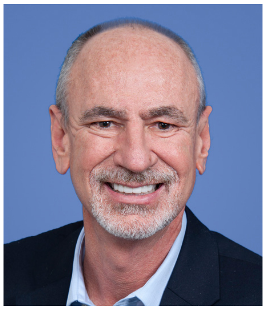
IM&R ECONOMIC AND MARKET REVIEW Q3 2024



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Economic Review

Heading south. At its September meeting, the Federal Reserve cut interest rates by one-half percentage point to 4.75% to 5.00%. The move to ease its restrictive monetary policy stance for the first time in four years is due to progress on the Fed's dual mandate of maximum employment and price stability. The Fed has two more meetings this year in November and December. Their latest Summary of Economic Projections, known as the "dot plot," indicates additional cuts by year end to a range of 4.25%-4.50% and 3.25%- 3.50% at the end of 2025.

According to the Fed, recent indicators suggest that economic activity has continued to expand at a solid pace. Job gains have slowed, and the unemployment rate has moved up but remains low. Inflation has made further progress toward the Committee's 2.0% objective but remains somewhat elevated.

The Fed's preferred inflation measure, the PCE (personal consumption expenditures), declined to 2.2% in August from 2.5% the previous month while the Core PCE which excludes food and energy, edged up to 2.7% from 2.6%. The core reading has been stuck in a range between 2.6% and 2.9% since December 2023.

The U.S. economy remains in good shape, as real gross domestic product (GDP) increased at a healthy annual rate of 3.0% in the second quarter, compared to 1.6% in the first quarter, according to the Bureau of Economic Analysis. The latest Atlanta Fed GDPNow model estimate for third quarter GDP is at 3.1%.

Both the unemployment rate, at 4.2%, and the number of unemployed people, at 7.1 million, changed little in August. These measures are higher than a year earlier, when the jobless rate was 3.8%, and the number of unemployed people was 6.3 million. The Job Openings and Labor Turnover Survey (JOLTS) has declined from a high of 12.2 million job openings in March 2022 to 7.7 million currently.

Sales of existing homes fell 2.5% in August and 4.2% from a year ago, according to the National Association of Realtors. Meanwhile, the median home-sale price dropped slightly from June's all-time high but still marked the highest median price on record for the month of August.

Consumer confidence dropped in September marking the largest decline since August 2021. Consumers were more pessimistic about future labor market conditions and less positive about future business conditions and future income.

Financial Markets Review: Domestic Stock Market

The S&P 500 has set over 40 new highs through the first nine months of the year. The third quarter closed with the S&P 500 up 5.89% for the period to 5,762.48. The NASDAQ Composite gained 2.76% to 18,189.17. The Dow Jones Industrial Average posted strong gains of 8.72%, ending the period at 42,330.15.

	Total Returns* (9/30/24)		Annualized Returns (9/30/24)			
Category/Style	3rd Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
S&P 500	5.89	22.08	36.35	11.91	15.98	13.38
S&P Midcap 400	6.94	13.54	26.79	7.47	11.78	10.32
S&P Small Cap 600	10.13	9.33	25.86	3.99	10.21	10.05
Russell 1000 Large Cap Growth	3.19	24.55	42.19	12.02	19.74	16.52
Russell 1000 Large Cap Value	9.43	16.68	27.76	9.03	10.69	9.23
Russell 2000 Small Cap Growth	8.41	13.22	27.66	-0.35	8.82	8.95
Russell 2000 Small Cap Value	10.15	9.22	25.88	3.77	9.29	8.22

*Source: Standard and Poor's, Frank Russell Company *returns include reinvested dividends*

As a group, the AI technology stocks regarded as the "Magnificent Seven" were mixed for the quarter. Tesla, Meta and Apple all advanced double digits while NVIDIA, Microsoft, Amazon and Alphabet fell.

With respect to investment styles, value stocks closed the gap on growth stocks and small cap stocks outperformed large cap stocks in the third quarter. Still, the AI boom has kept the spread between large growth versus large value at 7.87% year-to-date, and large caps have outperformed small caps by 10.01% over this time frame.

The DJIA top performers for the third quarter were 3M Co., soaring 34.46%, followed by IBM advancing 28.79% and McDonalds jumping 20.15%. The worst performers were Intel, plummeting -23.85%, Boeing, falling -16.47% and Merck & Co., dropping -7.65%.

