September 30, 2024

IN THIS ISSUE:

nvest
WEALTH STRATEGIES

Delivering financial peace of mind.

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Turbulent Ascent Continues | Steve Henderly, CFA

Despite a bumpy journey, investors experienced attractive growth during the 3Q with the S&P 500 rising by 5.9% to reach a new all-time high. Client portfolios benefited strongly with both stocks and bonds enjoying price appreciation. This coincided with the Federal Reserve implementing its first rate cut after a year-long pause.

While it did not feel like it at times, mid and small-cap companies outperformed large-cap growth stocks (which include the "Magnificent 7") during the 3rd quarter. Since mid-July, the technology sector, which was leading the market by a wide margin in 2024, showed signs of softening relative to the broader market, a trend that seems appropriate considering their lofty valuations. Bonds also produced attractive returns, even as they are often viewed as more stable and/or "boring" as investors adjusted to the idea that inflation is back in an acceptable range, allowing the Fed to focus more on the employment portion of its dual mandate.

As is common during election years, August and September were bumpy. Our recent commentary "Air Pockets" highlighted the abrupt declines stocks experienced in the early days of both months before rebounding to conclude in positive territory. Considering the astounding storyline of the US Presidential contest in 2024, the resilience of the market might feel amazing. Recent market barometers, including the market being positive since the end of July, are tilting toward an incumbent party win in November. Conversely, history suggests if stocks are negative over the 3 months leading up to the election, the challenging party usually prevailed (pattern held in 20 of last 24 elections).

As investors look beyond the U.S. election, what's in store for 2025? With borrowing costs declining and a bit more clarity on what policy may look like, companies may once again focus on deploying cash to invest in new technologies, which would enhance both productivity and profitability. Simultaneously, China unleashed a broad stimulus strategy, including rate cuts and liquidity injections for banks to purchase stocks, which lifted their equity market from a 52-week low to a 52-week high in the span of one week. This surge is impacting other asset classes, including commodities and European equities. Additionally, this action is positive for global growth. U.S. government spending is expected to increase, no matter which candidate wins - this is stimulative in the short-run.

Stock market performance ranked stronger than average for the first 9 months of 2024. History indicates that experience produces a strong 4th quarter. Yet, finishing the year must sometimes pass through a spooky October. The good news is that if the market decides to consolidate - maybe because of geopolitical events or other economic news - it's doing so from a position of internal strength. Over 80% of stocks in the S&P500 are trading above their 200-day moving average. That's a strong, supportive longer-term trend.

Whiplash!

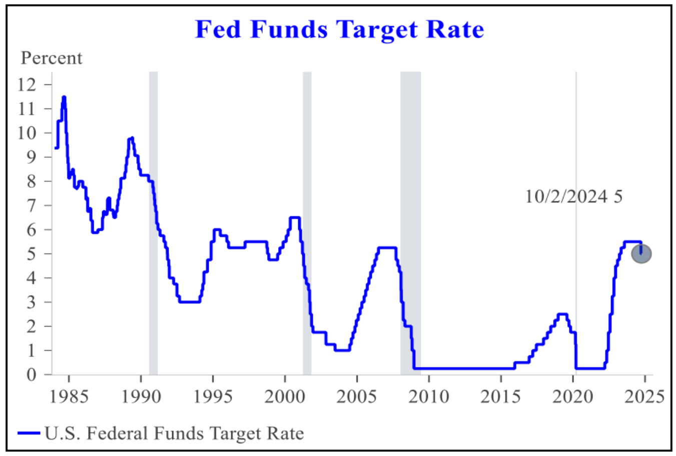
NFL fans are aware of a significant rule change implemented on kickoffs: The "Dynamic Kickoff" stipulates that the kicking team will line up on the receiving team's 40-yard line and must not move until the ball is touched by the receiving team or hits the ground in what is now referred to as the "landing zone" or end zone. The purpose of the new rule is to restore the importance of kickoffs (kicks were increasingly hammered through the end zone and not returned) while also reducing the risk of serious injuries including concussions and whiplash. When players sprint the field at full speed, their blocking and tackling can be extremely violent to a receiving team player. Intense collisions can (and do) still happen, but less frequently.

