NorthCoast Asset Management

Quarterly Client Update

Q3 2024

September 30, 2024

"If you fail to prepare, you're prepared to fail"

~ Mark Spitz

Reflecting on the 2024 Summer Olympics in Paris, one can't help but appreciate the skill, preparation, and dedication required to succeed at the highest level. While these games celebrate athletic achievement, they also highlight themes that resonate with investors. Just like Olympians, successful investors need to focus on preparation, strategy, and mindset to achieve their goals. Let's explore some key parallels between the Olympics and investing.

Planning, Preparation, and Setting Goals: Olympians dedicate years to refining their skills and setting measurable milestones. Similarly, in investing, building wealth requires setting clear financial objectives. Staying focused on your long-term aspirations is key to avoiding short-term distractions.

Diversification: Just as athletes compete in various events to maximize their chances of winning medals, investors should diversify their portfolios. Spreading your investments across different asset classes, industries, or even geographical regions can reduce risk and improve your overall performance. Relying on one asset class or stock is as risky as relying on one event in the Olympics.

Adapting to Change and Staying Focused: Olympic athletes face challenges ranging from new competitors to evolving rules. Similarly, financial markets are constantly shifting. While it's important to adapt to market trends, maintaining focus on your long-term objectives is essential. Just as athletes must stay disciplined under pressure, investors should avoid emotional reactions to short-term market movements.

Risk Management: In both arenas, risk management is crucial. Athletes take calculated risks to enhance their performance while avoiding injury. Likewise, investors should assess their risk tolerance and weigh that against efforts to enhance portfolio performance. Continued review and realignment with financial goals is critical. Proper diversification, asset allocation, and regular reviews can help safeguard your investments.

As we move into the fourth quarter, understanding some of these parallels and sometimes conflicting considerations can offer deeper insights into your financial approach. By appreciating the connections between market events, strategy performances, market outlook, and geopolitical events, we can better anticipate and respond to the multifaceted forces shaping the investment landscape.

Our goal is always to provide you with innovative solutions adapted to the uncertainty of investing, guiding you through an optimal allocation according to your financial goals and risk tolerance. Now for my view on the topics affecting your investments.

A CIO's View

Movement in these areas is monitored daily by our models. We also regularly cover these topics in our monthly Navigator and quarterly Fixed Income Commentary.

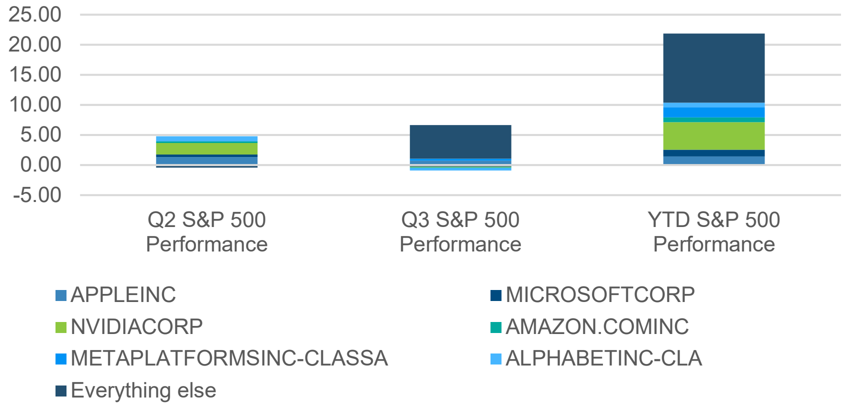
Market Return: A Narrow and Negative Quarter

Last quarter we discussed the magnitude of the distortion of index returns caused by the artificial intelligence gold rush and some technology stocks. This quarter is showing some signs of cooling off in those areas.

A few year-to-date statistics: the S&P 500 Index was up 21.7% at the end of the third quarter, with less than 37% of its stocks beating the index. The average stock return was 14.5% while the top six names (Microsoft, Apple, Nvidia, Amazon, Meta, Alphabet) are up 47% on average, and still disproportionately accounted for more than 10% of the 21.7% return YTD.

Finally, we have seen in the third quarter a break in that dominance from the top 6. Indeed, while the index was up 5.78%, the average stock in the index was up 9.4%, with 67% of the stocks beating the S&P Index (Exhibit 1).

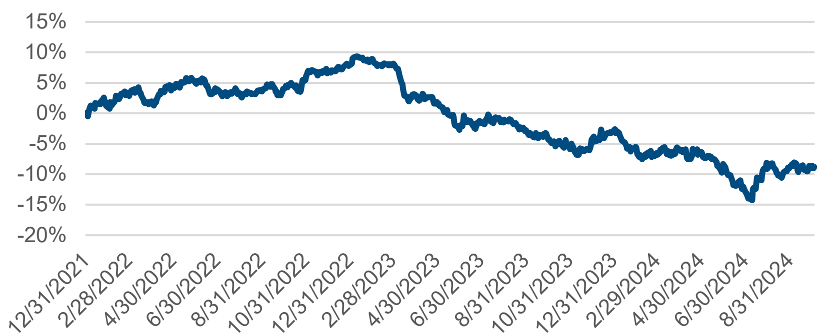
Exhibit 1: S&P 500 Performance Q2, Q3, and YTD



Source: Bloomberg.

We like to measure the notion of market breadth by comparing the performance of the equal-weighted S&P 500 Index versus the cap-weighted index performance. You can see below that there was a strong 2022, followed by a challenging 2023 and Q1/Q2 2024. The race between those two indices has reversed over the past few months (Exhibit 2).

