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summaries

SIGMA INVESTMENT COUNSELORS

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MARKET COMMENTARY

The Federal Reserve made headlines in the third quarter of 2024 by cutting interest rates for the first time in four years. In its September meeting, the Fed lowered rates by 50 basis points, setting the target range to 4.75% to 5%. This decision reflects a response to cooling inflation and a desire to support economic growth.

Inflation continued to ease throughout Q3. The Consumer Price Index (CPI) in August showed a year-over-year increase of 2.5%, bringing it closer to the Fed's 2% target. This slowing trend allowed the Fed to reduce rates to help maintain economic stability.

The labor market remains strong, with 254,000 jobs added in September 2024—well above economists' expectations. The unemployment rate also dropped slightly to 4.1%. These numbers indicate a resilient labor market, even in the face of higher rates earlier this year. Overall, employment trends are positive as we head into Q4.

U.S. equity markets reacted well to the Fed's rate cut. The S&P 500 finished Q3 up 5.89%, fueled by a September rally after a sluggish July and August. Value sectors benefited more noticeably from the shift in policy, while small-cap stocks and REITs gained strength on the expectation of lower rates ahead.

Developed markets returned 7.26% in Q3 2024, driven by easing monetary policies, positive economic data, and improved investor sentiment. Rate cuts by the Fed, ECB, and Bank of Japan boosted confidence, while strong retail sales and industrial production provided additional support.

Emerging markets also saw notable gains, with an average return of 8.72%, largely driven by China's economic stimulus measures.

The Fed's rate cut had a positive impact on the bond market as well. U.S. fixed income returned 5.2% for the quarter, while global fixed income delivered 7.0%, reflecting investor optimism for a softer economic landing.

Overall, both equity and bond markets showed resilience in Q3, largely supported by the Fed's decision to ease monetary policy and global economic stimulus efforts, particularly in Europe and China.

The mixed yet resilient performance in Q3 underscores the importance of diversification. A well-diversified portfolio helps manage risk while capturing opportunities across different markets. Recent outcomes illustrate this benefit: China's recovery boosted emerging markets, while central bank rate cuts supported developed markets. By maintaining broad exposure, investors can harness growth across sectors and regions, resulting in a more stable portfolio performance over time.

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As we enter Q4, key themes come into focus. The upcoming U.S. presidential election may create short-term volatility, but markets ALWAYS adjust afterwards and discount the likely impact of policy changes with a new administration Corporate earnings and economic fundamentals are the true drivers of lasting market performance.

Volatility may persist with potential tax changes and shifting trade policies, but we remain cautiously optimistic. Projected earnings growth and declining inflation could give the Federal Reserve room to ease policy in 2025, benefiting both equities and bonds.

Technology and healthcare are expected to lead growth, driven by investments in AI and medical advancements. However, we maintain a diversified approach, balancing high-growth sectors with more stable areas to mitigate the risks of concentrated exposure to large tech firms.

Though election outcomes, rate decisions, and headlines may cause short-term disruptions, successful investing requires a long-term view. Historical data shows that, despite temporary volatility, the U.S. market has consistently delivered strong returns. We remain committed to high-quality assets and diversified portfolios to navigate both opportunities and challenges.

We appreciate your continued trust in our management of your investments.

Wenny Gorman, CFA, CFP®

Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives

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