Investors experienced whiplash of their own in 2024, especially relating to expectations for interest rates. Entering the year, the market anticipated six quarter-point rate cuts (1.5% total). But unfavorable inflation data in early spring brought "April Showers" causing many to question if additional rate *hikes* may be needed to further ease pricing pressure being felt by consumers and businesses. Following a few soft unemployment figures and renewed progress on inflation, market participants again shifted expectations during the summer for the Fed to cut interest rates. They delivered with a "double-sized" cut of -0.50% in September. The market now expects a total of 6 or 7 additional rate cuts prior to the end of 2025, implying short rates will settle around 3.25% to 3.50%. Thinking about whiplash… if/as employment remains strong, the Fed may be constrained on the number and size of future rate cuts.

With the Fed now cutting, it is natural to wonder "what's next?". Every rate-cutting cycle is different, and the economy's response to interest rate changes is long and variable. Milton Friedman, speaking before Congress in 1959, likened changes in Fed policy to "a water tap that you turn on now and that then only starts to run six, nine, 12… months from now."

Continued from previous page…

The most natural implication to rate cuts is the effect on borrowing costs - cheaper and more attractive. Historically, sectors like real estate, automobiles, utilities, and capital-intensive industrials tend to do relatively better under lower rates. Yet history is mixed about how the overall stock market fares when the Fed begins cutting rates (see related chart on the bottom of pg 4). In the last 40 years, there are a number of examples where stocks declined following the first rate cut; those tended to align with an economy that was already deteriorating; the Fed's decision to cut was reactionary with expectation of stimulating economic growth. A troubled economic backdrop is not obvious today. Unemployment is variable, drifting higher over the past 12-18 months, but showing recent resilience. It would be a stretch to suggest economic weakness is widespread. This cycle is a bit unique in that there isn't a clear historical template for the current situation with the Fed cutting before monetary policy creates economic pain. The recent rate cut is the first since the mid-90s that occurred outside of a recession or financial panic.



"Unemployment is variable, drifting higher over the past 12-18 months, but showing recent resilience. It would be a stretch to suggest economic weakness is widespread"

ANNOUNCEMENTS:

- Early October - 4Q 2024 fees collected and performance reports sent.
- October 14 - Columbus Day. Stock market open, but bond market and banks closed.
- November 11 - Veterans Day, Banks closed
- November 28 - Thanksgiving. Markets and banks closed (markets also close early @ 1pm on Friday, 11/29)
- December 5 - Client Appreciation & Holiday Party; watch for details soon!
- December 25 - Christmas Day. Markets and banks closed.
- December 31 - Last business day of 2024. Markets are closed on January 1 for New Years Day.
- Our ADV Part 2A & B as required by the SEC & Ohio (and other states) is available to you anytime upon request.

As we consider the implications of this new rate-cutting cycle, we highlight the following:

- Individuals and businesses previously enjoyed 5% returns risk-free, but will now receive less. For wealthy consumers with low debt levels and low mortgage rates, the high 5% interest rates on "cash" provided a spending stimulus to the economy.
- Sectors like real estate are expected to benefit from lower rates, but mortgages seem unlikely to return to the ultra-low levels of 2020-21 anytime soon. 10-year Treasuries – the security on which mortgage rates are linked/priced – already declined since the spring anticipating the Fed's cuts. Industrial companies requiring regular borrowing should benefit from lower interest expense. Recall, for much of the past two years, the yield curve was "inverted" and unkind to banking and finance businesses. Recent Fed cuts are shifting the yield curve; it is steepening and becoming more normal. This will improve the profitability of financial companies and encourage them to lend long.
- Lower rates make assets like bonds and stocks a more attractive asset class for returns moving forward; money market funds become relatively less appealing and some of the historic balance that accumulated in the last 24 months may begin to flow back into stocks and bonds. We suspect rates probably need to decline closer to 3% before savers feel more urgency to exit the stability of money market funds.
- Smaller-size companies, many with higher levels of debt, are at their cheapest valuation relative to large company stocks since the late-90s. Lower interest rates may benefit small-size companies more. Large companies, which amassed huge hoards of cash, will be earning less on their idle balances and be pressured by shareholders to begin deploying that money back into their businesses or return it to shareholders in the form of dividends.