Exhibit 2: S&P500 Cap-Weighted vs. Equal-Weighted Performance



Source: Bloomberg.

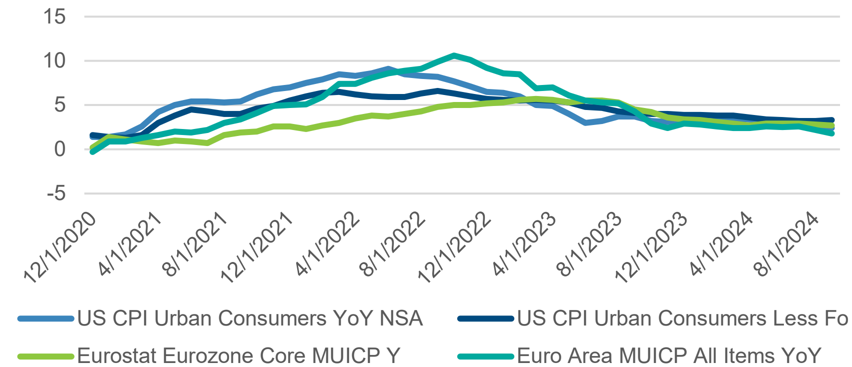
We have stressed over the past quarters the importance of diversification. While the S&P 500 has extended its year-to-date gains to nearly 21.7%, the technology sector gained 22%, utilities gained 30%, telecommunications gained 24.8%, financials gained 20.9%, and industrials gained 18.9%. This sector rotation underscores the value of a well-diversified portfolio and a broadening of the 2024 rally that we had been expecting.

Inflation: Improvements so far but resilience ahead

The September CPI report showed stronger-than-expected inflation (Exhibit 3), with core CPI rising 0.3% month-over-month (3.3% year-over-year), mainly due to higher core goods prices despite some moderation in core services inflation. While shelter inflation slowed, this was offset by increased costs in transportation and medical care services. Food inflation also surged, with the biggest rise in home food prices since January 2023.

The "supercore" inflation measures rose to 0.4% month-over-month, driven by transportation and medical services, suggesting persistent inflation pressures. However, the slowdown in rent and owner-equivalent rent CPI provided some relief. Despite these data, the FOMC is still expected to proceed with a 25bp rate cut in November, considering the disinflation trend and the previous 50bp cut in September.

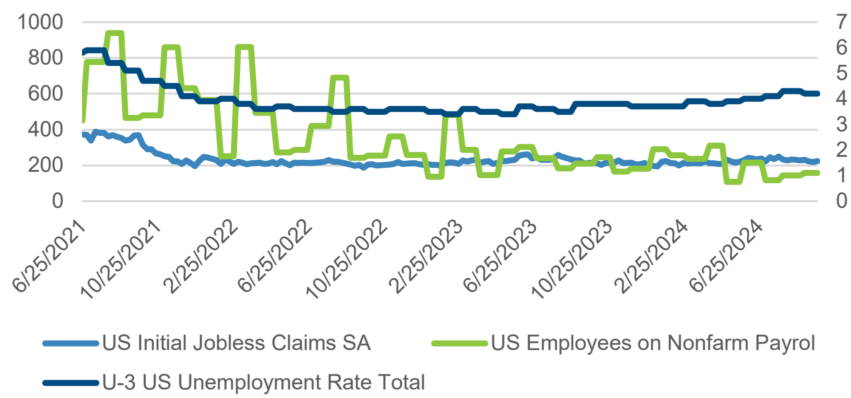
Exhibit 3: US/Europe Core Inflation Rates



Source: Bloomberg.

The FOMC participants are paying increasing attention to the labor market and noted in the September Minutes that it, “was now less tight than it had been just before the pandemic,” and that, “the risk had increased that continued easing could transition to a more serious deterioration.” The latest monthly data shows a slight decline in the unemployment rate, and an improvement in the nonfarm payroll and initial jobless claims (Exhibit 4). However, initial jobless claims rose by 33,000 to 258,000 for the week ending October 5, surpassing expectations. In addition, the four-week moving average also increased by 7,000 to 231,000. The rise in claims was driven by 14,000 in states affected by Hurricane Helene, 9,000 in Michigan due to auto plant layoffs, and 2,000 in Washington and Oregon, likely linked to the Boeing strike. Continuing claims increased by 42,000 nationwide.

Exhibit 4: Unemployment and Nonfarm Payroll Display Resilient Economy



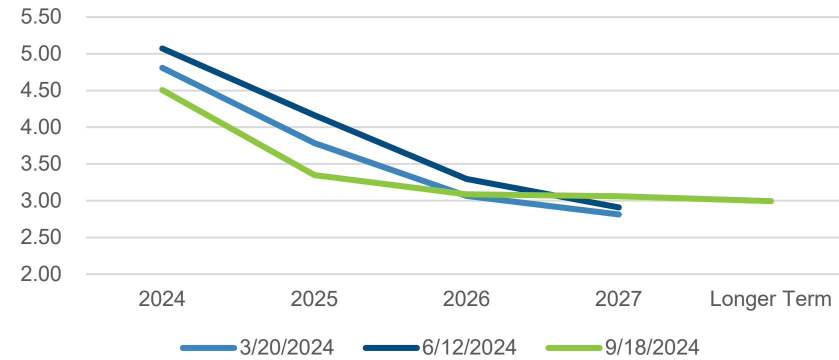
Source: Bloomberg.

