Q3

Quarterly Market Review

Third Quarter 2024

SATOVSKY™
ASSET MANAGEMENT

Quarterly Market Review

Third Quarter 2024

This report features world capital market performance and a timeline of events for the past quarter. It begins with our quarterly commentary, followed by the returns of stock, commodities, and bond asset classes in the US and international markets.

Overview:

Investing Is Simple but Not Easy[1]

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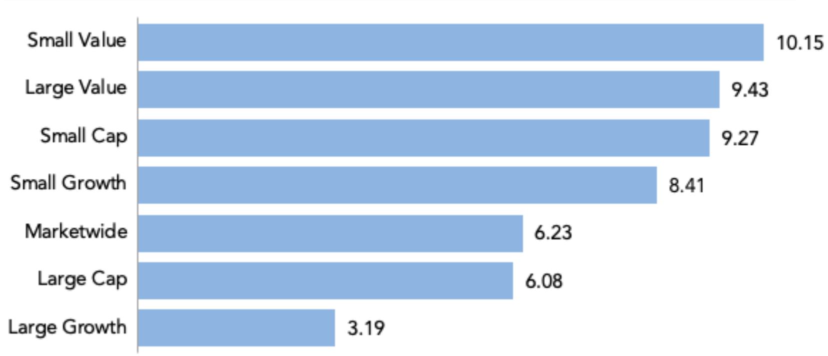
The market continued its fantastic run in the third quarter of 2024. The S&P rose another 5.9% in the third quarter, bringing year-to-date gains to 22.1%. For the first time this year, though, it was not US large cap growth that led the way. US small cap stocks[2] were up 9.3% in the third quarter, and international markets[3] were up 7.7% in the quarter.

Indeed, in the US, we finally saw a complete reversal in market leadership this quarter. As you can see from the chart below[4], small value, a long underperformer, led the way in the quarter, with large cap growth lagging by 600 basis points. Will this reversal continue? We discussed this in previous letters; historically, there is some mean reversion when one asset class underperforms for a long period of time. Is this the beginning? We don't know. But we are positioned to capitalize if it does.

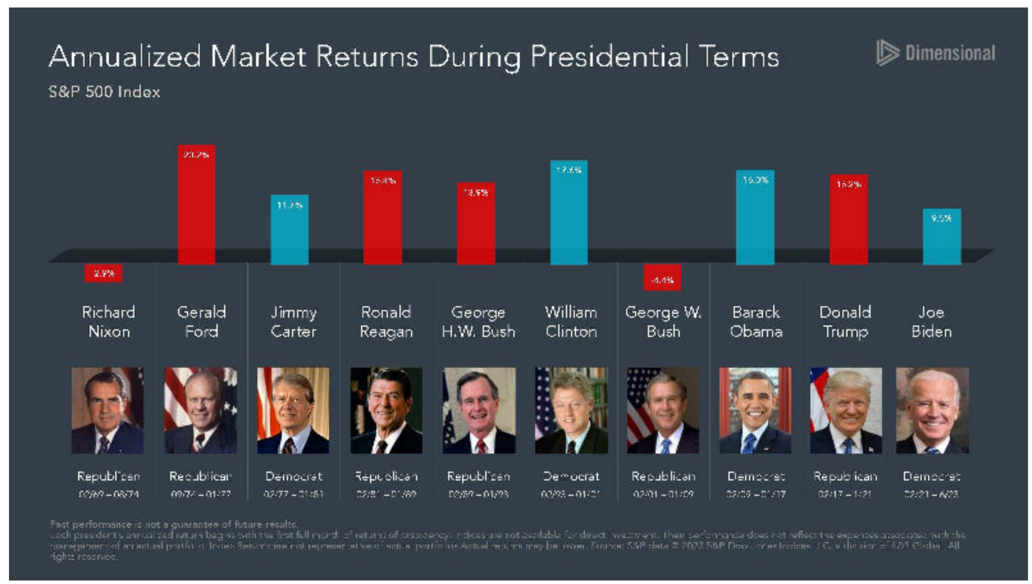
Ranked Returns (%)



The Election

If there is one thing that consistently comes up in client calls it is the election. In general, when I speak with Democrats, they warn of dire consequences if Trump is elected, and when I speak with Republicans, they say the same thing about a Harris victory. While there are clearly impacts other than on markets, the data for markets is much less impactful. As you can see from the chart (sourced from Dimensional), markets have done well regardless of which party holds the presidency.

The same holds true regardless of whether Congress was controlled by Democrats, Republicans or split.[5]

