MAVROS
ASSET MANAGEMENT

Chief Investment Office
2024

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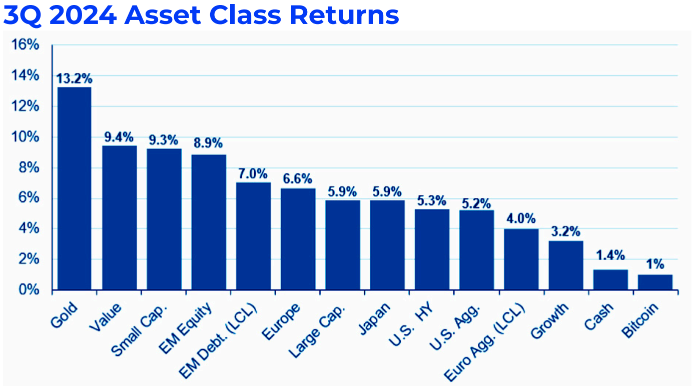
Market Views From Mavros Asset Management

A Look Ahead: Q4 2024

Reflection
Q3 volatility was rooted in investor frustrations regarding the Fed and a slowing economy. With a weaker-than-expected jobs report, markets struggled to discern a midcycle slowdown from a possible looming recession, boosting volatility. However, we believe this is separate from underlying stock market fundamentals.

Highlights
After dropping 8.5% by early August, the S&P 500 had just about fully recovered by the end of the month, and subsequently rose to new highs after the Federal Reserve delivered a 50 basis point rate cut. The third quarter ended with the S&P 500 Index up 5% on the quarter, and within a few points of the 5,767 all-time high, selling at a rich forward P/E ratio of 22.3 times based on consesus estimates. China delivered its largest stimulus since 2015 & Gold enjoyed its biggest gain since Q1 2016 as faster rate cuts were priced in.

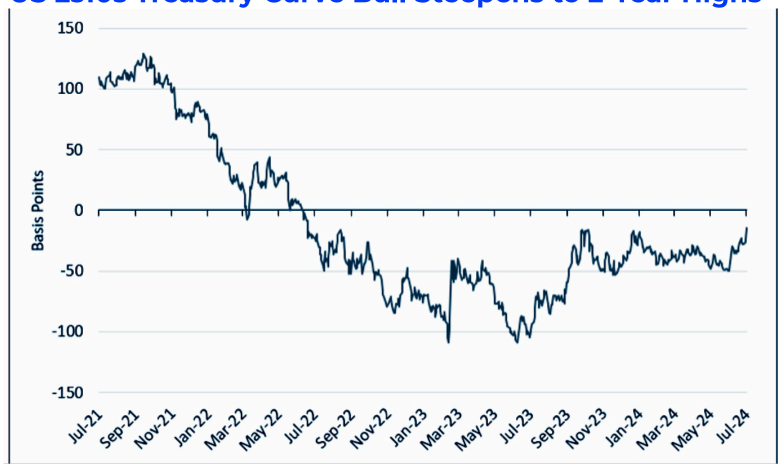
3Q 2024 Asset Class Returns



Source: Mavros Asset Management, Bloomberg, FactSet, MSCI, Russell, Standard & Poor's, J.P. Morgan Asset Management. Large cap: S&P 500, Small cap: Russell 2000, Growth: Russell 1000 Growth, Value: Russell 1000 Value, EM Equity: MSCI EM Equity (USD), Europe: MSCI Europe Equity (USD), Japan: MSCI Japan Equity (USD), U.S. Agg: Bloomberg US Aggregate, High Yield: Bloomberg U.S. HY Index, Cash: Bloomberg 1-3m Treasury, EM Debt (LCL): Bloomberg EM Local Currency Government, Euro Agg. (LCL): Bloomberg Euro Aggregate Government Treasury, Gold: NYMEX Gold near term, Bitcoin: CoinMarketCap. Data are as of September 30, 2024.