In the short run (next 12-18 months), rate cuts appear to be supportive of the economy and investments in stocks, bonds, and real estate. It is difficult to get too cautious when economic readings appear stable, inflation appears better, and markets do not seem immediately concerned about current levels of debt. On average, bull markets last about 5 years and enjoy gains of around 178%. In contrast, the current bull market is just 24 months with a gain of 66%. It's worth noting that the third year often shows softer performance compared to the first two years (table pg. 4).

Possible challenges next year could be brought on by a resurgence of inflation brought on by extended labor strikes, or geopolitical unrest which quicken de-globalization. These could be ingredients for "whiplash" and trigger a 2nd wave of higher inflation. Investors understand that the path to continued advancing returns and portfolio values is seldom smooth. But they are the bumps on which we climb.

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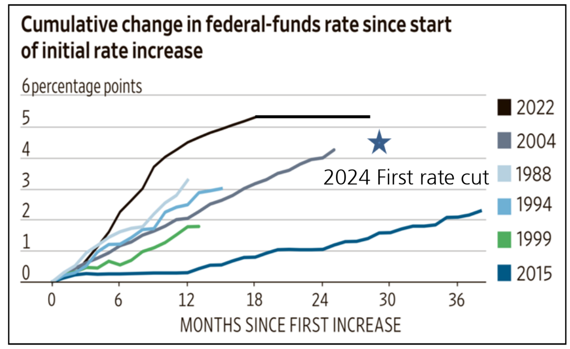
"With the Fed now cutting rates, it is natural to wonder if it is too late to pivot from cash. But you should be aware that bonds delivered nearly double the annual return of cash over the last 40 years!"

Harvesting During a Drought | Jordan Ranly, MBA

As we turn the page from the summer of 2024 and enjoy more moderate temperatures, we reflect on a summer in which Ohio suffered one of the worst droughts in history. Local farmers were impacted and yields from carefully planted crops suffered. Hurricane Helene, while bringing unprecedented damage and destruction to the US Southeast, brought much needed rain and welcome reprieve from the drought in Ohio. Our thoughts and prayers continue for everyone impacted by this historic storm!

Steve appropriately described how investors may feel "whiplash" around the interest rate environment in 2024. After raising rates at a historically fast pace (reference chart), the Fed paused in August 2023 for over 12 months. The Fed pause ended last month with a double-sized rate cut of 0.50%. How quickly and how far will rates fall? How should savers manage cash in this environment?



While cash might "feel" safe and stable, the reality is that holding too much will lead to diminishing long-term returns. Over the past four cycles, bonds outperformed cash by 6% on average in the 12 months following the Fed's last rate hike. In each case, the yield on the 10-year Treasury peaked before the Fed started cutting rates. Periods between the peak in yields and the first-rate cut were great for bonds, which averaged a 9.4% return. And yet, an often shared comment we hear: "I'll wait for the Fed to start cutting rates before moving out of cash." Remember, as interest rates fall, bond prices rise, allowing investors to benefit from both coupon payments as well as price appreciation. Moving money out of cash and into traditional bonds can be compared to harvesting a crop during a drought. Both scenarios require strategic decision-making, foresight, and a commitment to long-term growth despite immediate challenges.