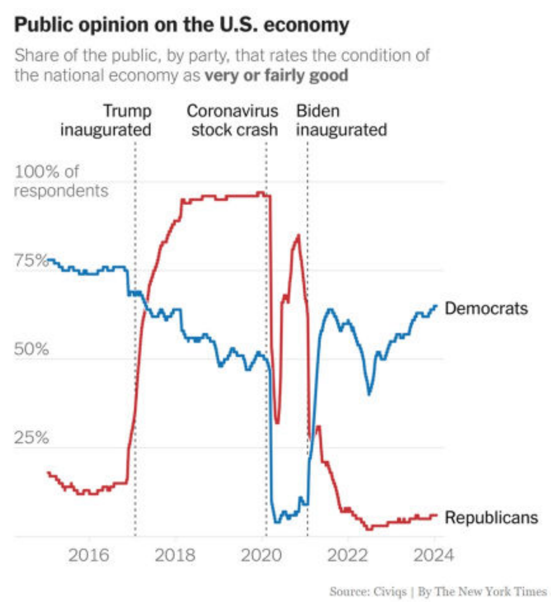


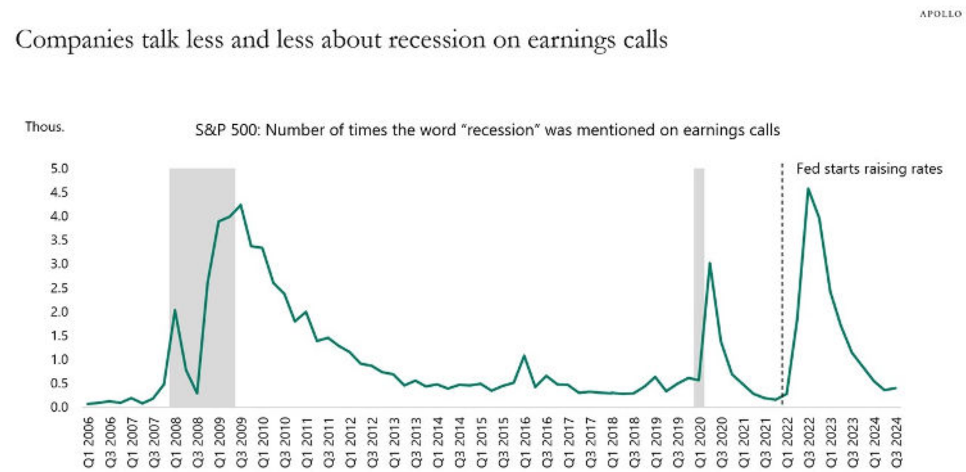
[1] This phrase is commonly attributed to Warren Buffett
[2] As measured by the Russell 2000 Index
[3] As measured by the MSCI World ex USA Index
[4] Dimensional Fund Advisors. Note that Dimensional defines "Marketwide" here as the Russell 3000 Index, not the S&P 500.
[5] https://www.dimensional.com/us-en/insights/bulls-bears-and-ballots-when-looking-at-politics-and-markets-think-long-term

Investing Is Simple but Not Easy

Why do people get so nervous around elections? This chart[6], which we first shared with you in our first quarter letter this year, highlights one reason—many people let their politics color their view of what is happening in the economy. The chart below shows how Democrats and Republicans have viewed the economy over time. Note that in 2016, Republicans' views of the economy immediately changed to the positive once Trump was elected—even before he could implement anything to help the economy! And when Biden was inaugurated, Republican views on the economy plummeted, again, even before Biden did anything. Unfortunately, Democrats are only slightly better, and reacted close to the mirror image of Republicans. The reality is that the economy grew and the market rose during all three presidencies.

The reality now is that the economy looks good. Inflation is coming down (now under 3%), unemployment is still low (just over 4%), and job openings, while having declined from peak, are still high relative to history. Many other data series also look good. For example, I saw this series[7], which shows how often companies talk about recessions on earnings calls; it is back down to near lows.





In fact, the most important economic indicator—real GDP growth—looks just fine.[8]

The conclusion here is to keep emotions aside and stay with your plan. We know, as Warren Buffett said, "investing is simple but not easy." We are here to help you through your financial journey.

[6] Lopez, Germain, "The End of Economic Pessimism," The New York Times, January 23, 2024
[7] Torsten Slok, "The Daily Spark," August 13, 2024
[8] Torsten Slok, "The Daily Spark," October 1, 2024

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Private Debt

Private debt has been exploding over the last few years as people have been chasing higher yields. The general concept is that private debt can be better for companies despite the higher cost because:

1. They can close more quickly in a private transaction.
2. There is a higher likelihood of closing the deal and getting the money. In a public deal, the investment bank can only promise best efforts to get a deal sold to the market.
3. Only one party holds the debt so if there is an issue, it's easier to negotiate a workaround.

It's also pitched as better for the financial system, because in contrast to a bank which gets funding from deposits (which, as we've seen a few times over the last couple of years, can leave the bank quickly), private debt gets funding from long-term investors in locked-up vehicles.

I have been more skeptical about private debt, and so far, have decided not to allocate capital there. Private debt, despite its proponents' grandiose claims, is predominantly linked to private equity transactions. I recently read an article by Matt Levine in which he delineates just how much leverage can seep into the private equity world. Here were the essentials:[9]

1. If there's a company, a private equity fund can buy it, putting up some of its own money (the equity) and borrowing the rest, secured by the assets of the company.
2. The private credit fund that made the loan in Step 1 can put up some of its own money and borrow the rest from a bank to fund that loan.
3. The private equity fund buying the company in Step 1 can temporarily borrow the money it uses to write the equity check (a "subscription line"), secured by the commitments of its investors (its limited partners) to eventually put up the money.
4. After buying the company, the private equity fund can take out a margin loan, secured by its equity stake in the company.
5. Or it can take out a net asset value loan, secured by its equity stakes in a whole portfolio of companies it owns.
6. Also, the company can borrow more money to pay dividends to the private equity fund.
7. The limited partners can sell their stakes in the private equity fund to a secondaries fund, which can borrow some of the money to buy them.
8. The general partners (sponsors) of the private equity fund can borrow money, "secured by management fees and carried interest income."
9. Or other funds can borrow money to buy the general partners' stakes in their firms.

As long as things are going well with the underlying company, everything is fine. We'll see when we hit the next recession how well these funds hold up. Some inevitably will, but I have my doubts about the industry as a whole.

[9] Matt Levine, "Web of Debt," Bloomberg Opinion, July 24, 2024

Leveraged ETFs

Another hot investment idea[10] is leveraged ETFs. The idea is that the ETFs buy futures to give you a multiple of the return on some underlying index or stock.

The problem is in the structure—these ETFs seek to give the investor a multiple of the daily return of the index or stock. So, when the stock rises, they must increase their derivatives exposure by buying more. When the stock declines, they need to sell exposure. This is an inverted strategy, where the ETF buys high and sells low! It works only if the index or stock goes up in straight line. If there is volatility, it's toast. I recently read[11] about an extreme example of this: GraniteShares 3x Long MicroStrategy Daily ETP, whose aim was to give the investor three times the return of MicroStrategy stock. As of the beginning of September, MicroStrategy stock was up more than 100% this year, while the ETP has dropped nearly 82%! So, while it did a good job of giving you a 3x return on a daily basis, it did a terrible job on a year-to-date basis.