FOMC September meeting: Majority Backs a 50bps Rate Cut Amid Cautious Economic Outlook

The FOMC's September meeting minutes revealed that a "substantial majority" favored a 50 basis point (bp) rate cut, though some preferred a 25bp cut. The decision was not intended as a sign of accelerated easing beyond two anticipated 25bp cuts this year. Participants discussed uncertainty around labor market data, signaling some softening yet remaining solid overall, with some concerns about potential economic deterioration. Inflation appeared on track toward the 2% target, supported by modest GDP growth and balanced inflation risks. The Fed staff downgraded 2024 GDP growth to 2.0% and expected core inflation to reach 2% by 2026. The outlook remains for two more 25bp cuts this year.

The dot plot is now lower than the last one for 2025 and 2026, but higher after that (Exhibit 5).

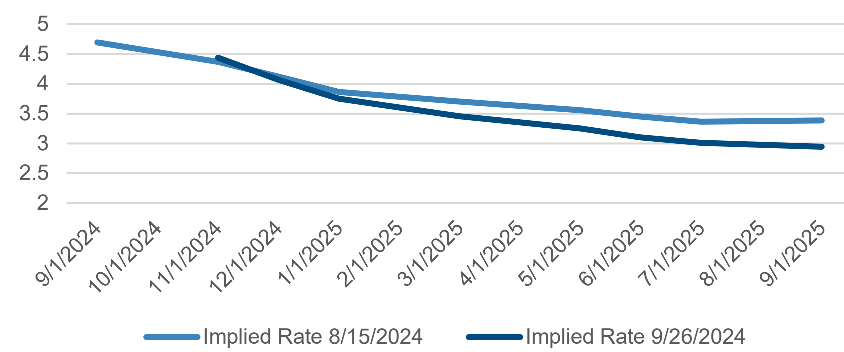
Exhibit 5: FOMC Dot Plots Continue to Signal High Rates for Longer



Source: Bloomberg.

The rates markets have incorporated this information (Exhibit 6) and are pricing in lower rates, optimistically expecting more cuts ahead, showing an implied rate curve lower than the ones of the last two quarters.

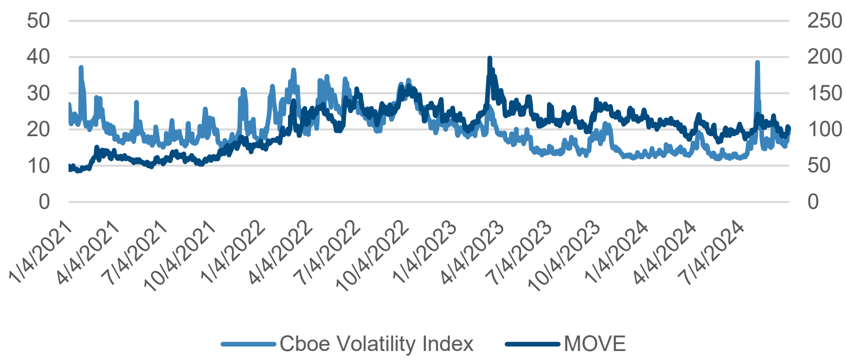
Exhibit 6: Implied Rates Significantly Decreased in Q3



Source: Bloomberg.

Interest rate uncertainty is still high, as can be seen in Exhibit 7. The MOVE Index (implied volatility of a basket of OTC options on US interest rate swaps) illustrates the uncertain environment we are in. With a continuation of the positive trend this quarter, that uncertainty is a little lower than it used to be, indicating that the “higher for longer” scenario might be sinking in. Meanwhile the VIX (Volatility) Index has returned to its lows after a spike in early August, continuing along with tight credit spreads, and reflecting optimism in the current economic situation.

Exhibit 7: The MOVE Index Indicate Moderating Uncertainty in Interest Rates, while the VIX Index Indicates a Constructive Investment Narrative



Source: Bloomberg.

We continue to see US equities trading at multiples of 24X-27X with some signs of economic slowdown in combination with resilient inflation. The prudent thesis makes risk assets seem overbought, exposing vulnerabilities in US equities. The Shiller CAPE (cyclically adjusted price-earnings ratio) is 36, near the highs of the dotcom bubble. In contrast, the Euro Stoxx 50 is trading at 14X-15X multiples, the FTSE 100 Index trades at 12X-14X, the S&P TSX Index trades at 18-20X, offering viable competing alternatives to US equities. Yield spreads continue to compress and are low by historical standards both in corporate and high yield segments.

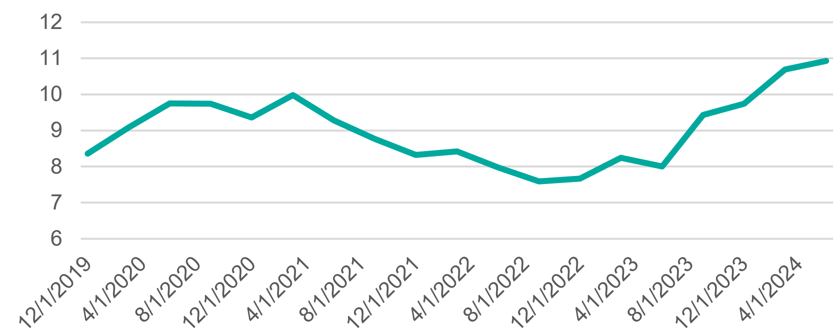
Economy: Resilient with a Moderate Slowdown

Recession risks have continued to inch lower however more recently recession probability has stayed constant over the past few quarters at a moderate 30%.