QTD

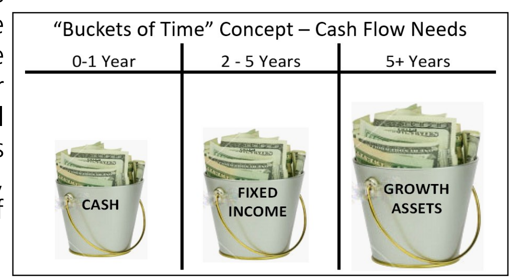
	Value	Core	Growth
Large	9.11	5.66	2.69
Mid	9.88	9.05	6.48
Small	9.78	8.96	8.16

YTD

	Value	Core	Growth
Large	16.34	20.71	23.94
Mid	14.87	14.46	12.85
Small	8.85	10.85	12.96

While yields on cash are still attractive following last month's - 0.50% Fed cut, waiting for Fed cuts to drive cash yields below traditional bonds leaves money on the table; we miss return opportunity. With the Fed now cutting rates, it is natural to wonder if it is too late to pivot from cash. But you should be aware that bonds delivered nearly double the annual return of cash over the last 40 years! Further, bonds and stocks are an investor's only chance at beating their enemies of inflation and taxes over the long-term. Both can enjoy price appreciation in addition to their yield; something which cash cannot do.

Reallocating cash into a diversified investment portfolio will provide investors with better return opportunities over the long-term due to economic expansion. It is important to understand that short-term steps can lead to future prosperity. Risks in the short-term are inherent, but the potential for growth much like a well-timed harvest, can lead to bountiful rewards. If you're sitting on levels of cash which exceed your anticipated needs over the next 12-18 months, history strongly supports the notion that it should be deployed into more productive assets: bonds (2-5 year bucket) and stocks (5+ year bucket). Just as farmers adapt to environmental challenges, savvy investors must navigate the complexities of financial markets to cultivate their wealth over time, ensuring resilience and prosperity in the face of uncertainty.



Diane is ready to serve your notary needs.

Nvest Engagement:

Delivering financial peace of mind is our ultimate goal. A quick summary of timely and helpful content our team shared over the past month via our LinkedIn and Facebook pages.

Like us on Facebook | Follow us on LinkedIn

- ◊ Our thoughts and prayers to everyone impacted by Hurricane Helene. LINK
- ◊ The Fed seems poised to lower interest rates for the first time since March 2020, as focus shifts to achieving maximum employment. LINK
- ◊ Health Savings Accounts (HSA) are increasingly popular because of their unique tax advantages. However, many HSA's are not appropriately integrated into retirement planning. We welcome your questions! LINK

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Nest	*protect & nurture*
Value	*exceed expectations*
Excellence	*in service, in detail, in results*
Stewardship	*always a fiduciary*
Team	*know every client*

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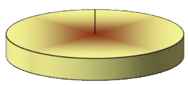
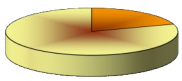
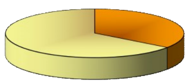
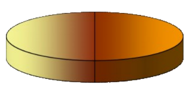
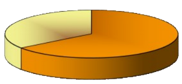
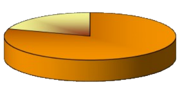
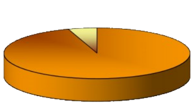
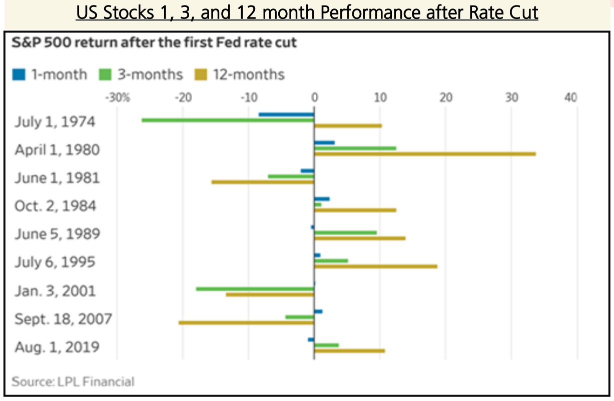
Benchmarking as of September 30, 2024