Interesting Stories from the Quarter

We have written a few times on ESG. Our general view is that, while there are good intentions, the data are unavailable or unreliable, the definitions malleable and inconsistent, and the incentives faulty. Recently, I read an article by researchers at Berkeley and Stanford[12] which stated that:

> 1. 63% of firms in the S&P 500 include an ESG component in executive compensation
>
> 2. A "vast majority" include it as part of the annual incentive (not the long-term incentive) plan
>
> 3. Only 2% of firms report the executives missing the ESG targets

For comparison, the researchers noted that executives miss their financial targets 22% of the time; still a minority but at a rate 10x as large as those that miss ESG targets. Is it because these executives do a great job improving on ESG or related to governance issues? The researchers found:

> Meeting ESG-based targets is not associated with improvements in ESG scores and that the presence of ESG-linked compensation is associated with more opposition in say-on-pay votes provides support for the weak governance theory over the exceptional performance theory.

I tried to avoid saying anything on crypto, but I couldn't help it on this one.[13] In August, the SEC filed a complaint against Nader Al-Naji, the founder of BitClout. BitClout raised $257mm from investors to start a web and application-based social media platform. BTCLT would be the native token on the project. Al-Naji touted BitClout as "like Bitcoin" because "it was a fully open-source project with no company behind it, just coins and code." One of the things that got people excited about the project was that the price of BTCLT was to double with every million coins sold on the platform.[14]

What was interesting to me here was that investors supposedly asked how he would use the money to build out the platform. His response was that he couldn't promise to do so. Without explicitly saying why, the implicit answer was that doing so would make BitClout a security with all its associated regulations. So instead, he made no promises to spend the money on the platform and ended up pocketing the money. As Levine concludes:

> And so, if you were raising money for a crypto project in 2021, you could tell investors "I don't control this project, it's totally decentralized, none of the money will be spent on developing the project, wink wink." And investors would say "of course, wink wink, that's how you avoid registration as a security." And then you could just take the money! And be like "what, I told you I wouldn't spend it on developing the protocol, and I didn't."

Keep it simple.
Thanks to all of you for your trust in our partnership.

Avi and the Satovsky team

[10] If you can't tell by now, you should automatically be skeptical of hot investment ideas!
[11] Matt Levine, "Leveraged single-stock ETF," Bloomberg Opinion, September 3, 2024
[12] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4941016
[13] This story and all quotes related to the story come from Matt Levine, "BitClout," Bloomberg Opinion, August 6, 2024
[14] One of the features of BitClout was that you couldn't sell the coins, only purchase. How people expected to make money on this, I'm not sure. But I digress…

Quarterly Market Summary

Index Returns

Q3 2024	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	6.23%	7.76%	8.72%	16.04%	5.20%	3.48%
Since Jan. 2001						
Average Quarterly Return	2.4%	1.7%	2.6%	2.3%	1.0%	1.0%
Best Quarter	22.0% 2020 Q2	25.9% 2009 Q2	34.7% 2009 Q2	32.3% 2009 Q3	6.8% 2023 Q4	5.4% 2023 Q4
Worst Quarter	-22.8% 2008 Q4	-23.3% 2020 Q1	-27.6% 2008 Q4	-36.1% 2008 Q4	-5.9% 2022 Q1	-4.1% 2022 Q1

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]).

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Long-Term Market Summary

Index returns as of September 30, 2024

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
1 Year	35.19%	24.98%	26.05%	30.43%	11.57%	9.78%
5 Years	15.26%	8.36%	5.75%	2.54%	0.33%	0.64%
10 Years	12.83%	5.68%	4.02%	4.92%	1.84%	2.62%

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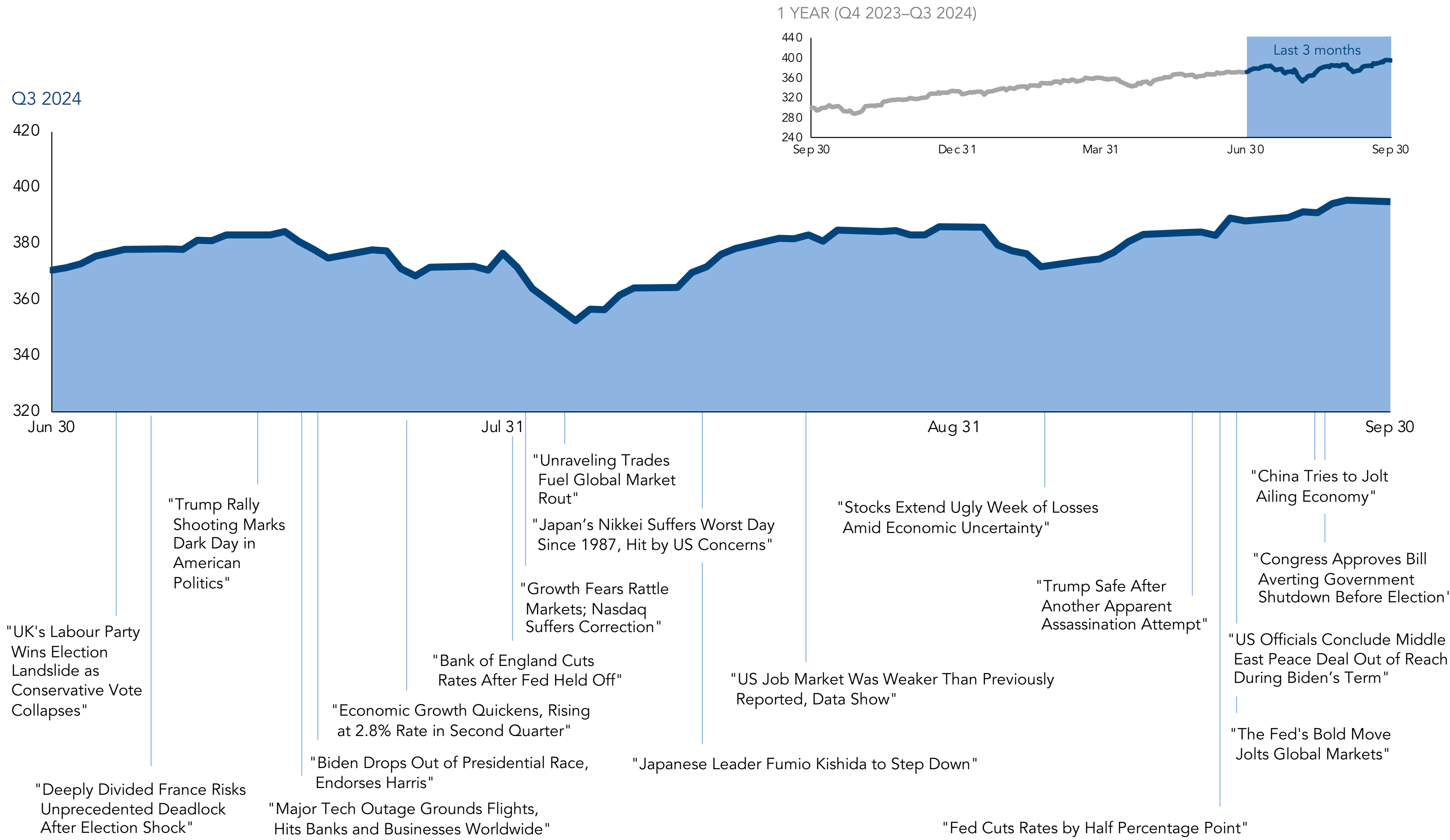
World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2024

