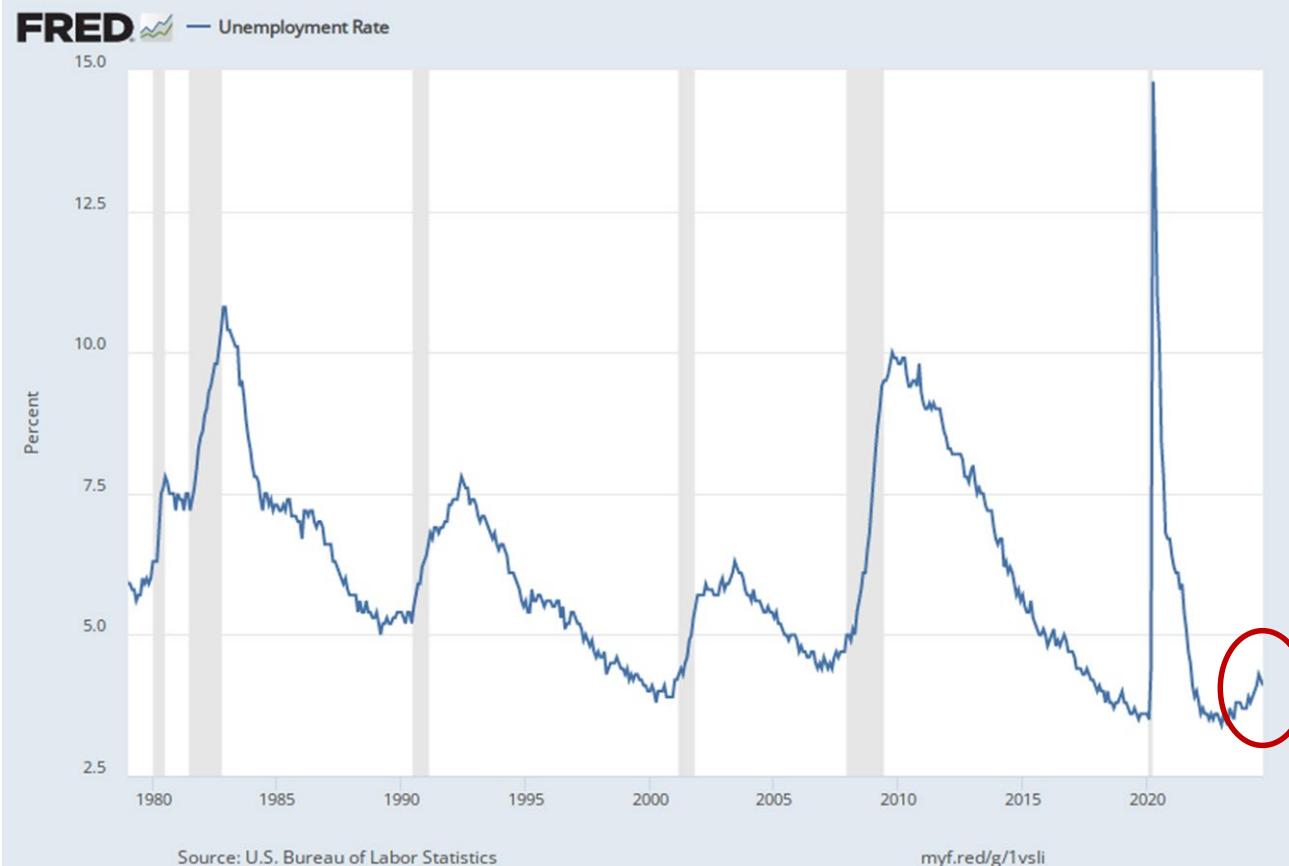


The Atlanta Fed's GDP Q3 estimate has trended higher over recent weeks to just over 3%. The latest available Blue Chip consensus forecast, as tracked by the Atlanta Fed, looks a bit stale as it has not been updated since early Sept.