For the remainder of 2024, we are continuing to see some further signs of slowdown which could grow more substantial: for instance, personal savings buffers are lower than the post-pandemic period which could diminish consumer strength. In addition, the fiscal outlook is looking contractionary with the lapsing of some past policies, the labor force participation rate looks more challenging, and the delayed impact of variable rate debt is likely to be seen in more corners of the economy. US election uncertainty and geopolitical tensions in the Middle East could create additional headwinds.

Relatedly, credit card delinquencies are rising to levels now higher than the 2020 recession (Exhibit 8).

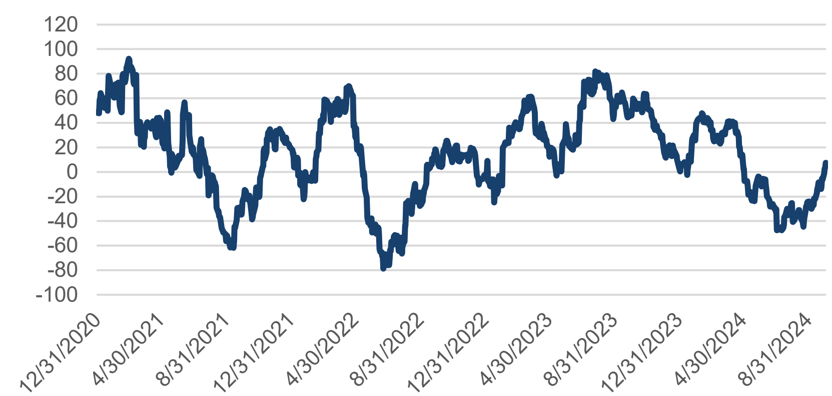
Exhibit 8: Credit Card Delinquencies Starting to Rise (% of balance delinquent 90+ days)



Source: Bloomberg

Another sign of economic slowdown is the Citigroup Economic Surprise Index which despite a rebound last quarter stayed in neutral territory, indicating that while still resilient, the US economy is no longer posting as many strong positive surprises as the majority of 2023 (Exhibit 9).

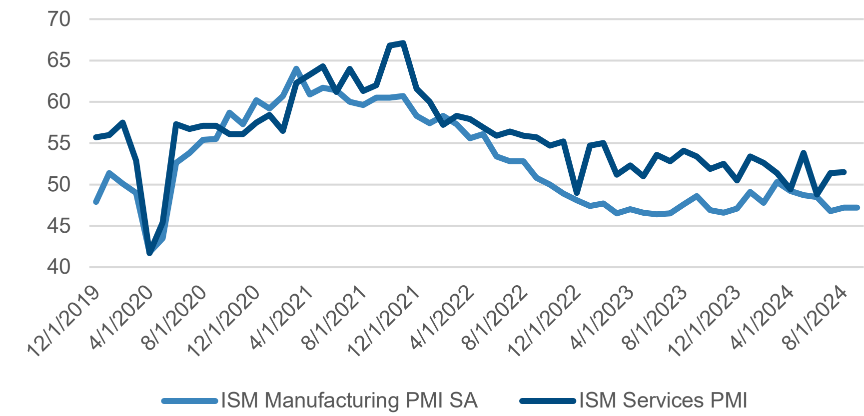
Exhibit 9: The Citigroup Economic Surprise Index Indicates How Economic Data Compares with Consensus Estimates



Source: Bloomberg, Citigroup.

Further signs of a moderate slowdown can be seen in the leading indicators of the PMI ISM surveys (Exhibit 10). Both indices are hovering around the neutral 50 level. While the declines seem to have stabilized, they have not shown any clear signs of improvement over the past six months.

Exhibit 10: ISM Manufacturing and Services Indices are in Neutral Territory



Source: Bloomberg.

US Elections: More Uncertainty Later in the Year

We continue to monitor the election, with some unprecedented developments for both candidates over the past quarter. The outcome of the election could yield significant changes to regulation, fiscal policy, trade policy and foreign policy. Of particular interest are the risks of higher tariffs and increased fiscal spending which could reinvigorate inflation risks. While this aspect is dominating the news, with some uncertainty, we take comfort that it has not yet seemed to impact the markets. We anticipate some volatility as the year progresses and the agendas become more clearly defined by the next US Presidential administration on fiscal, trade, and regulatory policies.

Investment Implications

Olympians often rely on expert coaches for guidance. While working toward your financial goals, an advisor can offer the insights and strategies necessary for long-term success. As with many endeavors, educating yourself or seeking expert advice can make a significant difference in reaching your financial objectives. After watching the world's top athletes compete in Paris, we should remember that the principles that lead to Olympic success can also guide us in our investment journey. By applying these lessons of preparation, diversification, adaptability, risk management, and seeking expert guidance, investors can navigate the complex financial landscape with greater confidence and skill.

Looking forward, while we do not see any specific imminent risks to the upside or the downside, the current overall return/risk environment does not appear the most favorable, thus the reason for our cautious stance looking for higher quality equity and fixed-income segments, repositioning capital from short and long-term fixed income to intermediate maturities, as well as a willingness to embrace any trading weaknesses to capitalize on future opportunities.