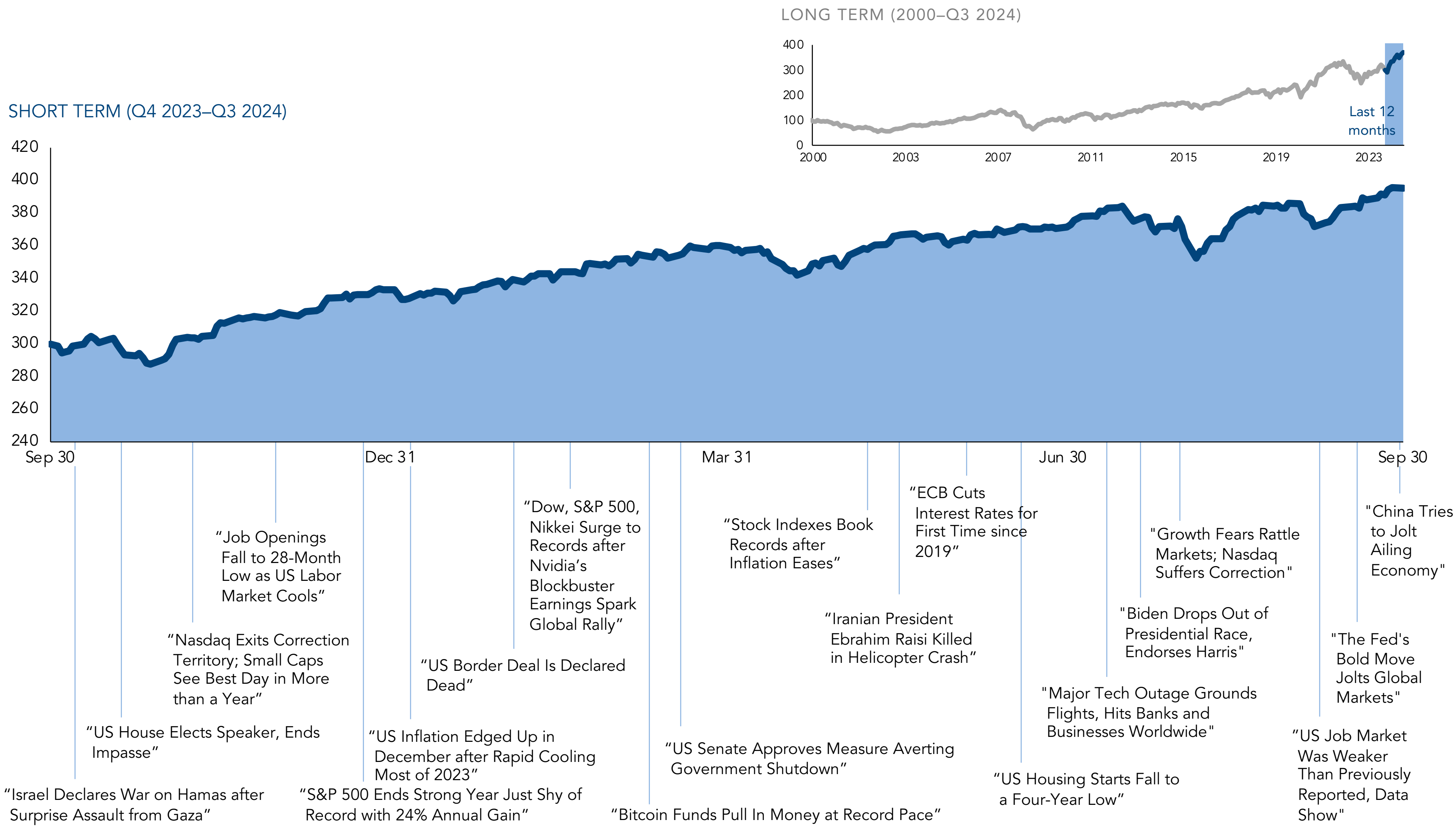


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

US Stocks

Third Quarter 2024 Index Returns

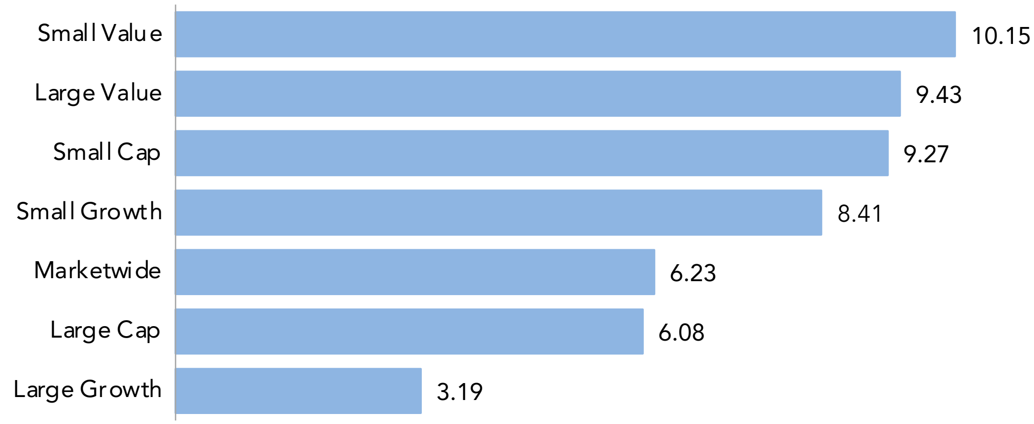
The US equity market posted positive returns for the quarter and underperformed both non-US developed markets and emerging markets.