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## Economy

### Unemployment Rate

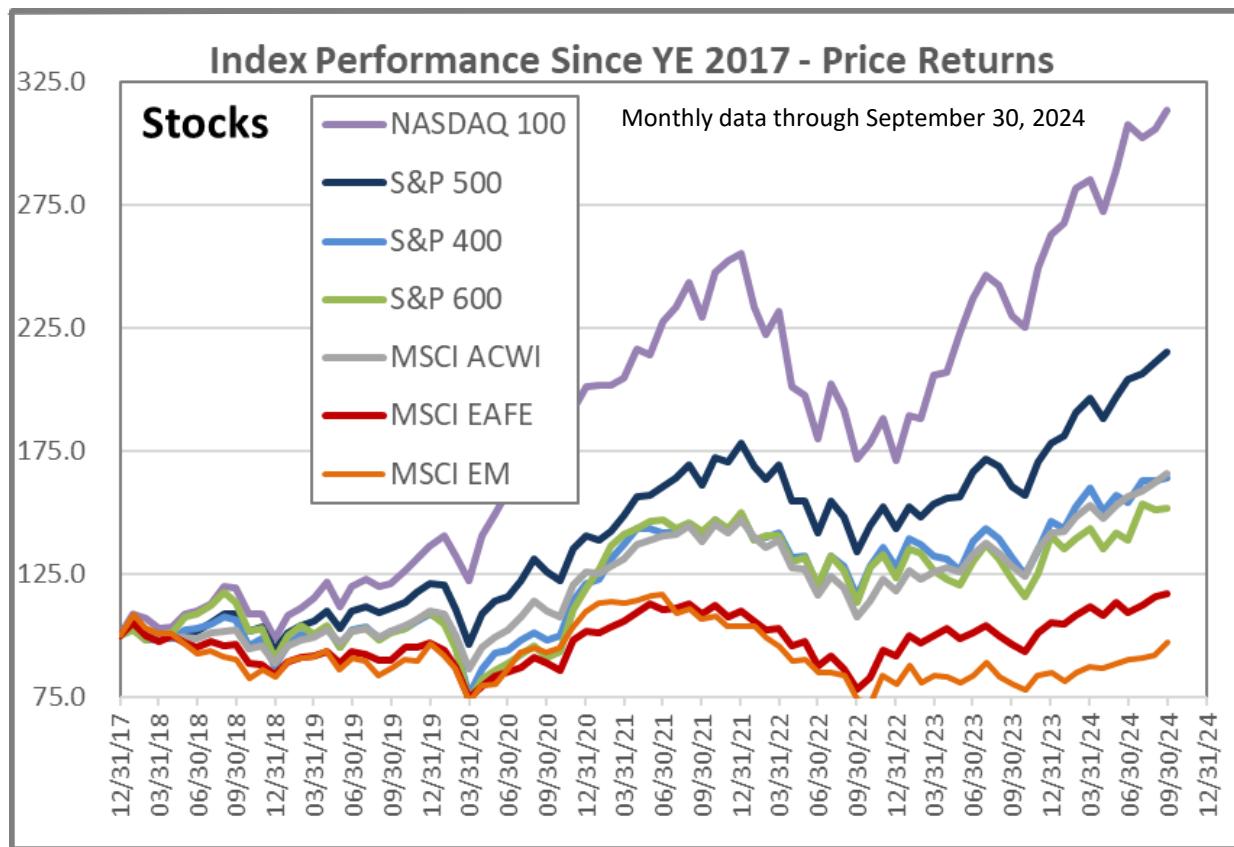


The unemployment rate was reported at 4.1% for September. This second consecutive 0.1% monthly downtick was interpreted by some economists as a potential signal for the Fed that additional rate cuts may be less necessary to support employment.

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## Equities

### Sub-Asset Class Relative Performance



This chart conveys two points. The first, the obvious, is that Mega Cap Growth (i.e., NASDAQ 100) has been leading by a widening margin. The second point, equally important, is that every other segment of the Global Equity market has trailed the S&P 500 price return over the period shown.