Given the current market conditions we reiterate our recommendations:

- Diversify-Diversify-Diversify: by asset class (bonds, equities, alternatives, options), by investment approach (long, tactical, premium income), by style (active, passive, defined outcome), by benchmark (equal-weighted vs. cap-weighted), by geography (US, international, global). Embrace other scenarios.
- Be realistic and remain cautious and opportunistic in the current environment with active risk management and tactical strategies.
- Follow a systematic and flexible approach and stick with it during episodes of volatility.

I hope this letter finds you and your family happy, healthy, and enjoying the fall season. If you have any questions about your portfolio or would like to discuss your current positioning, please contact your advisor at any time. Our team always has your interest at heart and stands ready to help meet your goals with the appropriate allocations and proactive financial planning. As always, we thank you for your business.

Warm regards,

Patrick Jamin
President & CIO

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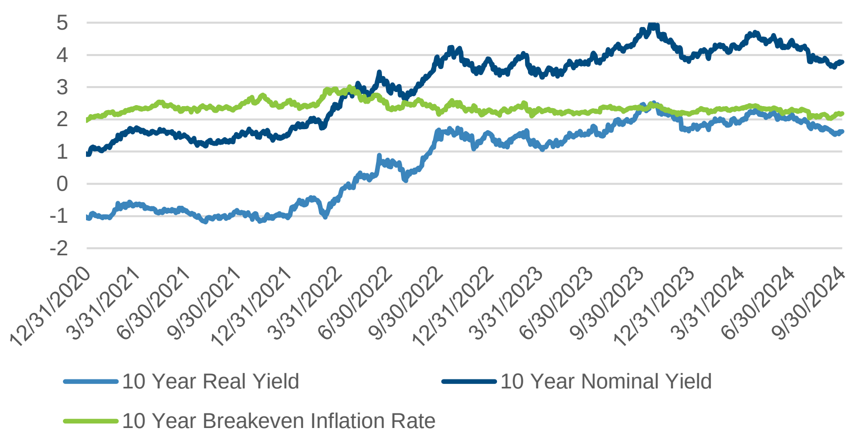
Fixed Income Shines Amid Fed Rate Cuts and Economic Shifts

Julia Zhu
Senior Vice President, Market and Security Research

Market Recap

After a relatively challenging first half of the year, fixed income investments saw an encouraging turnaround in the third quarter, with the U.S. Aggregate Bond ETF index climbing 5.2%. The robust fixed income performance was boosted by the Fed's 50 basis points interest rate cuts as a response to moderating inflation and signs of a softening labor market. The 10-year U.S. Treasury yields declined substantially during the quarter, contributing to the impressive performance in the fixed income assets. The nominal 10-year yield ended the quarter at 3.78%, compared with 4.40% at the end of the previous quarter. The decrease in real yield contributed primarily to the shift, with real yield down by 45 basis points for the quarter, while inflation expectations, measured by the 10-year inflation breakeven rate, saw a marginal decrease from 2.28% at the end of the second quarter to 2.18% (Exhibit 1).

Exhibit 1: Treasury Yields Declined in the Third Quarter of 2024



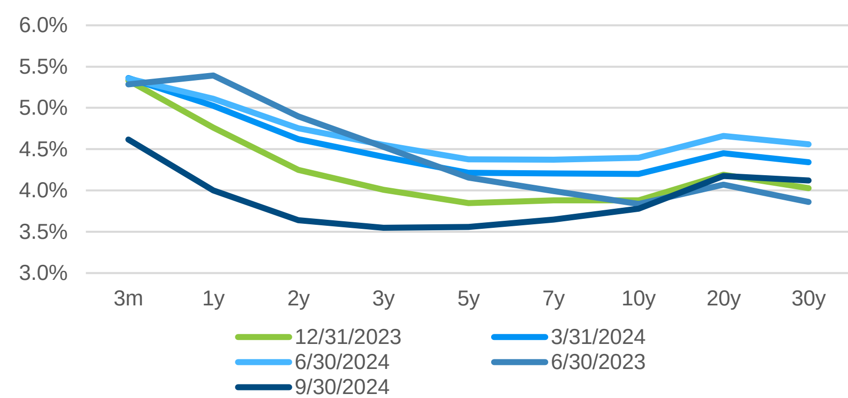
Source: Bloomberg.

In the third quarter, Treasury yields across all maturities decreased significantly and the yield curve went through a notable change, with a shift from a prolonged inverted state to a more normal curve. This normalization occurred when the spread between the 10-year yield and the 2-year yield inched to positive territory in September, marking an end to the inverted yield curve that had persisted since June 2022 (Exhibit 2). However, other segments of the yield curve, such as the closely watched 3-month to 10-year spread, remained inverted (Exhibit 3).

Exhibit 2: U.S. Treasury 10-year Minus 2-year Yield

Source: Bloomberg.

Exhibit 3: U.S. Treasury Yield Curve



Source: Bloomberg.

Macro Landscape

Growth Slowdown: Recent economic data showed some resilience in the U.S. economy, but there remain expectations of a gradual slowdown. The July payroll reports showed a weaker-than-consensus job creation, with payroll employment rising by only 114,000 in July. At the same time, an increase in the unemployment rate to 4.3% from 4.1% triggered the threshold of a recession indicator, the "Sahm rule," sparking recession fears in the market in August. August payroll data slightly improved, rising to 142,000, still weaker than expected. Moreover, the previous two months' job growth figures were revised down significantly by 86,000 combined.