Value outperformed growth.

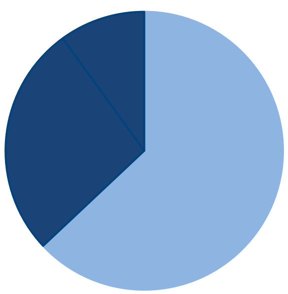
Small caps outperformed large caps.

REIT indices outperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



63%
US Market
$55.4 trillion

Period Returns (%)

** Annualized*

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Small Value	10.15	25.88	3.77	9.29	8.22
Large Value	9.43	27.76	9.03	10.69	9.23
Small Cap	9.27	26.76	1.84	9.39	8.78
Small Growth	8.41	27.66	-0.35	8.82	8.95
Marketwide	6.23	35.19	10.29	15.26	12.83
Large Cap	6.08	35.68	10.83	15.64	13.10
Large Growth	3.19	42.19	12.02	19.74	16.52

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International Developed Stocks

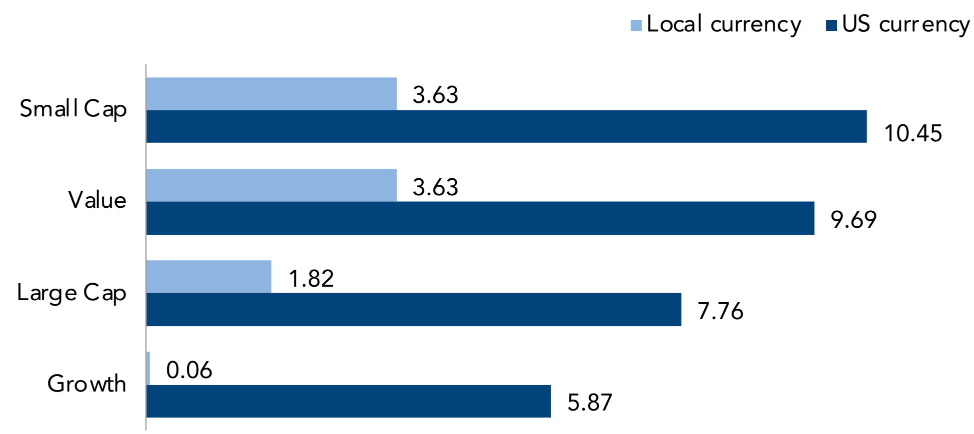
Third Quarter 2024 Index Returns

Developed markets outside of the US posted positive returns for the quarter and outperformed the US market but underperformed emerging markets.

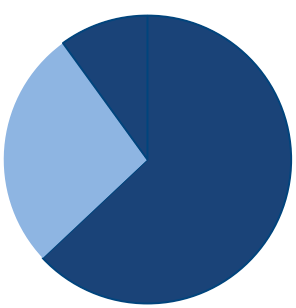
Value outperformed growth.

Small caps outperformed large caps.

Ranked Returns (%)



World Market Capitalization—International Developed



Period Returns (%)

** Annualized*

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Small Cap	10.45	23.36	0.05	6.85	5.99
Value	9.69	23.90	9.14	8.51	4.69
Large Cap	7.76	24.98	5.65	8.36	5.68
Growth	5.87	26.18	2.02	7.78	6.41

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Emerging Markets Stocks

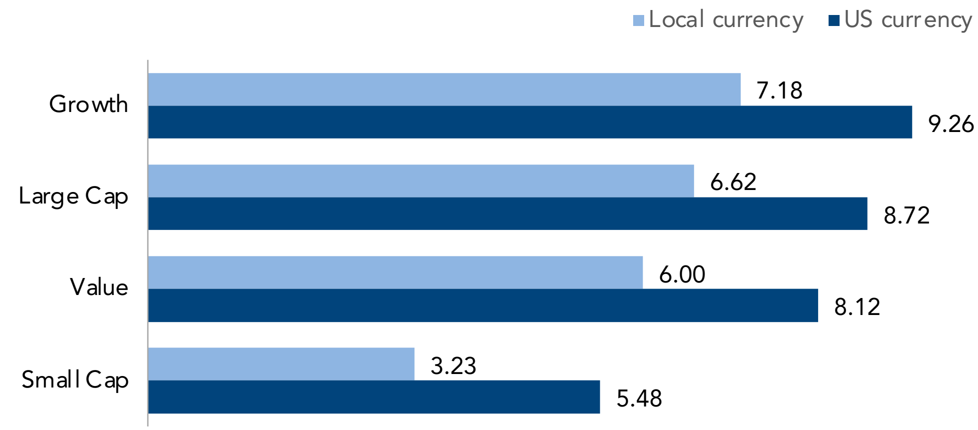
Third Quarter 2024 Index Returns

Emerging markets posted positive returns for the quarter and outperformed both US and non-US developed markets.

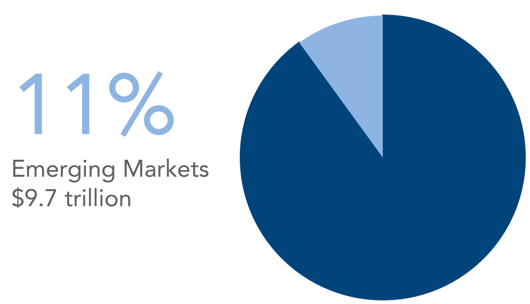
Value underperformed growth.