Source: Bloomberg and Yahoo Finance data, with analysis by Genesia Investments LLC

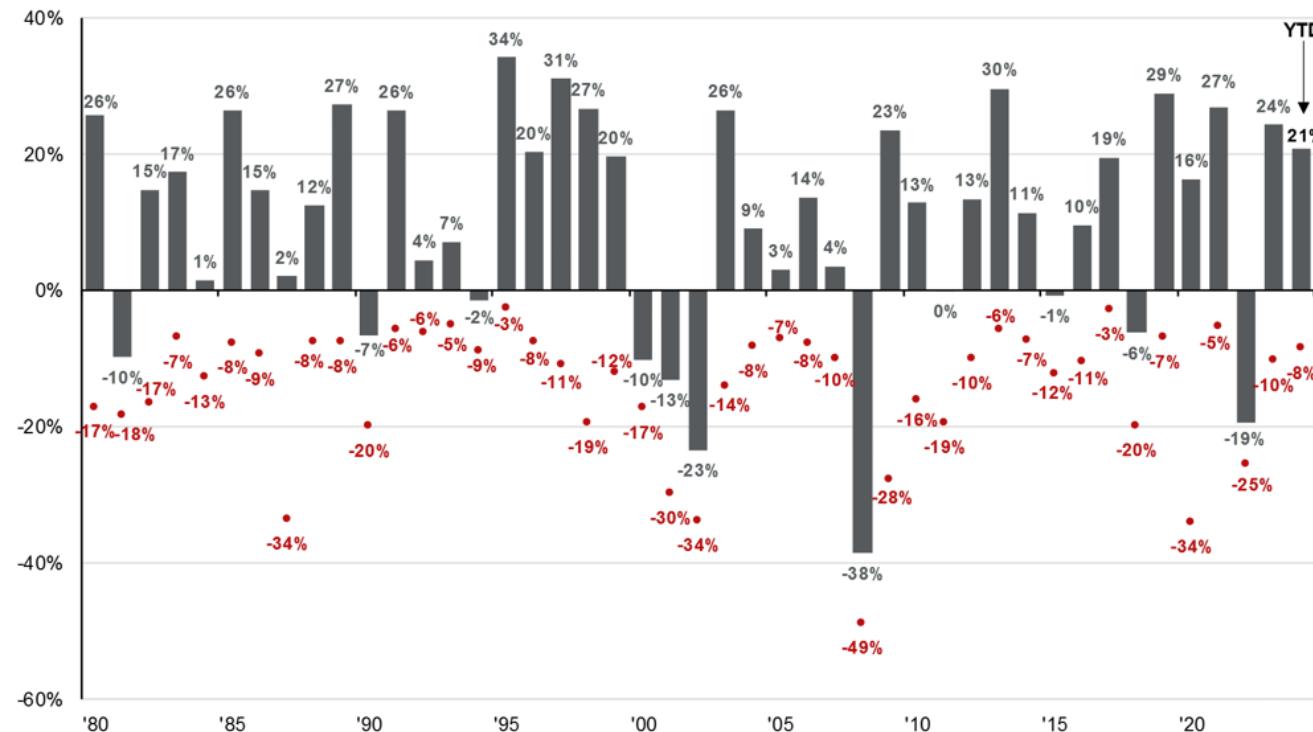
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## Equities

### S&P 500 Annual Returns & Intra-Year Declines

#### S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 33 of 44 years



The 9-month YTD return logged by the S&P 500 has been better than all but 13 full year periods over the past 44 shown on this chart.

Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2023, over which time period the average annual return was 10.3%.

Guide to the Markets - U.S. Data are as of September 30, 2024.

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## Equities

### S&P 500 Valuation

#### S&P 500 Index: Forward P/E ratio



By historical standards, a forward P/E of greater than 20x is fairly rich. While higher P/Es have been achieved, history has shown such levels to be unsustainable for more than a few years at a time.

*The Equities chart on this page will rotate through the year based on perceived relevance.*