Also, the manufacturing sector is contracting, as evidenced by the ISM Manufacturing Index remaining below the 50 neutral level at 47.2. The housing market continued to struggle despite slightly lower mortgage rates, with existing home sales falling in August by 2.5% to a seasonally adjusted annual rate of 3.86 million. On the positive side, U.S. consumers continued to demonstrate resilience. Consumer spending (in real terms) remains robust, with its third straight month of healthy growth of 0.4%, but the savings rate dipped to 2.9%, raising concerns about sustainability. Although retail sales only grew by 0.1% in August, a noticeable slowdown from July, total sales year-over-year increased by 2.1%, slightly higher than expected.

Moderating inflation: After an uptick in price pressures in the first quarter of the year, inflation moderated again in the third quarter, with the headline CPI increasing 0.2% in August, resulting in a decrease in the year-over-year inflation rate from 2.9% to 2.5%, the lowest level since March 2021. Core CPI (excluding food and energy) rose 0.3% in August, with year-over-year growth remaining at 3.2%. The modest upside surprise in core CPI was primarily driven by an acceleration in shelter inflation (a 0.5% rise), though the owners' equivalent rent (OER) metric does not reflect actual costs households incur. Other major components of CPI, including food inflation, new vehicles, and used vehicles, remained subdued. Moreover, the Fed's preferred measure of inflation, the core Personal Consumption Expenditures (PCE) index, rose 0.1% in August, in line with expectations, with the annual rate ticking up from 2.6% in July to 2.7% in August.

We project inflation will continue to fall, with core PCE reaching the Fed's 2% target by the end of next year. According to the Fed's latest projections released during its September meeting, the median forecast for core PCE stood at 2.2% in late 2025. Although shelter inflation is currently driving most of the core CPI growth, housing inflation has further room to fall, as indicated by leading indicators of newly signed rent leases, contributing to overall inflation cooling. Also, the potential further interest rate cuts from the Fed later this year may lead to lower inflation expectations.

Easing Fed policy: For the first time since the COVID-19 pandemic, the Fed cut its policy rate by 50 basis points at its September 2024 meeting, lowering the Fed funds rate to a range between 4.75% and 5%. This decision was primarily driven by signs of moderating inflation and recent weakening payroll data. As to the concerns about whether the Fed was “behind the curve,” Chairman Powell addressed that the FOMC believes that the U.S. economy “is strong overall,” and he does not see “anything in the economy right now that suggests that the likelihood of a downturn is elevated.” We now project 25bps cuts at the Fed’s November and December meetings, thus leading to a 1% lower Fed funds rate by the end of this year.

Market expectations have adapted accordingly. During the third quarter, market expectations about the Fed’s schedule for policy easing changed significantly. As of 09/30/2024, the Fed funds futures market forecasted a Fed funds rate of 3.9% by January 2025, compared with 4.8% forecasted at the end of the second quarter.

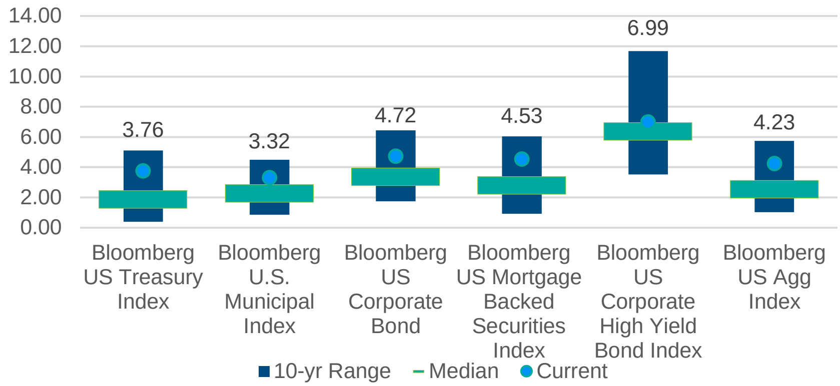
Fixed Income Outlook

Given today’s high yields, a moderating inflation outlook, and the Fed’s easing policy, we view fixed income investments as remarkably appealing to provide attractive income, capital gain potential, downside protection, and diversification through reduced correlation with equity markets. In the following discussion, we will focus on the following three main themes:

1. Yields still look attractive
2. Fixed income investments following the Fed’s easing cycle
3. Additional benefits of investing in global bond markets

First, despite the recent Fed interest rate cuts, yields remain at the highest levels in over a decade and significantly above the ultra-low levels in the post-2008 era. For example, the Bloomberg US Aggregate Bond Index yield currently stands at 4.2%, compared to the medium level of 2.5% over the last ten years (Exhibit 4). Also, with moderating inflation, current bond yields offer decent real returns after being adjusted for inflation. The current high yields create an advantage for investors who can secure these higher yields now, potentially insulating themselves from reinvestment risk if rates decrease in the future. Therefore, we feel strongly that now is the time to lock in the historically elevated yields and take advantage of the higher income potential.