Fixed Income
U.S. Treasuries and corporate bonds rallied in the quarter as yields fell. The US 2s10s curve steepens to its highest since June 2022. ***The 2s10s spread is the difference between the 10-year yield and the 2-year yield.***

US 2s10s Treasury Curve Bull Steepens to 2-Year Highs



Source: Mavros Asset Management, Bloomberg, BondbloX

YTD
Stocks climbed to new highs in the third quarter of 2024, helped by interest rates cuts and increasing investor optimism that the U.S. economy can avoid a recession. But can stocks keep climbing through year-end? That is the primary question, following the strong year-to-date performance from equity markets, particularly in the US. Through the end of September, the S&P 500 returned over 22%, with the NASDAQ only trailing slightly at 21.8%.

Year To Date Total Rate Of Return (Indexed To 100)

Source: Mavros Asset Management, FactSet, data as of Sept. 30, 2024. This example is shown for illustrative purposes only and is not guaranteed. **Past performance is not a guarantee of future results.**

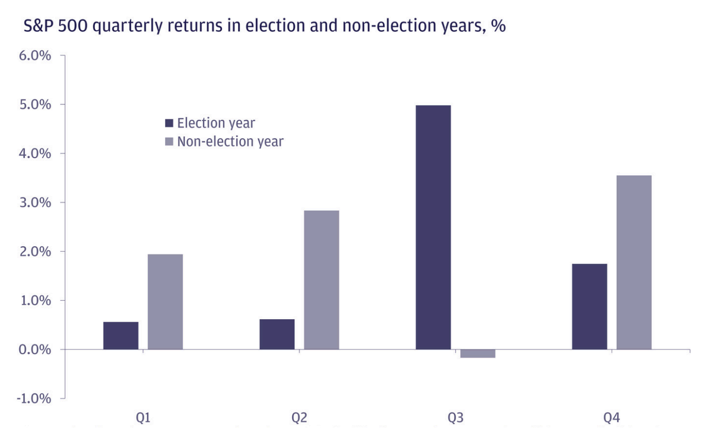
Potential Q4 Effects

1) The U.S. Election
2) Inflation & Interest Rates

Election

Election years tend to dampen Q4 U.S. equity returns. While non-election years have returned 3.5% in the fourth quarter on average since 1930, that drops to 1.7% in election years. However, with consumers spending more on retail during the holiday season and general optimism moving into the new year, the fourth quarter has exhibited the best returns on average.

Q4 Election And Non-Election Years

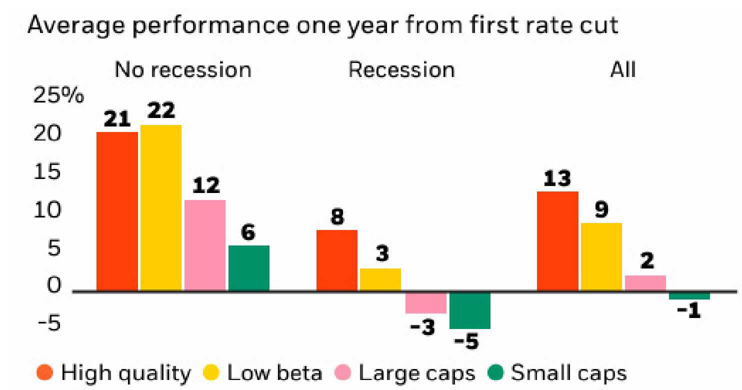


Source: Mavros Asset Management, J.P. Morgan Asset Management, Bloomberg Finance L.P. Data as of October 10, 2024. Past Performance is no guarantee of future results. It is not possible to invest directly in an index. This bar graph shows that election years still post solid fourth quarters. Q1 election year returns are 0.6% and non-election are 1.9%. Q2 election year returns are 0.6% and non-election are 2.8%. Q3 election year returns are 5% and non-election are -0.2%. Q4 election year returns are 1.7% and non-election are 3.5%.