Summary of index portfolio returns compiled by Nvest Wealth Strategies®

	Index Portfolio	Stock/Bond Allocation		Total Return Through 9/30/2024: 3rd Qtr	YTD	12 Mths	3 Years	5 Years
	Capital Preservation	0% / 100%	*Cumulative*	3.0%	5.1%	8.4%	5.8%	11.0%
			Annualized			8.4%	1.9%	2.1%
	Income	20% / 80%	*Cumulative*	3.7%	7.0%	12.3%	7.7%	20.7%
			Annualized			12.3%	2.5%	3.8%
	Balanced Conservative	35% / 65%	*Cumulative*	4.1%	8.1%	14.3%	9.1%	26.3%
			Annualized			14.3%	3.0%	4.8%
	Balanced	50% / 50%	*Cumulative*	4.6%	9.8%	17.5%	11.5%	35.5%
			Annualized			17.5%	3.7%	6.3%
	Balanced Growth	65% / 35%	*Cumulative*	5.1%	11.3%	20.4%	13.5%	44.1%
			Annualized			20.4%	4.3%	7.6%
	Growth	80% / 20%	*Cumulative*	5.7%	12.9%	23.5%	15.8%	54.2%
			Annualized			23.5%	5.0%	9.1%
	Aggressive Growth	95% / 5%	*Cumulative*	6.1%	13.7%	25.2%	16.8%	60.2%
			Annualized			25.2%	5.3%	9.9%

The index returns reflect returns of various mutual fund averages compiled by Morningstar and allocated as follows: Capital Preservation: 90% Bond Average, 10% Treasury Bill Index; Income: 80% Bond, 10% Large Cap, 3% Mid Cap, 2% Small Cap, 5% International; Balanced Conservative: 65% Bond, 15% Large Cap, 5% Mid Cap, 3% Small Cap, 7% International; Balanced: 50% Bond, 24% Large Cap, 7% Mid Cap, 4% Small Cap, 10% International; Balanced Growth: 35% Bond, 30% Large Cap, 9% Mid Cap, 6% Small Cap, 15% International; Growth: 20% Bond, 38% Large Cap, 12% Mid Cap, 8% Small Cap, 17% International; Aggressive Growth: 10% Bond, 40% Large Cap, 15% Mid Cap, 10% Small Cap, 20% International. You cannot invest in these indexes or averages and all above indexes/averages include a 5% allocation to the Treasury Bill Index, reflecting a nominal level of cash. The level of diversification represented by these benchmark averages may be materially different than actual client accounts; therefore, clients may experienced different levels of performance volatility. Past performance is no guarantee of future results.