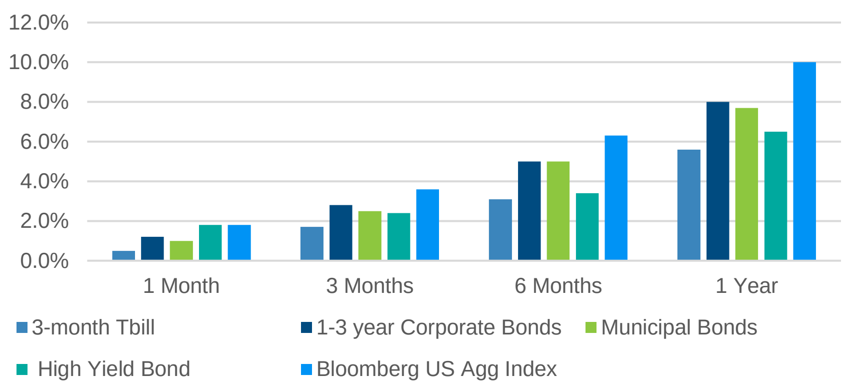
Exhibit 4: Yields Across Fixed Income Assets



Source: Bloomberg.

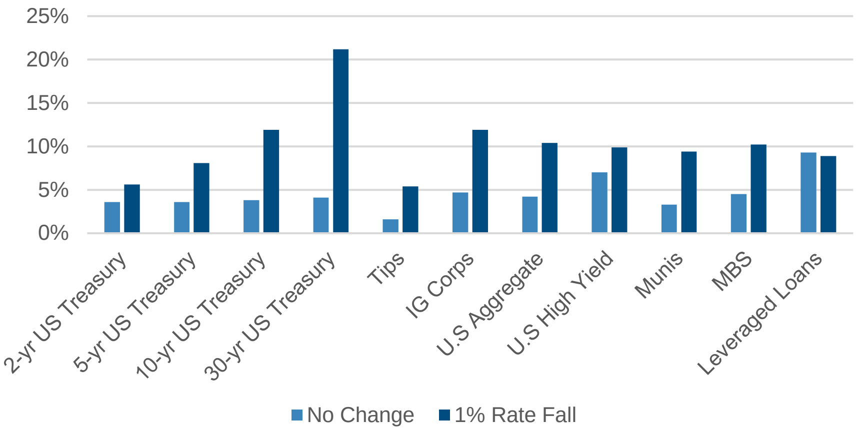
Second, bonds historically outperformed cash after rate cuts begin. While cash can feel like a safe haven and has provided high yields with Fed interest hikes, history shows that cash underperforms other fixed income assets once the rate cutting cycle begins. In the last seven cutting cycles, cash returned on average 3.1% in the six months post-cut, compared to 6.3% from the Bloomberg U.S. Aggregate index (Exhibit 5). Fixed income total return can be boosted significantly from capital gains when interest rates decrease in the future, especially for longer-duration bonds, which are more sensitive to rate changes. Exhibit 6 illustrates the impact a 1% interest rate fall could have on different assets of fixed income investment, assuming a parallel shift along the yield curve.

Exhibit 5: Fixed Income Asset Class Performance After First Fed Rate Cuts



Source: Bloomberg.

Exhibit 6: Fixed Income Asset Class Performance With 1% Rate Fall, Assuming a Parallel Shift of the Yield Curve



Source: Bloomberg.

Third, investing in global bonds becomes particularly attractive with the Fed cutting interest rates and the dollar is likely to depreciate. This offers several benefits: 1) currency diversification as the value of foreign currency-denominated bonds will benefit from a weaker dollar when they convert back to the US dollar; 2) yield enhancement as some foreign markets offer higher yields; 3) portfolio diversification effect by exposure to varied economic conditions. At the same time, however, investors should be cautious of any additional risks, such as currency volatility and geopolitical factors.

Investment Implications

Against the backdrop of a moderating economic outlook, cooling inflation, and the beginning of the Fed's easing cycle, we found today's fixed income market remarkably attractive. While we still favor high-quality bonds, we emphasize the importance of active management as each sub-sector of fixed income has unique characteristics and risks, especially in the current changing interest rate environment. We are neutral in duration in our more static portfolios and slightly overweight duration in our more dynamic portfolios. For YTD as of September 30, 2024, our Dynamic Income strategy returned 6.3% net of fees, outperforming the Global Aggregated Bond Index and U.S. Aggregate Bond Index by 2.7% and 1.8%, respectively. In the third quarter, we focused on several key themes in our strategies, outlined below:

- **Slightly extended duration:** While current cash yields are still high, we expect cash yields to decline and duration likely to outperform with the Fed's easing cycle. Therefore, we moved out along the yield curve and have trimmed SHY (iShares 1-3 Year Treasury Bond ETF) and slightly added our exposure to IEF (iShares 7-10 Year Treasury Bond ETF) and TLT (iShares 20+ Year Treasury Bond ETF) during the quarter.

- **Trimmed bank loan exposure:** With the Fed beginning to ease, we expect BKLN's (the Invesco Senior Loan ETF) attractiveness of variable interest rates to diminish due to its lack of duration. In our portfolio, we have trimmed our exposure to BKLN from 7% to 3%, and BKLN has underperformed the Bloomberg U.S. Aggregate Bond Index by 3.0% during the third quarter.

- **Interest rate hedged vs. unhedged corporate bonds:** We divested our position in IGBH (iShares Interest Rate Hedged Long-Term Corporate Bond ETF) and increased our allocation to IGLB (iShares 10+ Year Investment Grade Corporate Bond ETF) at the beginning of third quarter. In a Federal Reserve easing environment, the interest rate hedging strategy becomes less effective and potentially detrimental to performance as rates fall. At the same time, given moderate economic growth, the fundamentals of the investment-grade credit sector remain relatively steady. IGLB has outperformed IGBH significantly by 6.5% during the third quarter.