Small caps underperformed large caps.

Ranked Returns (%)



World Market Capitalization—Emerging Markets



Period Returns (%)

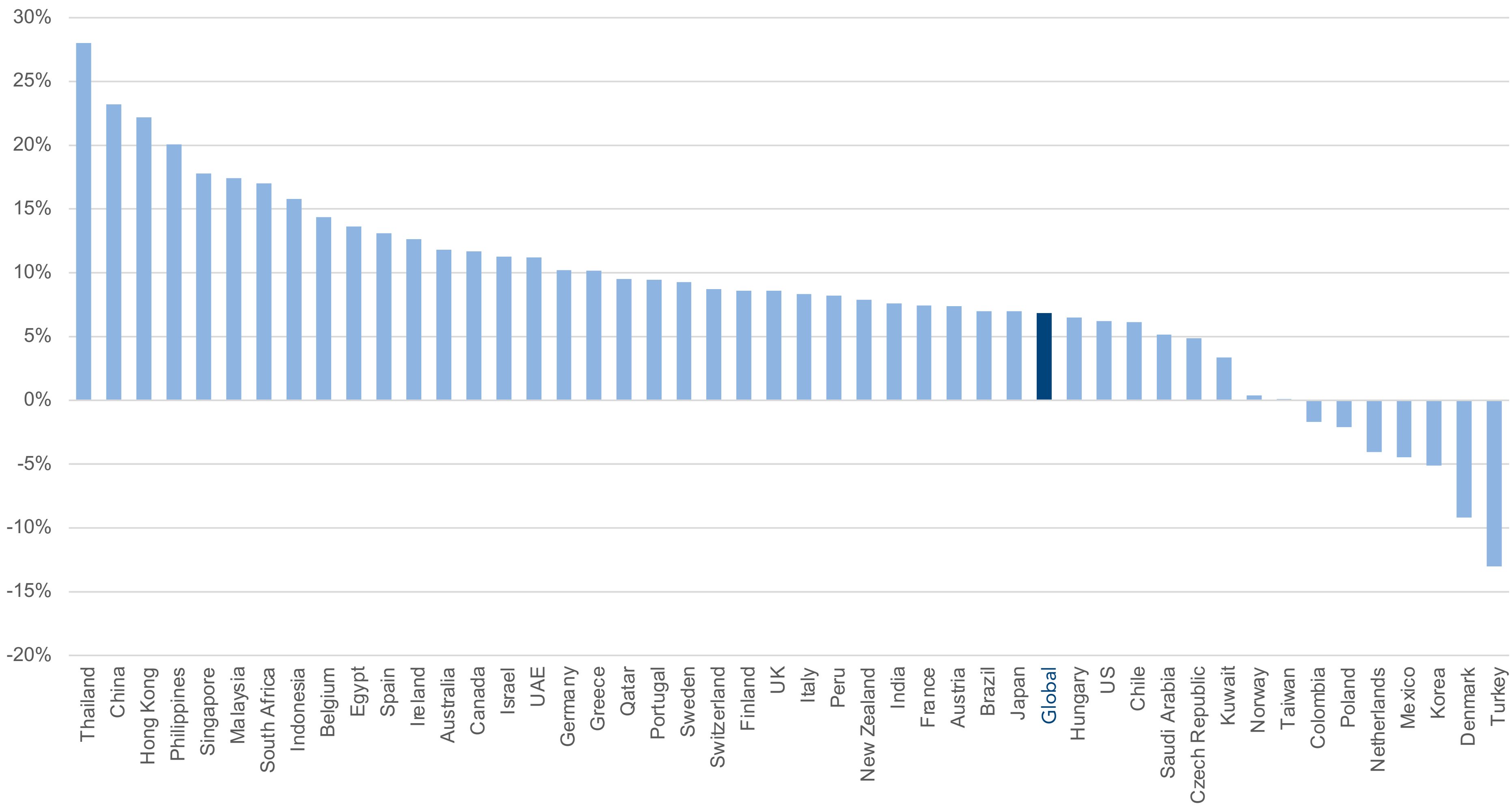
** Annualized*

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Growth	9.26	27.64	-2.26	5.45	4.81
Large Cap	8.72	26.05	0.40	5.75	4.02
Value	8.12	24.38	3.29	5.94	3.12
Small Cap	5.48	23.01	5.14	12.22	5.86

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market.

Country Returns

Third Quarter 2024 Index Returns



Past performance is no guarantee of future results.

Country returns are the country component indices of the MSCI All Country World IMI Index for all countries except the United States, where the Russell 3000 Index is used instead. Global is the return of the MSCI All Country World IMI Index. MSCI index returns are net dividend. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes.

Real Estate Investment Trusts (REITs)

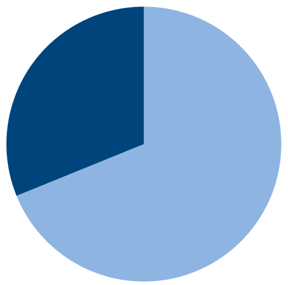
Third Quarter 2024 Index Returns

US real estate investment trusts underperformed non-US REITs during the quarter.

Ranked Returns (%)

Total Value of REIT Stocks

30%
Global ex US
$482 billion
272 REITs
(25 other countries)



70%
US
$1,104 billion
102 REITs

Period Returns (%)

** Annualized*

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Global ex US REITS	16.75	25.22	-2.36	-1.18	2.03
US REITS	15.56	33.71	4.36	4.41	7.03

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market.