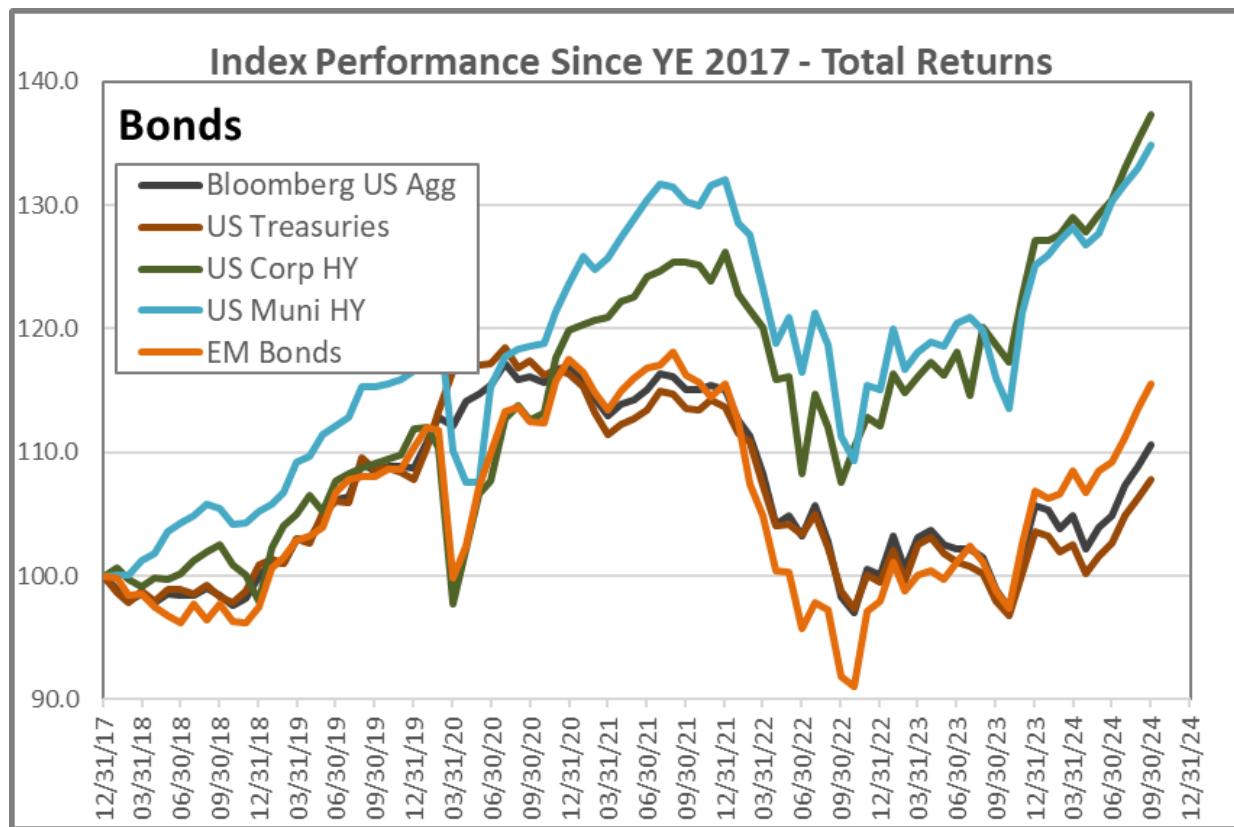
Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management. Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since March 1994 and by FactSet since January 2022. Average P/E and standard deviations are calculated using 30 years of history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 30 years for each measure. \*Averages and standard deviations for dividend yield and P/CF are since November 1995 due to data availability. Guide to the Markets - U.S. Data are as of September 30, 2024.

**J.P.Morgan**  
ASSET MANAGEMENT

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## Fixed Income

### Sub-Asset Class Relative Performance



All Bond indexes we track have delivered fairly robust YTD total returns (in bond terms, of course).

Source: Bloomberg monthly index data, with analysis by Genesia Investments LLC

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## Fixed Income

### Market Yield - U.S. Treasury 10-Year Bond

**FRED**  — Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis



A bit surprising has been the 40+ bp *increase* in 10-year market rates since the 50 bp cut in the Fed Funds rate.

Source: Board of Governors of the Federal Reserve System (US)

[myf.red/g/1vsMY](http://myf.red/g/1vsMY)