US Stocks 1, 3, and 12 month Performance after Rate Cut

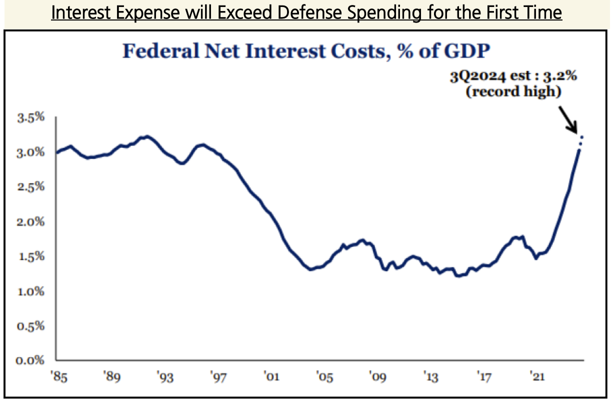


Young Bull Market, but Year 3 Returns Typically Softer

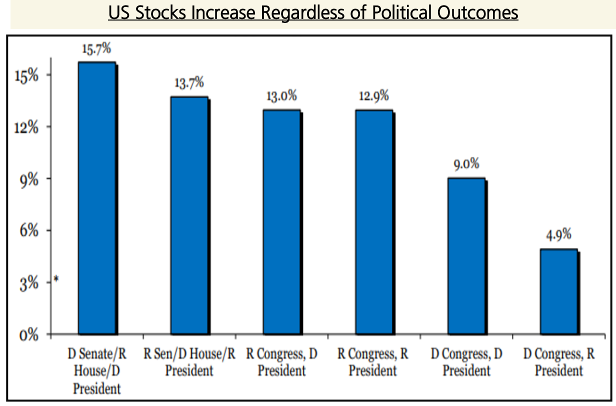
S&P 500 Bull Markets

Start Date	End Date	Duration (Months)	Total Pct. Chg.	Returns from Trough In: Year 1	Year 2	Year 3
6/1/1932	3/6/1937	57	324.3%	121.4%	-3.7%	2.1%
4/28/1942	5/29/1946	49	157.7%	53.7%	3.4%	23.8%
6/13/1949	8/2/1956	86	267.1%	42.1%	11.9%	13.1%
10/22/1957	12/12/1961	50	86.4%	31.0%	9.7%	-4.8%
6/26/1962	2/9/1966	43	79.8%	32.7%	17.4%	2.0%
10/7/1966	11/29/1968	26	48.0%	32.9%	6.6%	-
5/26/1970	1/11/1973	32	73.5%	43.7%	11.1%	-2.5%
10/3/1974	11/28/1980	74	125.6%	38.0%	21.2%	-7.1%
8/12/1982	8/25/1987	60	228.8%	58.3%	2.0%	13.4%
12/4/1987	7/16/1990	31	64.8%	21.4%	29.3%	-7.1%
10/11/1990	3/24/2000	113	417.0%	29.1%	5.6%	14.5%
10/9/2002	10/9/2007	60	101.5%	33.7%	8.0%	6.6%
3/9/2009	2/19/2020	131	400.5%	68.6%	15.7%	3.9%
3/23/2020	1/3/2022	21	120.4%	74.8%	14.0%	-
10/12/2022	10/4/2024	24	65.9%	21.6%	-	
All Periods Average		62	182.7%	46.9%	10.9%	4.8%