Inflation & Interest Rates

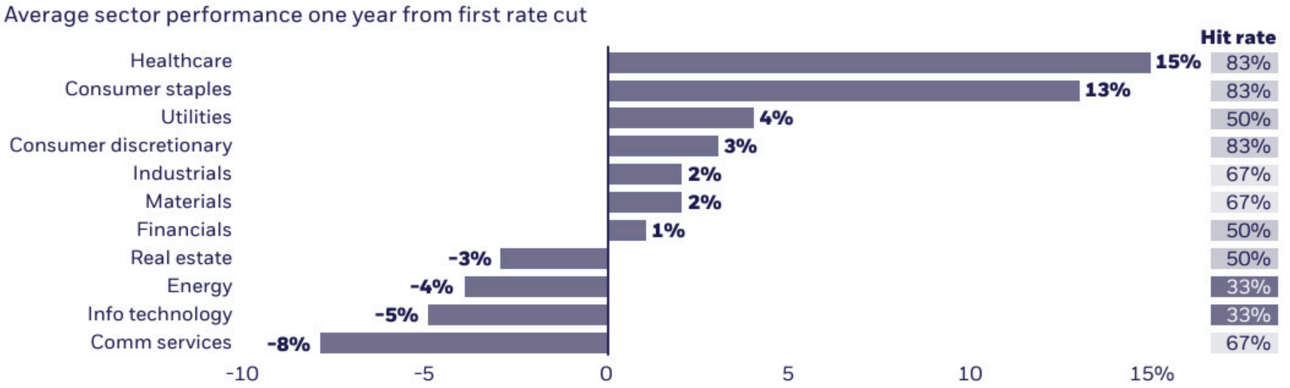
Inflation and interest rates are on a trajectory to move lower. After lowering its policy rate by 50 basis points in September, the Federal Reserve is likely to cut its policy rate by at least another 50 basis points before year-end. The recent rate cut was the Fed's first since 2020 and likely ends an aggressive rate-hiking cycle designed to tamp down elevated inflation. Based on Fed projections, policymakers are likely to continue cutting rates through year-end and into next year, which could be supportive for growth and labor moving forward.

Easing and outperformers: Size and style



Source: Mavros Asset Management, BlackRock Fundamental Equities with data from Refinitiv as of August 2024. Chart shows average return of the S&P 500 (large caps), Russell 2000 (small caps) and select styles in the Russell 1000 Index in the 12 months following prior rate cuts, covering six cycles since 1984. Past performance is not indicative of current or future results. Indexes are unmanaged. It is not possible to invest directly in an index.

Easing and outperformers: Size and style



Source: Mavros Asset Management, BlackRock Fundamental Equities with data from Refinitiv as of August 2024. Chart shows average return of Russell 1000 sectors in the 12 months following prior rate cuts, covering six cycles since 1984. Hit rate represents the percent of times returns were positive. Past performance is not indicative of current or future results. Indexes are unmanaged. It is not possible to invest directly in an index.

An Easing Fed

While no gaurantee of future results, a Q4 2024 Blackrock study shows that history reveals some patterns: Large caps generally lead small caps and high quality and low beta tend to outperform in the year after the onset of cutting, with or without a recession. From a sector perspective, healthcare and consumer staples have historically emerged as top performers in the year following the first Fed rate cut of a cycle, as shown in the charts above. Healthcare should have particular tailwings from aging populations and rising health needs, alongside growth potential powered by innovation.

Final Thoughts

Investors should be cautiosly optimistic for the remainder of the year. The risks of a pullback still remain, stock valuations are near the top of their historical range and geopolitical tensions have escalated. Investors may continue to look to opportunities across cyclical areas both inside & outside of technology, lock in higher interest rates across bond allocations put excess cash to work in the market during any potential pullbacks.

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