The Cobblestone Advisor
Investment Brief
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COBBLESTONE
CAPITAL ADVISORS

Weathering Uncertainty

The third quarter of 2024 was marked by a confluence of developments that brought heightened volatility in global markets. Central bank policy shifts, geopolitical tensions, and economic uncertainty shaped the investment landscape, with currency fluctuations playing a central role, particularly in Japan.

Japanese equities experienced a sharp decline, followed by a recovery, driven by shifts in the yen. The turbulence was so severe that it spilled over into US financial markets.

In China, concerns about a deflationary spiral sent equities tumbling before aggressive policy interventions helped markets rebound.

The Chinese government introduced targeted stimulus measures, aimed at stabilizing the housing market and boosting consumer confidence, which helped quell fears of a prolonged economic slowdown.

Lingering concerns over China's long-term growth trajectory remain, especially as its property sector continues to struggle with high debt levels and supply-demand imbalances.

Despite the turmoil, markets demonstrated remarkable resilience, with most global markets managing to post gains during the period.

The S&P 500 rose 5.9%, marking its fourth consecutive quarterly advance and closing the period at an all-time high. Year-to-date through September, the S&P 500 was up 22.1%, the strongest first three quarters for the index since the late 1990s.

Small-cap stocks emerged as standout performers, particularly small-value equities, which surged after a weak first half of the year. Meanwhile, large growth stocks, which had led earlier in the year, took a back seat as leadership shifted abruptly. This dynamic drove increasing market breadth, with more stocks participating in the rally as compared to earlier in the year.

A dominant theme in markets over the past year has been inflation, and it continued to cool in the third quarter. With inflation receding, this allowed investors to shift their attention away from price stability concerns and focus more on employment and growth risks. As inflation fears subsided, investors also began to pay closer attention to fiscal policy, with potential shifts in government spending and tax policy now factoring into market outlooks.

One of the more concerning economic signals came from the labor market, as weaker-than-expected payroll data in July reignited the debate over whether the US economy is headed for a recession.

Employment became a focal point for investors, with concerns that a slowdown in the labor market could overshadow other positive economic developments. Employment data shows that although labor market

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Total Return (%), Ending 9/30/2024				Annualized		
	Qtr	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500 Stock Index	5.9	22.1	36.3	11.9	15.9	13.4
Russell 2000 (Small-Cap Stocks)	9.3	11.2	26.7	1.8	9.3	8.8
MSCI World Ex. US (International Developed Stocks)	7.8	13.1	25.0	5.6	8.4	5.7
MSCI EM (Emerging Markets)	8.7	16.9	26.1	0.4	5.7	4.0
Bloomberg US Aggregate Bond Index	5.2	4.4	11.6	-1.4	0.3	1.8
Dow Jones US Select REIT	15.6	14.9	33.7	4.4	4.4	7.0
Consumer Price Index (% Chg over Period)	0.4	2.8	2.4	4.8	4.2	2.9

Source: Bloomberg.

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activity has moderated, net new job creation and other indicators remain at fairly healthy levels overall.

On the corporate earnings front, companies grew their earnings by 11.3% year-over-year during the second quarter, which marked the highest growth rate since the fourth quarter of 2021 and the fourth consecutive quarter of year-over-year growth.

Companies are just beginning to report third-quarter results, and analysts currently expect earnings to increase for the fifth consecutive quarter, albeit at a more modest pace compared to earlier in the year.

The Federal Reserve made headlines by cutting policy interest rates in September for the first time since its aggressive tightening cycle began in March of 2022.

The Fed's decision to ease policy helped alleviate concerns about growth, particularly in rate-sensitive sectors such as housing, which has struggled under the pressure of higher borrowing costs.

With inflation moderating, the rate cut signaled that Fed policymakers are shifting their focus from inflation toward supporting economic stability in the face of weakening economic data.

As we head into year end, the markets are grappling with a variety of crosscurrents. Rate cuts from the Fed, a cooling inflation backdrop, and improving global market sentiment suggest a positive environment for risk assets. However, uncertainties around the labor market, fiscal policy, and geopolitics continue to pose challenges. We will be closely watching how these dynamics play out in the months ahead.

Source: US Bureau of Labor Statistics, Bloomberg. Covid-19 period extremes ignored.