Interest Expense will Exceed Defense Spending for the First Time



US Stocks Increase Regardless of Political Outcomes



SELECTED FUNDS - TOTAL RETURN PERFORMANCE SUMMARY

As of September 30th 2024

BOND FUNDS - TAXABLE	STYLE	3RD QTR	YTD	12 MTHS	3 YEARS	5 YEARS
Taxable Short-Term Bond Average		*3.2%*	*5.2%*	*8.7%*	*1.7%*	*2.1%*
Taxable Intermediate Bond Average		*5.0%*	*4.8%*	*11.6%*	*-1.4%*	*0.4%*
Allspring (fka Wells Fargo) Ultra Short	AS	2.0%	5.1%	7.2%	3.4%	2.7%
Vanguard Short Federal	HS	3.3%	4.6%	7.8%	0.7%	1.4%
American Century Short Duration	HS	3.0%	4.5%	7.7%	1.5%	2.1%
Pioneer Short-Term Income	HS	3.0%	5.6%	8.7%	2.6%	2.3%
DoubleLine Low Duration	HS	2.2%	4.8%	7.5%	2.6%	2.2%
Vanguard Short-Term Investment Grade	HS	3.7%	5.4%	9.5%	1.5%	2.1%
American Funds Bond Fund of America	HI	5.3%	4.7%	11.8%	-1.2%	1.3%
American Century GNMA Income	HI	5.1%	3.7%	11.5%	-1.6%	-0.4%
Diamond-Hill Core Bond	HI	5.1%	5.9%	12.7%	-0.2%	1.2%
BrandywineGlobal Corporate Credit	LI	3.5%	7.2%	14.3%	3.8%	5.2%
Miller Convertible	LI	2.6%	6.3%	10.1%	1.2%	5.0%
BOND FUNDS - TAX EXEMPT						
Tax-Free Intermediate Bond Average		*2.5%*	*2.9%*	*9.5%*	*0.2%*	*1.2%*
Vanguard Muni Limited Term	HS	2.3%	2.9%	6.8%	1.4%	1.7%
T. Rowe Price Tax Free S/I	HS	2.4%	2.5%	6.4%	0.9%	1.4%
American Funds Tax-Exempt Bond	HI	2.8%	3.5%	11.1%	0.4%	1.6%
Vanguard Muni Intermediate Term	HI	2.7%	2.7%	9.5%	0.6%	1.6%
Vanguard Ohio Long-Term	HL	2.9%	3.4%	13.1%	-0.2%	1.6%
STOCK FUNDS - DOMESTIC						
S&P 500 Index		*5.9%*	*22.1%*	*36.4%*	*11.9%*	*16.0%*
Equity Fund Average *(Morningstar Mgr Agg US Core EW)*		*7.2%*	*16.2%*	*30.0%*	*6.8%*	*12.0%*
Schwab Large Cap Growth	LG	3.5%	26.0%	44.0%	12.6%	20.6%
Parnassus Value Equity (f.k.a. Endeavor Fd)	LG	7.3%	13.7%	28.4%	6.6%	15.4%
Invesco Eq Wt S&P 500	LB	9.5%	15.0%	28.6%	8.0%	12.6%
T.Rowe Price Dividend Growth	LV	6.6%	17.0%	29.0%	10.0%	12.8%
WisdomTree US Quality Dividend Growth	LV	7.0%	19.8%	33.3%	14.4%	15.3%
American Century Equity Income	LV	9.6%	14.1%	20.3%	7.0%	7.3%
Hennessy Focus	MG	18.8%	21.1%	36.0%	5.6%	9.9%
John Hancock Multifactor Mid-Cap	MB	9.5%	14.9%	28.7%	6.4%	11.5%
John Hancock Disciplined Value Mid-Cap	MV	7.8%	12.3%	25.4%	9.2%	11.5%
SPDR S&P600 Small Cap Growth	SG	8.9%	12.5%	28.4%	3.5%	10.5%
Neuberger & Berman Genesis	SB	9.4%	12.6%	22.8%	4.4%	10.4%
American Centry Small Cap Value	SV	7.0%	6.9%	22.3%	4.0%	11.0%
Avantis US Small Cap Value	SV	7.4%	8.3%	25.3%	10.3%	15.8%
SPDR S&P600 Small Cap Value	SV	11.3%	6.0%	22.7%	4.1%	9.3%
STOCK FUNDS - INTERNATIONAL						
Morgan Stanley EAFE Index (Foreign)		*7.3%*	*13.0%*	*24.8%*	*5.5%*	*8.2%*
Oakmark International	LV	8.8%	4.3%	13.3%	1.8%	5.8%
Hartford International Value	LV	9.0%	12.4%	21.7%	9.2%	9.9%
Brandes International Equity	LV	12.0%	17.4%	30.1%	12.0%	11.0%
Schwab Fundamental International Index	LV	7.1%	11.7%	21.6%	7.9%	9.8%
John Hancock International Growth	LG	6.0%	15.2%	24.5%	-1.1%	6.6%
WisdomTree Int'l Quality Dividend Growth (Hdg)	LG	0.4%	10.2%	19.4%	7.4%	11.0%
Harding Loevner International Small Company	SG	8.7%	4.1%	16.1%	-3.3%	5.7%
WisdomTree Japan Hedged	LB	-5.6%	20.5%	22.8%	22.2%	19.4%
STOCK FUNDS - SPECIALTY						
Invesco S&P500 Eq Wt Energy	MV	-4.4%	5.9%	2.5%	23.1%	15.1%
Direxion Auspice Broad Commodity ETF	N/A	0.4%	6.8%	0.8%	5.2%	9.7%
Neuberger Berman Real Estate Securities	MV	18.1%	13.9%	35.0%	2.4%	5.1%

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Steve Henderly, CFA: Portfolio Management & Strategy
Jordan Ranly, MBA: LIVING LIFE Financial Planning