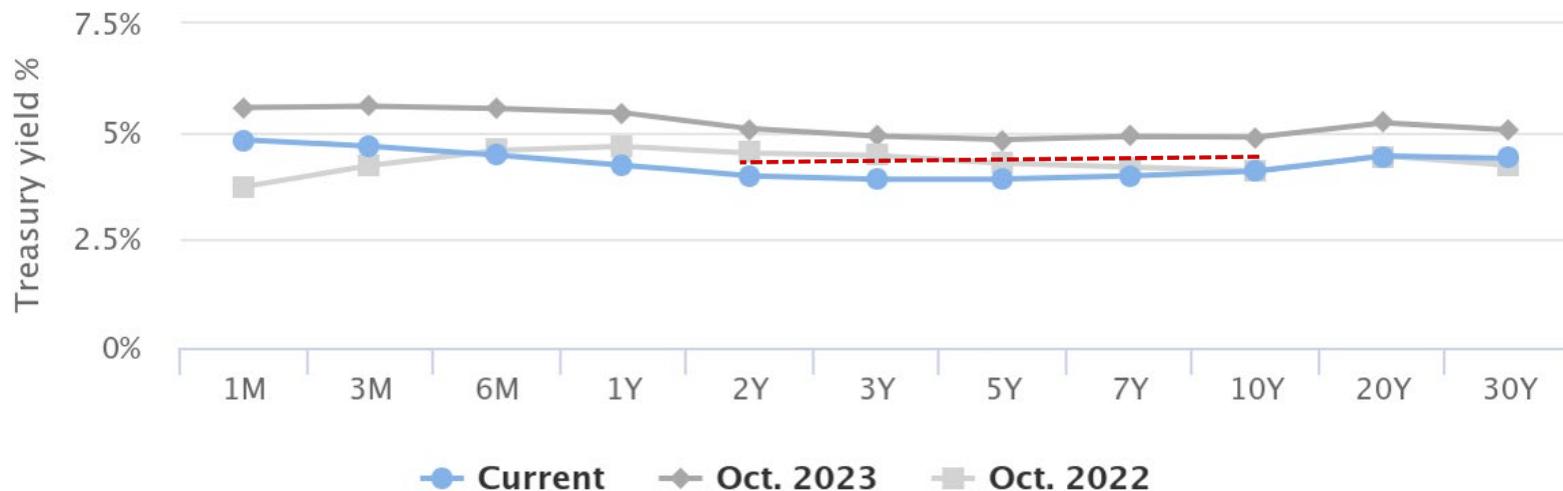
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## Fixed Income

### Treasury Yield Curve

As of July 12, 2024

You have to look closely to recognize the slight upward slope now prevailing between the Treasury 2-year and 10-year bonds (See page 15)

