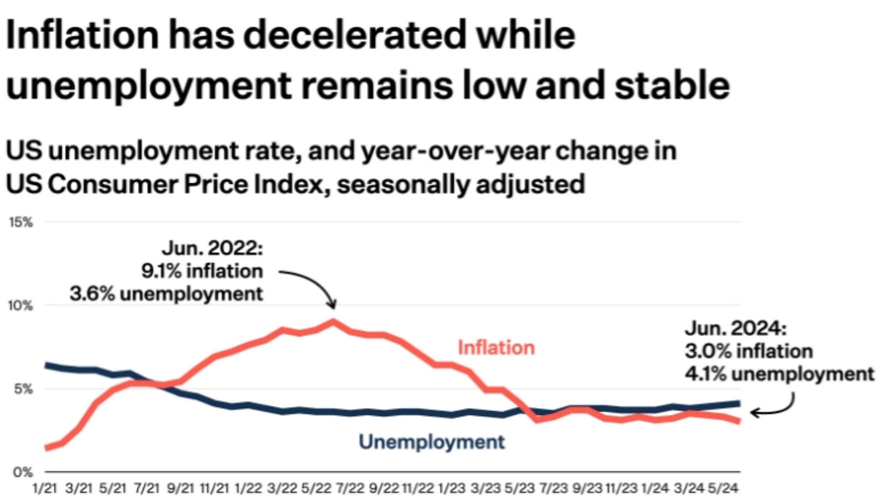
## Interest Rate Cuts

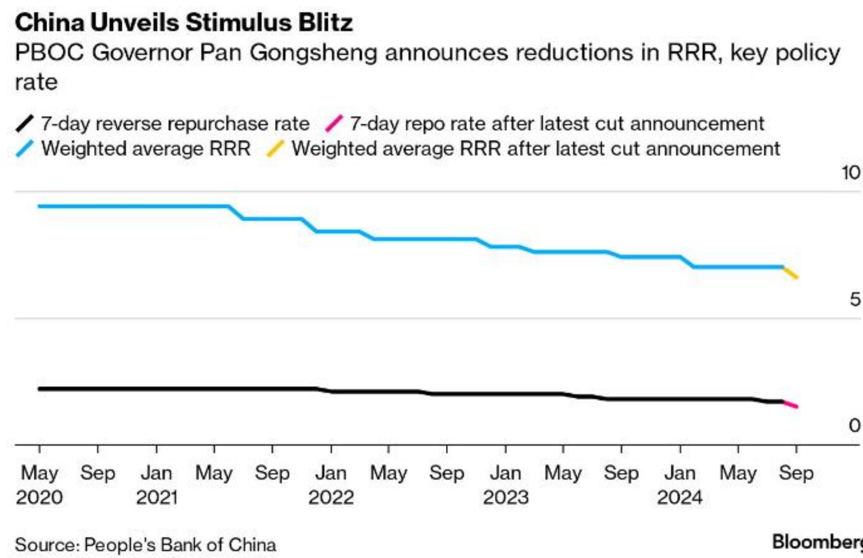
Amid moderating inflation and a weakening labor market, the Fed elected to cut its policy rate by half a percentage point at its September meeting. The net result will likely be a soft landing for the US economy and positive support for the equity markets, which contributed to the S&P's 5.87% total return in the third quarter. Leadership was provided by sectors sensitive to interest rates: Financials (+10.7%), Industrials (+11.5%), and Utilities (+19.4%). Sectors impacted by decelerating economic growth, namely Energy, Info Tech, and Communications Services, represented the laggards




Source: U.S. Bureau of Labor Statistics, via FRED The New Consumer

## China Headwinds

In the wake of the pandemic, it was believed Chinese consumers would return to their prior spending habits. However, due to a weakening real estate market consumer demand has declined in China, significantly impacting American companies doing business there. In its most recent quarter, Apple saw a year-over-year decline in iPhone sales in China, which represented 17% of company sales. Starbucks experienced a similar decline in its seven thousand stores based in China. In addition, a longer list of companies has been impacted indirectly. For instance, Chinese demand for autos has softened, driving s driven weakness at companies supplying the auto market such as Analog Devices. In response, the Chinese government has implemented steps to bolster the domestic economy, including reducing interest rates on existing mortgages. Time will tell if these measures will be sufficient to re-ignite growth. Until then, the Chinese end market is likely to remain a wildcard.



### Challenges in the Oil Patch

Energy was the lone negative sector in the S&P 500 in Q3, driven chiefly by weakness in the price of crude oil, which saw both higher supply and weaker demand. On the supply side, US capacity continued to grow and was exacerbated by steady Russian production and poor OPEC compliance. On the demand side, China was negative year over year and Europe remained sluggish. Responding to the weak pricing environment, OPEC has pushed off quota increases, although many of the countries outside of Saudi Arabia persist in producing over quota. Going forward, many uncertainties remain that could move the price of oil. China's efforts to stimulate its economy, if successful, would positively impact demand; the US Presidential election could result in differing outcomes based on the winner; and there remains the possibility that Saudi Arabia changes policy to retake lost market share, reminiscent of the downturn of 2014, which would be a clear negative for the price of the commodity and the sector overall.

### Financials Rally on Lower Rates

The Financials sector was among the market leaders in the quarter as the Fed initiated rate cuts and more restrictive capital rules (Basil 3 Endgame) were reproposed. Specifically, the previous capital rules proposal would have proven quite onerous for banks, requiring them to maintain levels of capital higher than necessary and hindering their ability to generate profits. With significant pushback from the banks and industry experts, the new proposal is likely to be much more palatable. In addition, lower market interest rates have driven an improvement in banks' net interest income, a trend that should continue well into 2025. Moreover, incremental rate cuts should lower banks' funding costs, while simultaneously enhancing the affordability of loans, driving an acceleration in loan growth. Altogether, these fundamentals should provide opportunities to capture further upside in select names in the sector going forward.

### Outlook

With the start of the Fed's latest easing cycle, which is expected to extend through 2025, the markets have one less source of uncertainty. Heading into Q4, investors will focus more sharply on the Presidential election, which at this point is too close to call. On balance, the market is likely to favor Donald Trump due to his consistent pro-business stance. But each candidate brings a unique level of risk to the markets, particularly as it relates to inflation: in Trump's case, tax cuts and tariffs; in Kamala Harris' case, growth in entitlements. No matter the outcome, with central bankers across the globe providing economic stimulus, the key to outperforming the equity market will be emphasizing companies that are levered to an economic re-acceleration over the next twelve months. Areas with potential include Consumer Discretionary, Finance, and Cyclicals..

***Disclosures***

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