KEYES & ASSOCIATES, INC.

Keyes & Associates, Inc.

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Dear Client,

Three Down, One to Go

% Return as of 9/30/2024			
Equity Indexes	**3rd Q**	**YTD**	**3 Yr**
S&P 500	5.9	22.1	11.9
Russell 2000	9.3	11.2	1.8
MSCI EAFE	7.3	13.0	5.5
Emerging Markets	8.7	16.9	0.4
Wilshire REIT	15.2	14.9	4.6
Bond Indexes			
TIPS	4.1	4.9	-0.6
Aggregate	5.2	4.4	-1.4
Government	4.7	3.8	-1.7
Mortgages	5.5	4.5	-1.2
Investment Corporate	5.8	5.3	-1.2
Long Corporate	8.2	4.5	-4.3
Corporate High-Yield	5.3	8.0	3.1
Municipals	2.7	2.3	0.1

As we enter October, three quarters are in the books with one to go. So far, the results have been strong, particularly for stocks. But 2024 hasn't been a completely smooth ride. The third quarter was particularly volatile as markets swung between hopes for a soft landing for the economy and fears of a recession.

In July, a disappointing employment report was released. Weak numbers again elevated fears that the economy was headed toward recession. The market reaction was swift and predictable. The S&P 500 fell roughly 8% and the Nasdaq Composite dropped 13% as some equity investors bolted for the exits. As is often the case, the drama didn't last. The S&P 500 index quickly recovered the losses and ended up 6% for the quarter. Year to date, it is up 22%. These recent movements show the peril of knee-jerk reactions and the power of patience. Our approach stresses that long-term assets should be managed with restraint and a long-term mindset.

Encouraging Developments

There were other positives. Stock market returns for the past several quarters have been highly concentrated in just a handful of stocks. This group of large technology companies associated with the artificial intelligence boom soared, while other sectors were left in the dust. Smaller companies and international stocks couldn't keep up. The extremely narrow leadership was concerning. It was also frustrating to investors who favored a more diversified portfolio, rather than going all in on a few names in one sector. The big tech trend marched on.

That all changed in the third quarter. As economic reports continued to come in, and it appeared the Fed could pull off the elusive "soft landing," market leadership began to broaden. While large growth stocks were up for the quarter, other sectors took the lead. Industrials, utilities, and other more value-oriented stocks outperformed the technology sector by a wide margin. Smaller U.S. stocks and international stocks, making up for lost time, also outperformed. We usually pay little attention to what outperforms what on a quarterly basis since we don't build portfolios for the short-term. So, while there are certainly no guarantees, it is encouraging to see broader market leadership.

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Of course, the big development, which came late in the quarter, was the Fed finally cutting interest rates. The Fed often makes quarter-point moves; instead, they boldly cut rates by half a point. This long-awaited change in direction brought greater attention to bonds.

The Bloomberg Aggregate Index, which is a measure of the broad bond market, rose 5.2% for the quarter and is up 4.4% for the year. While the Bloomberg Municipal Index, which is generally free of Federal income taxes, rose 2.7% for the quarter and is up 2.3% for the year.

Looking Ahead

So far, 2024 has been a rewarding year. However, this is no time to coast into 2025. While we manage for the long-term, we are aware of and monitoring the current issues that may affect you.

The escalating tensions in the Middle East have unfortunately been with us for a while. Foremost in our minds is the human suffering that has occurred. We are also well aware of the economic affect this could have on oil prices, credit spreads and other potential impacts. While no one can know the ultimate outcome, we can prepare. Our process is to construct diversified, risk-aware portfolios in advance.

Another matter on the investor's mind is the U.S. presidential election. This has been an eventful and often contentious presidential election cycle. As we approach election day, it is natural that some might feel anxious. People feel strongly about our country and its future. And again, while there are no guarantees, historical data has shown very little difference in stock market returns under Republican or Democrat administrations. Our approach to investing is often a decades-long process. As we said in our letter four years ago and say again today — while presidents come and go, we believe in the power of patient, disciplined investing.

It is a pleasure to serve you and your family. We are here to help. If you have any questions or concerns, just let us know.

Sincerely,

Chris Keyes, CFP®   Scott Keyes, CRPC®   Bobby Weaver, MBA, CFP®

Sources: CNBC, S&P Global, Wall Street Journal, Dow Jones Market Data, The Economist, Federal Reserve Bank, Oaktree Capital Management, Barclays Indices, Bloomberg Indices, MSCI

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