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NorthCoast Navigator

Q3 2024 | September 30, 2024

The NorthCoast Navigator is a market barometer displaying current equity outlook. The aggregate metric is determined by multiple data points across four broad dimensions including macroeconomic, sentiment, technical and valuation indicators. The daily result determines equity exposure in our tactical strategies. As of 9/30/2024. Data provided by Bloomberg, NorthCoast Asset Management.

Current Equity Exposure

Summary: September began with downward pressure on U.S. stocks, but the market regained its footing as investors welcomed the 50-basis point interest rate cut from the Fed. The S&P 500 gained 2.1%, and the Dow climbed 2.0% for the month, while the technology-heavy Nasdaq outperformed by gaining 2.8%. While the FOMC's medium dot plot calls for another 50-basis points rate cut for the rest of the year, we should be cautious about overstating the actual financial impact, as current Fed rates remain tight compared to a neutral level and the prolonged effect of prior tightening is still working its way through the economy. In our view, the equity market's response to potential further cuts will largely depend on the upcoming economic data. If the activity data shows weakness in the coming months, especially if the labor markets soften, the Fed may be perceived as being behind the curve. Also, the approaching November presidential election may introduce further volatility to the equity market. At the overall market level, we believe that risk-reward for the equity markets is still challenging in the near term, on weakening activity momentum, the timing of Fed policy, rich equity valuation, and election and geopolitical uncertainty. With this backdrop, we slightly increased our allocation to U.S. equities but maintained a conservative level of 47% and our international equity exposure at 59%.

Fed's 50bps rate cut: For the first time since the COVID-19 pandemic, the Fed cut its policy rate by 50 basis points at its September 2024 meeting, lowering the Fed funds rate to a range between 4.75% and 5%. This decision was primarily driven by signs of moderating inflation and recent weakening payroll data. As to the concerns about whether the Fed was "behind the curve," Chairman Powell addressed that the FOMC believes that the U.S. economy "is strong overall," and he does not see, "anything in the economy right now that suggests that the likelihood of a downturn is elevated." The initial reaction to the Fed's decision was muted, with the S&P 500 Index falling slightly on the Fed's decision day. However, the major equity indexes surged to record highs on the second day as investors digested and celebrated the big rate cut. We now project 25bps cuts at the Fed's November and December meetings, thus leading to a 1% lower Fed funds rate by the end of this year.

Moderating Inflation: Inflation moderated again in August, with the headline CPI increasing 0.2% from July, resulting in a decrease in the year-over-year inflation rate from 2.9% to 2.5%, the lowest level since March 2021. Core CPI (excluding food and energy) rose 0.3% in August, with year-over-year growth remaining at 3.2%. The modest upside surprise in core CPI was primarily driven by an acceleration in shelter inflation (a 0.5% rise), though the owners' equivalent rent (OER) doesn't reflect actual costs households incur. Other major components of CPI, including food inflation, new vehicles, and used vehicles, remained subdued. Moreover, the Fed's preferred measure of inflation, the core Personal Consumption Expenditures (PCE) index, rose 0.1% in August, in line with expectation, with the annual rate ticking up from 2.6% in July to 2.7% in August.

Mixed Economic Data: Recent economic data has showed some resilience in the U.S. economy, though there are expectations of a gradual slowdown. The labor market is cooling, with payrolls rising by only 142,000 in August, which was weaker than expected, though it was a slight improvement from July. Moreover, the previous two months' job growth figures were revised down significantly by 86,000 combined. The manufacturing sector is contracting, as evidenced by the ISM Manufacturing Index remaining below the 50 neutral level at 47.2. The housing market continued to struggle despite slightly lower mortgage rates, with existing home sales falling in August by 2.5% to a seasonally adjusted annual rate of 3.86 million. On the positive side, U.S. consumers continued to demonstrate resilience. Consumer spending (in real terms) remains robust, with its third straight month of healthy growth of 0.4%, but the saving rate dipped to 2.9%, raising concerns about sustainability. Although retail sales only grew by 0.1% in August, a noticeable slowdown from July, total sales year-over-year increased by 2.1%, slightly higher than expected.

Macroeconomic

- Nonfarm payrolls rose by 142,000 in September, weaker than consensus, while the unemployment rate decreased to 4.2%. Initial jobless claims edged lower, with the four-week moving average down to 218,000 as of September 21.
- Retail sales rose 0.1% in August, a deceleration from July's 1.1% growth.
- U.S. industrial production bounced back and expanded 0.8% in August.

Sentiment

- U.S. manufacturing activity contracted again in August, with the ISM manufacturing index rising slightly to 47.2 from 46.8 in July.
- The University of Michigan Consumer Confidence Index increased modestly in September to 70.1 from 67.9 in August. Confidence remains under pressure with high interest rates and a softening labor market.
- The NAHB index increased 2 points to 41 in September.

Technical

- Technical indicators were positive overall, with positive momentum signals and neutral fear indexes outweighing negative reversal signals.
- The S&P 500 was 10% above its 200-day moving average, 5% above the 100-day average, and 4% below the 50-day average.
- The VIX index spiked to 22.4 at the beginning of the month with a market selloff. It declined in the second half of the month and settled at 16.7 at the month-end.

Valuation

- Valuation metrics for equity remained negative. P/E increased from 25.8 at the end of August to 26.2 at the end of September.
- Forward P/E increased to 24.2 at the end of September from 23.7 at the end of August.
- Inflation-adjusted valuation metrics continued to be negative.
- Equity valuation metrics relative to bonds turned positive with falling bond yields.