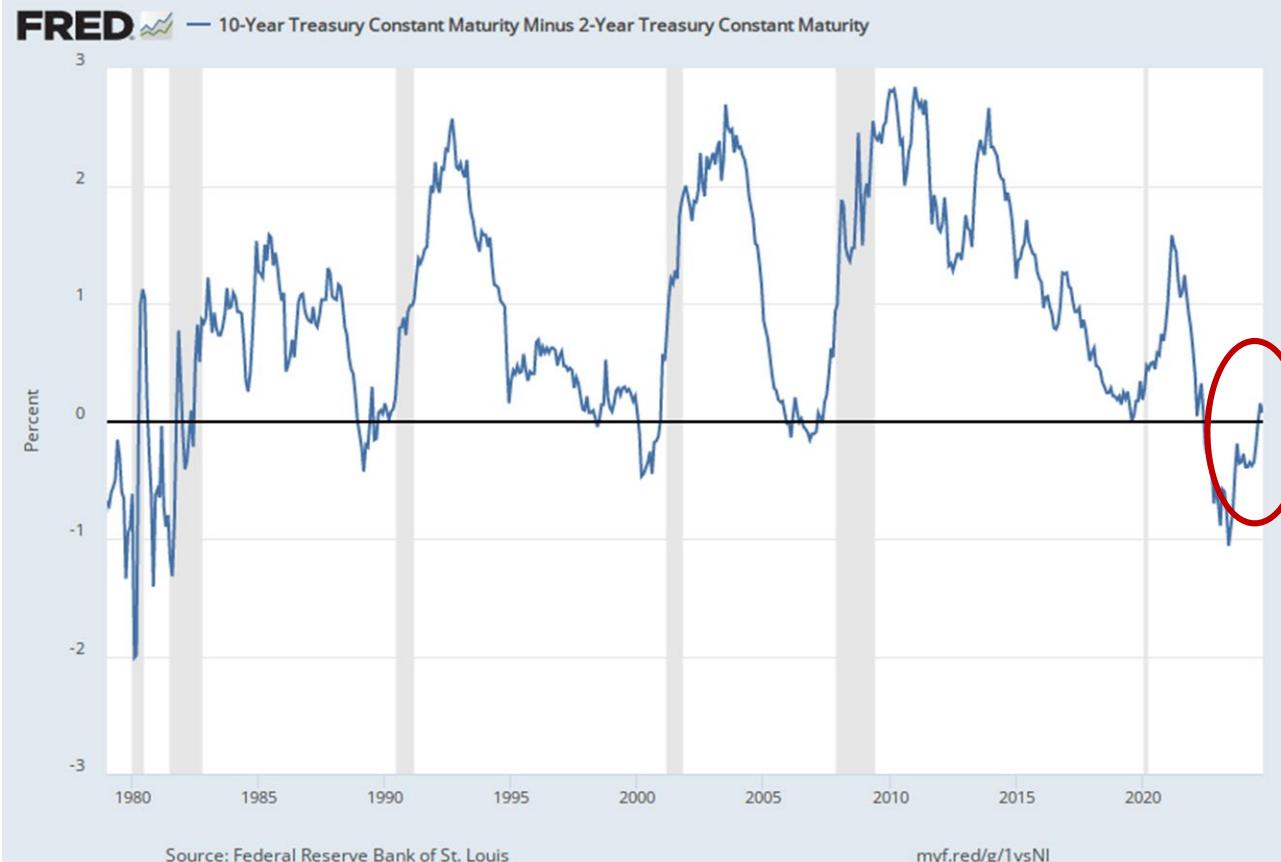


Source: GuruFocus.com

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## Fixed Income

### Treasury Yield Spreads – 10-Year vs. 2-Year

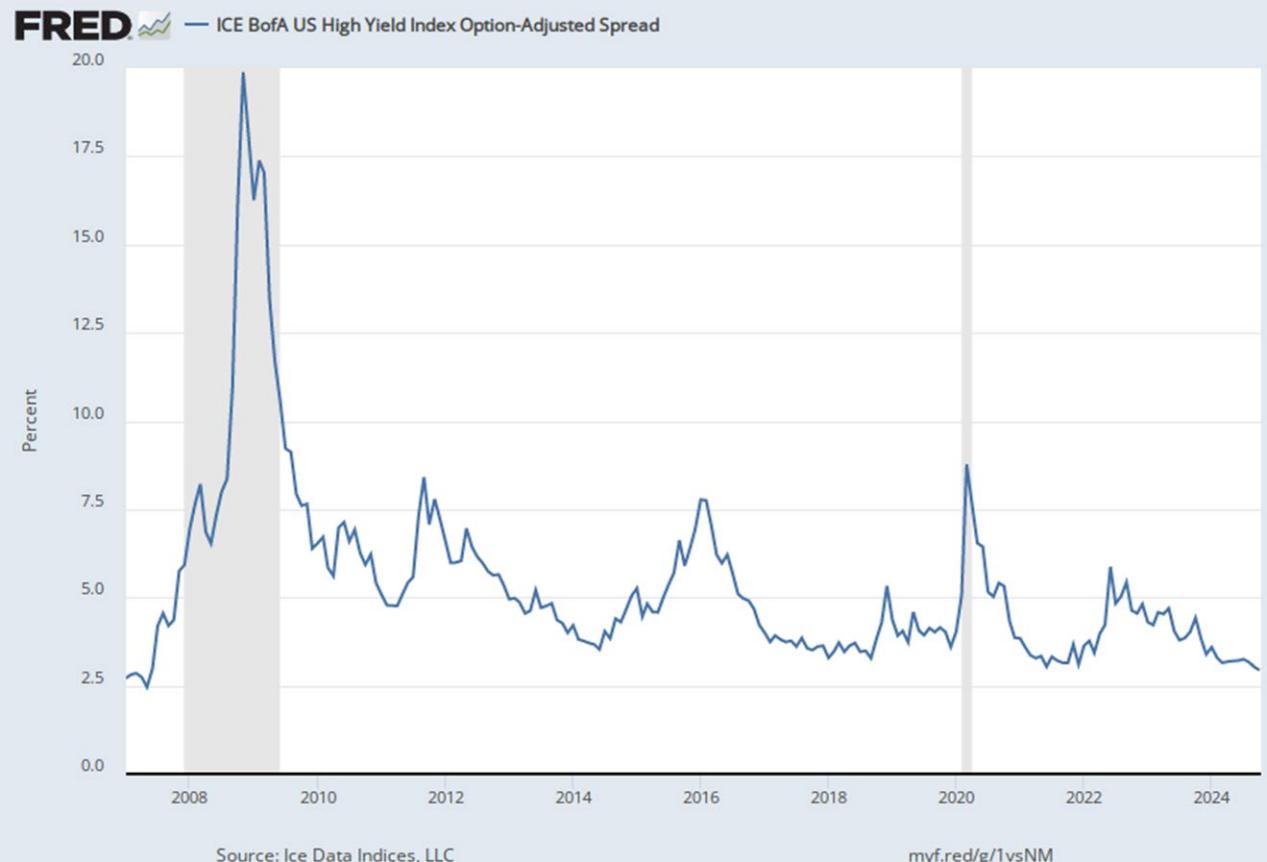


Twenty-six months after it started, the Yield Curve inversion finally ended in early September. Don't blame the messenger, but the end of a Yield Curve inversion has preceded all six U.S. recessions since 1980.

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## Fixed Income

### Credit Spreads – U.S. Corp High Yield vs U.S. Treasuries



High yield spreads ticked lower recently to 2.99% - the lowest print since June 2007.

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## IMPORTANT DISCLOSURES

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### **Sources Include:**

Federal Reserve Bank of St. Louis Economic Research -- <https://fred.stlouisfed.org/>

Federal Reserve Bank of Atlanta Research & Data – <https://www.atlantafed.org/cqer/research/gdpnow>

GuruFocus.com LLC, U.S. Treasury Yield Curve Data & Charts -- [https://www.gurufocus.com/yield\\_curve.php](https://www.gurufocus.com/yield_curve.php)

JP Morgan, Quarterly Guide to the Markets -- <https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/>

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## IMPORTANT DISCLOSURES (Continued)

*Reference to market index information is included for illustrative purposes only, as it is not possible to directly invest in an index. Indexes are unmanaged, hypothetical vehicles that serve as market indicators. Index total return performance data reflects the assumptions of the reinvestment of interest and dividends but does not include the deduction of fees or transaction costs which otherwise reduce performance of an actual portfolio. The blended indexes are shown for informational purposes only and are not representative of any particular investment or plan.*

### Acronym Definition(s):

FOMC – Federal Open Market Committee, which is responsible for determining the U.S. monetary policy. The Committee is comprised of 12 members, including the 7 members of the Federal Reserve Board of Governors.