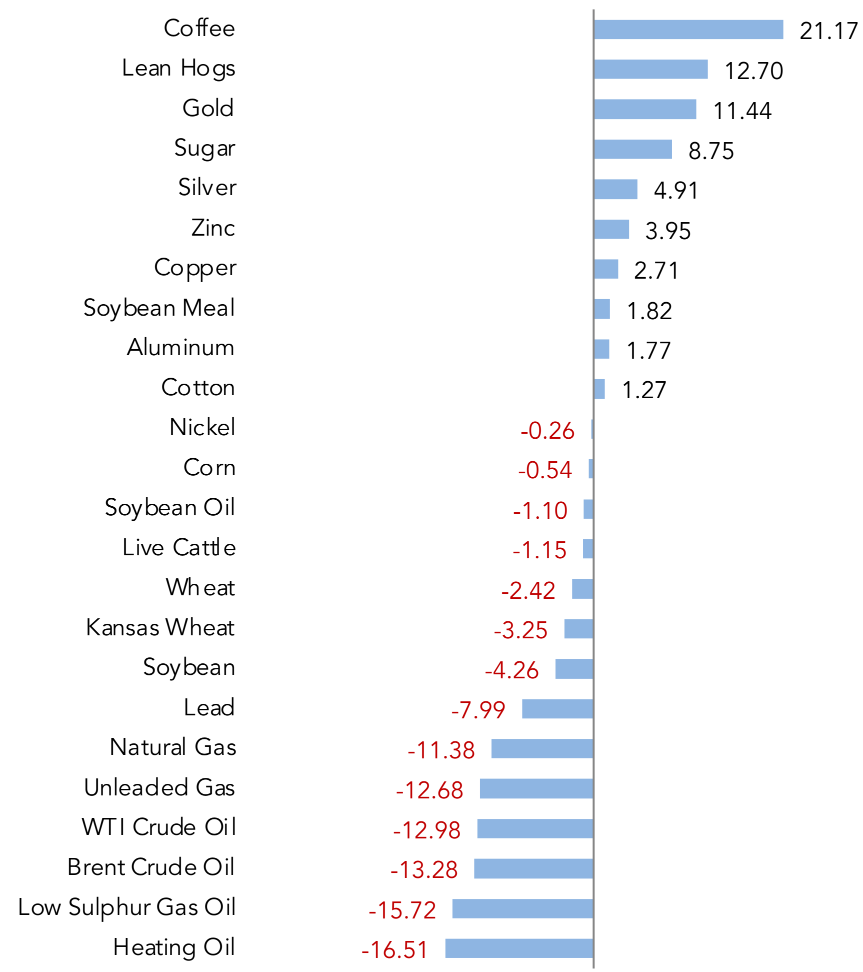
Commodities

Third Quarter 2024 Index Returns

The Bloomberg Commodity Total Return Index returned +0.68% for the third quarter of 2024.

Coffee and Lean Hogs were the best performers, returning +21.17% and +12.70% during the quarter, respectively. Heating Oil and Low Sulfur Gas Oil were the worst performers, returning -16.51% and -15.72% during the quarter, respectively.

Ranked Returns (%)



Period Returns (%)

** Annualized*

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Commodities	0.68	0.96	3.66	7.79	0.03

Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

Fixed Income

Third Quarter 2024 Index Returns

Interest rates decreased in the US Treasury market for the quarter.

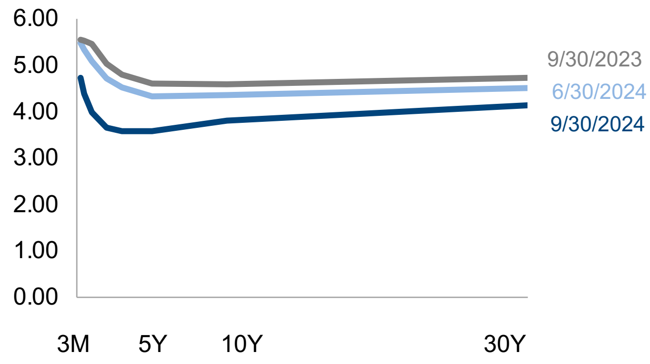
On the short end of the yield curve, the 1-Month US Treasury Bill yield decreased 54 basis points (bps) to +4.93%, while the 1-Year US Treasury Bill yield decreased 111 bps to +3.98%. The yield on the 2-Year US Treasury Note decreased 105 bps to +3.66%.

The yield on the 5-Year US Treasury Note decreased 75 bps to +3.58%. The yield on the 10-Year US Treasury Note decreased 55 bps to +3.81%. The yield on the 30-Year US Treasury Bond decreased 37 bps to +4.14%.

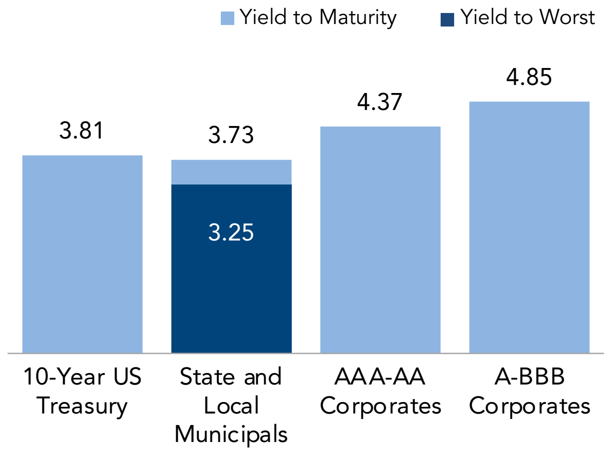
In terms of total returns, short-term US treasury bonds returned +3.43% while intermediate-term US treasury bonds returned +3.97%. Short-term corporate bonds returned +3.75% and intermediate-term corporate bonds returned +4.66%.[1]

The total returns for short- and intermediate-term municipal bonds were +2.31% and +3.09%, respectively. Within the municipal fixed income market, general obligation bonds returned +2.77% while revenue bonds returned +2.70%.[2]

US Treasury Yield Curve (%)



Bond Yield Across Issuers (%)



Period Returns (%)

*Annualized

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg U.S. Government Bond Index Long	7.81	15.43	-8.32	-4.25	1.09
Bloomberg U.S. High Yield Corporate Bond Index	5.28	15.74	3.10	4.72	5.04
Bloomberg U.S. Aggregate Bond Index	5.20	11.57	-1.39	0.33	1.84
FTSE World Government Bond Index 1-5 Years	5.09	8.74	-0.77	0.36	0.14
Bloomberg U.S. TIPS Index	4.12	9.79	-0.57	2.62	2.54
FTSE World Government Bond Index 1-5 Years (hedged to USD)	2.98	7.37	1.36	1.43	1.71
Bloomberg Municipal Bond Index	2.71	10.37	0.09	1.39	2.52
ICE BofA 1-Year US Treasury Note Index	2.03	5.87	2.48	1.99	1.55
ICE BofA US 3-Month Treasury Bill Index	1.37	5.46	3.49	2.32	1.65

1. Bloomberg US Treasury and US Corporate Bond Indices
2. Bloomberg Municipal Bond Index

One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

Bloomberg data provided by Bloomberg.