Of the 11 S&P 500 sectors, utilities led the pack, gaining 19.37%, followed by real estate, up 17.17% and industrials ahead 11.55%. Energy trailed the group with a loss of -2.32%, along with information technology up 1.61% and communication services up 1.68%.

Among industry groups, top performers included automobiles & components (+25.05%), along with utilities (+19.37%) and consumer durables & apparel (+19.96%). Laggards included semiconductors & equipment (-2.69%), energy (-2.32%) and software & services (+0.37%).

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Earnings season will begin in a few weeks. According to FactSet, analysts are projecting third quarter earnings to grow 4.6% and fourth quarter earnings to climb 14.9%. For the full calendar year 2024, expectations are for earnings growth of 10.0% on revenue growth of 5.1%. For 2025, analysts are currently projecting even stronger earnings growth of 15.1% and revenue growth of 5.9%.

Our current outlook remains that a recession will be avoided in 2024 and inflation will moderate. The economy is on solid footing and corporate earnings are strong. With signs of consumer spending fatigue, rising credit card debt, extended equity valuations, election uncertainty and escalating middle east tensions, we expect more market volatility in the near term. Additional events to address are the dockworkers strike, rising federal debt and deficits, the war in Ukraine and other potential flash points in Asia.

International Stock Markets

The International Money Fund (IMF) baseline forecast is for the world economy to continue growing at 3.2% for 2024 and 3.3% 2025.Global manufacturing output PMI points to a weakening in global industry. Among the major economies, the eurozone has seen the steepest fall in production, led by Germany. The ongoing downturn combined with rising signs of caution with manufacturers impacted business optimism in September and confidence dipped to a 22-month low.

The MSCI EAFE Index of developed markets added 7.26% in the third quarter. MSCI Emerging Markets Index advanced 8.72%, and MSCI Frontier Markets were higher by 4.50%.

The euro area's manufacturing sector slid deeper into contraction at the end of the third quarter as key barometers of factory strength such as production, new orders, employment and procurement activity all declined at quicker rates. Eurozone goods producers also downwardly adjusted their inventories as business growth expectations slumped to a ten-month low.

Most markets advanced in the third quarter. The Stoxx Europe 600 Index gained 2.92% to 516.29. In local currencies, Germany's DAX Index added 5.99% to 19,324.93, France's CAC-40 rose 2.09% to 7,635.75 and the London FTSE 100 gained 0.89% to 8,236.95.

In Asia-Pacific markets, the latest PMI results for Japan showed muted trends across manufacturing. Still, businesses remained confident that output would rise over the coming 12 months, with the degree of optimism above the long-run average. For the quarter, Japan's Nikkei stock index fell 4.20% to 37,929.55.

In emerging markets, supply and demand continued to grow in China with overseas demand being a bright spot. The China Shanghai Composite Index soared 12.38% for the quarter to 2,967.40. In India, the pace of growth remained well above the long-term average. The S&P BSE Sensex Index advanced 6.66% to 84,299.78.

The U.S. Dollar Index (DXY) weakened in the third quarter by 4.81%, to 100.78. The dollar dropped 7.28% against the yen to $143.64 (JPY/USD) and was 4.04% lower vs. the euro at $1.1137 (USD/EUR).

World Bond Markets

In the U.S., the 3-month/2-yr. treasury spread remains inverted, at 0.94% while the 2-yr./10-yr. treasury spread has uninverted. The 3-month T-bill declined for the quarter to 4.59%. The 2-year note fell to 3.65%, and the U.S. 10-year treasury bond dropped to 3.81%.

With interest rates dropping, bond returns were positive. For the third quarter, the Bloomberg Aggregate Bond Index was up 5.2%. The Bloomberg Municipal Index rose 2.71% and the Barclays U.S. Treasury TIPS Index gained 4.12%. Money market yields declined to 4.76%, as reported by the Crane 100 Money Fund Index.

According to Value Line, yields on 10-year government bonds fell across the board in the third quarter. For major markets, The United Kingdom 10-year stood at 3.94%, Canada 2.98%, Germany 2.14% and Japan 0.81%.

The European Central Bank cut the deposit facility rate by 25 basis points to 3.5% to ease monetary policy restrictions, reflecting an updated inflation outlook. ECB president, Christine Lagarde says that the latest data has strengthened confidence that inflation will return to target in a timely manner. The ECB staff projects inflation at 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026.