### Index Definitions:

NASDAQ 100 – Index of 100 largest growth-oriented non-financial companies listed on the Nasdaq Stock Market.

S&P 500 – Compilation of 500 major U.S. stocks meeting certain criteria; market capitalization and float-weighted.

S&P 400 – Index measuring the performance of 400 mid-sized U.S. stocks; market capitalization and float-weighted.

S&P 600 – Index measuring 600 small-cap U.S. stocks that meet certain criteria regarding liquidity and financial viability; market capitalization and float-weighted.

MSCI All Country World – Global equity index across market capitalizations with about 2,800 constituents, representing about 85% of the free float-adjusted market capitalization across 23 developed and 27 emerging markets.

SCI All Country World ex USA – Global equity index across market capitalizations, which excludes the U.S., with about 2,300 constituents which represents free float-adjusted market capitalization across 22 developed and 27 emerging markets.

MSCI Europe, Asia & Far East (EAFE) – International equity index across market capitalizations, which excludes North America, with about 840 constituents which represents free float-adjusted market capitalization across 21 developed markets.

MSCI Emerging Markets (EM) – International equity index across market capitalizations with about 1,400 constituents which represents free float-adjusted market capitalization across 27 emerging markets.

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## IMPORTANT DISCLOSURES (Continued)

### Index Definitions: (Continued)

Bloomberg U.S. Aggregate Bond – Widely followed bond benchmark comprised of investment grade, U.S. dollar denominated, fixed rate taxable bonds including Treasuries, government-related, corporate, mortgage-backed, and agency.

S&P National AMT-Free Municipal Bond – Broad market-value weighted index comprised of larger and more liquid tax-exempt investment-grade U.S. municipal bonds.

S&P Municipal High Yield Bond – U.S. index of municipal bonds that are either not rated or rated below investment grade.

Bloomberg U.S. Corporate High Yield Bond – Index of fixed rate U.S. dollar denominated corporate bonds rated BB+ or below by Fitch and S&P.

## Contact Information

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