Global Fixed Income

Third Quarter 2024 Yield Curves

Interest rates generally decreased across global developed markets for the quarter.

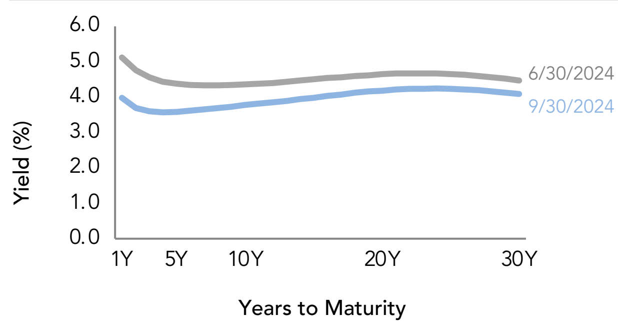
Realized term premiums were broadly positive across global developed markets, as longer-term bonds generally outperformed shorter-term bonds.

In Japan, short-term interest rates increased while longer-term interest rates generally decreased. The short-term segment of the yield curve remained inverted in Australia, UK, Germany, and Canada.

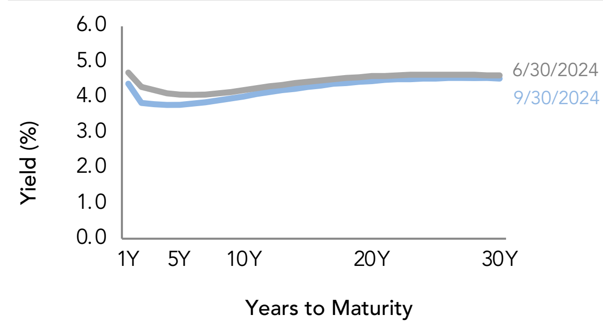
Changes in Yields (bps) since 06/30/2024

	1Y	5Y	10Y	20Y	30Y
US	-114.0	-79.3	-58.3	-45.7	-39.5
UK	-32.2	-28.6	-17.8	-12.9	-8.0
Germany	-77.0	-53.9	-34.4	-23.9	-21.3
Japan	6.1	-8.4	-17.9	-12.4	-5.9
Canada	-108.0	-75.9	-53.9	-32.8	-26.1
Australia	-48.7	-43.7	-32.5	-18.2	-7.4

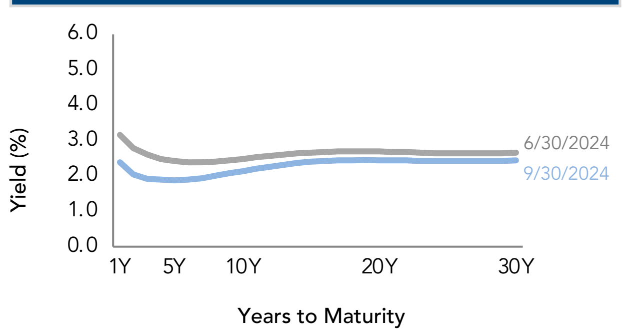
US



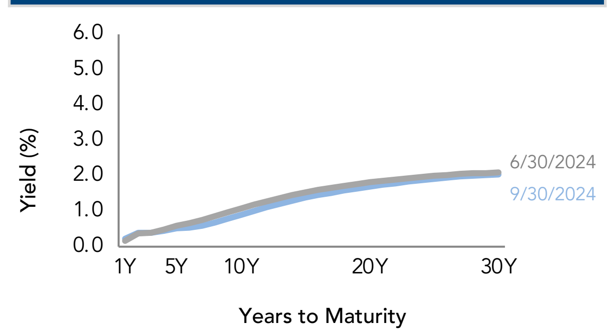
UK



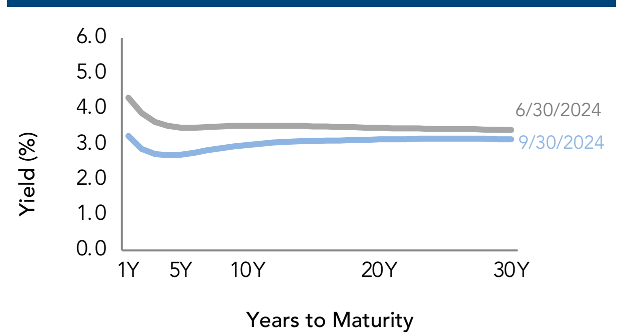
Germany



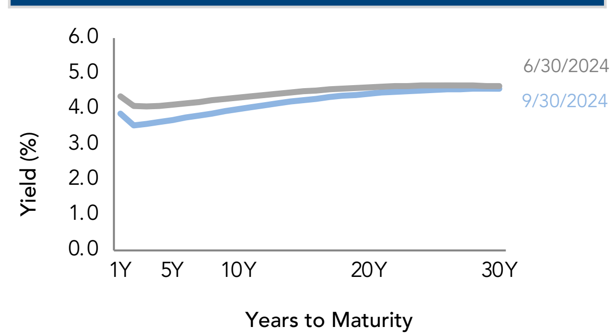
Japan



Canada



Australia



One basis point (bps) equals 0.01%. Source: ICE BofA government yield. ICE BofA index data © 2024 ICE Data Indices, LLC.

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September 2024

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