Commodities

Commodities slid in the third quarter by 1.17% to close at 1,011.56 according to the DJ Commodity Index. Oil prices plunged by $13.42 (-16.39%) to $68.17/barrel. And, according to AAA, consumers were relieved as prices at the pump dropped by 30 cents to $3.20/gallon. Gold continued to climb to new record highs, vaulting 13.25% ($308.40) for the quarter to $2,636.10/troy oz.

Mutual Funds/Exchange-Traded Funds

According to the Investment Company Institute, assets in exchange-traded funds (ETFs) rose to $9.710 trillion, a gain of 30.1% over the past year. The growth in the number of ETFs continues with an increase of another 407 funds in the past year to 3,378. The total number of mutual funds continued to contract with a loss of 203 funds over the past year to 7,093. Investors continued to hold a large amount in money market funds, as asset levels stood at $6.2 trillion in taxable funds.

This page must be accompanied by important definitions and disclosures on page 3. *(Continued)*

Important Definitions and Disclosures

The opinions and material presented are provided for informational purposes only. No person or system can predict the market. Past performance is no guarantee of future results. This material includes forward-looking statements that are subject to certain risks and uncertainties. Actual results, performance or achievements may differ materially from those expressed or implied. No predictions or forecasts can be guaranteed. Companies mentioned are for informational purposes only. It should not be considered a solicitation for the purchase or sale of the securities. Any investment should be consistent with your objectives, time frame and risk tolerance. Neither asset allocation nor diversification guarantee a profit or protect against a loss. All investments are subject to risk, including the risk of principal loss. There is no assurance that the investment goals and process described herein will consistently lead to successful investing. The investment return and principal value of an investment will fluctuate, and an investor's shares, when redeemed, may be worth more or less than their original cost. Funds that invest in stocks of small-cap or mid-cap companies involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies. Funds that invest in international securities involve special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investment in emerging markets may accentuate these risks. Alternative strategies, including those used in mutual funds, have risks that may substantially increase the potential for loss. Bonds are subject to interest rate risk. Bonds have interest rate risk and credit risk. As interest rates rise, existing bond prices fall and can cause the value of an investment to decline. Changes in interest rates generally have a greater effect on bonds with longer maturities than on those with shorter maturities. Funds that hold bonds are subject to declines and increases in value due to general changes in interest rates. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and/or interest payments. An investment in a money market fund is not insured or guaranteed by the FDIC, or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.

The information shown does not constitute investment advice and does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. The information provided is not intended to be a complete analysis of every material fact with respect to any portfolio, security, or strategy and has been presented for educational purposes only. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation. Nothing contained herein should be construed as a recommen1dation to buy or sell any individual securities. It should not be assumed that an investment in any of the securities identified was or will be profitable.

The Bureau of Economic Analysis (BEA) of the United12.01 States Department of Commerce is a U.S. government agency that provides official macroeconomic and industry statistics, most notably reports about the gross domestic product (GDP) of the United States and its various units such as states, cities, towns, townships, and villages. **Gross Domestic Product** (GDP) is a measure of output from U.S factories and related consumption in the United States. It does not include products made by U.S. companies in foreign markets. **Real Gross Domestic Product** (real GDP) is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). The **Atlanta Fed GDPNow** estimate is a model-based projection not subject to judgmental adjustments. It is not an official forecast of the Atlanta Fed, its president, the Federal Reserve System, or the Federal Open Market Committee. **The Consumer Price Index** (CPI) measures prices of a fixed basket of goods bought by a typical consumer, widely used as a cost-of-living benchmark, and uses January 1982 as the base year. **Purchasing Managers' Index™** (PMI™) is a survey-based economic indicator designed to provide a timely insight into business conditions. Flash PMI data are published by S&P Global and are early estimates of the company's final PMI numbers. The Flash PMI data are published approximately one week before final PMI data each month and are typically based on 85%-90% of total PMI responses received each month. Flash manufacturing, services and composite indices are published for: Australia, Eurozone, France, Germany, Japan, United Kingdom, and the United States. The **Conference Board Leading Economic Index®** (LEI) for the U.S. are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components. **Personal Consumption Expenditures** (PCE) is a measure of price changes in consumer goods and services and consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables and services. The **ISM Manufacturing Index** is based on surveys of more than 300 manufacturing firms by the Institute for Supply Management (ISM). The ISM Manufacturing Index monitors employment, production, inventories, new orders and supplier deliveries. A composite diffusion index monitors conditions in national manufacturing and is based on the data from these surveys. The **Federal Reserve System** (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy. The **Federal Open Market Committee** (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). The **unemployment rate** percentage of total workforce who are unemployed and are looking for a paid job. Unemployment rate is one of the most closely watched statistics because a rising rate is seen as a sign of weakening economy that may call for cut in interest rate. A falling rate, similarly, indicates a growing economy, which is usually accompanied by higher inflation rate and may call for increase in interest rates. Labor force participation rate is the percentage of working age population that is part of the labor force. It is a measure of what proportion of a country's population is employed or actively looking for employment. The index of leading economic indicators is intended to predict future economic activity. Typically, three consecutive monthly LEI changes in the same direction suggest a turning point in the economy. **Inflation** is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times. **Treasury Yield Curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. The **Michigan Consumer Sentiment Index** was created in the 1940s is conducted by the Survey Research Center and consists of at least 500 telephone interviews posed to a different cross-section of consumers in the continental U.S. each month. The survey questions consumers on their views of their own personal finances, as well as the short-term and long-term state of the U.S. economy. The **International Monetary Fund** (IMF) is an international organization that was initiated in 1944 at the Bretton Woods Conference and formally created in 1945 by 29-member countries. Each survey contains approximately 50 core questions, and each respondent is contacted again for another survey six months after completing the first one. The answers to these questions form the basis of the index. An **exchange-traded fund** (ETF) is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Indexes are unmanaged and investors cannot invest directly in an index.

Morningstar Category Returns are composed of the average return for the funds in each Morningstar category over the indicated time period. Categories are defined by Morningstar based on holdings statistics. The category returns are adjusted for survivorship bias, meaning they include all investments even if liquidated, merged or otherwise now obsolete. The returns also include funds that were in a given Morningstar category but have since changed to another category.

Benchmark Definitions

The **S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the U.S. from a broad range of industries whose collective performance mirrors the overall stock market. The **Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The **NASDAQ** is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. The **S&P MidCap 400** provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. The **S&P SmallCap 600** seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The **Russell 2000** Index is a market-value-weighted index representing the 2,000 smallest companies in the **Russell 3000** index, representative of the US small-cap securities market. The Russell 1000 Index is a subset of the **Russell 3000** Index that includes approximately 1,000 of the largest companies in the US equity universe, representative of the US small-cap securities market. **Russell Large Cap Growth Index** measures the performance of those **Russell 1000** Index securities with higher price-to-book ratios and higher forecasted growth values, representative of US securities exhibiting growth characteristics. **Russell Large Cap Value Index** measures the performance of those Russell 1000 Index securities with lower price-to-book ratios and lower forecasted growth values, representative of US securities exhibiting value characteristics. **MSCI EAFE Index** is a market capitalization-weighted index of the leading stocks in Europe, Australasia and Far East. Membership of the index is selected by MSCI and designed for leading stocks roughly to match market sector weights. The **MSCI Emerging Markets Index** is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. The **MSCI Frontier Markets Index** provides a broad representation of the equity opportunity set while taking investability requirements into consideration within each market. MSCI classifies 34 countries as Frontier Markets, 26 of which are included in the MSCI Frontier Markets Index. The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the **STOXX Global 1800 Index**. The **CAC 40 Index** *i*s a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse (now Euronext Paris). The **DAX Index** is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The **FTSE 100** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The **Nikkei Index** is a stock market index for the Tokyo Stock Exchange (TSE). The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. **S&P BSE Sensex index**, is the benchmark index of the Bombay Stock Exchange (BSE). It is composed of 30 of the largest and most actively-traded stocks on the BSE, providing an accurate gauge of India's economy. Bloomberg Aggregate Bond Index is made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. The **Bloomberg Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital U.S. Government Inflation-Linked Bond Index** (U.S. TIPS) measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more. Treasury notes (T-notes) are intermediate securities with maturities of 1 to 10 years. Denominations range from $1000 to $1 million or more. The notes are sold by cash subscriptions, in exchange for outstanding or maturing government issues, or at auction. The **10-year Treasury** Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. The **Crane 100 Money Fund Index** measures the average yield of the 100 largest taxable money market funds. **Barclays Capital Global Aggregate ex-U.S. Index** measures the performance of the global bond market, excluding U.S. securities. **The Dow Jones Commodity Index℠** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. The index is designed to minimize concentration in any one commodity or sector. Due to market fluctuation, the commodities represented by this index may experience loss of invested principal and are subject to investment risk. The **U.S. dollar index** (DXY) is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.

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