



Crescent Grove
Investment
Committee



Complex Needs

Important Goals

Independent Advice

Q3 2024

Market Perspectives

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Bond Index Returns

Annualized

	Q3	YTD	1 Yr	3 Yr	5 Yr
Bloomberg Municipal 1-10Yr Index	2.7%	1.9%	7.4%	0.5%	1.4%
Bloomberg US Aggregate Bond Index	5.2%	4.4%	11.6%	-1.4%	0.3%
Bloomberg US High Yield Index	5.3%	8.0%	15.7%	3.1%	4.7%

Treasury Yields

	1 Yr	2 Yr	5 Yr	10 Yr	30 Yr
Yield by Maturity	3.9%	3.6%	3.5%	3.8%	4.1%

FX and Commodity Returns

Annualized

	Q3	YTD	1 Yr	3 Yr	5 Yr
Bloomberg Dollar Index	-3.7%	0.8%	-3.4%	1.6%	0.1%
Bloomberg Commodity Index	-0.6%	1.7%	-4.3%	-0.1%	5.2%
WTI Crude Oil	-11.8%	5.0%	-13.4%	9.5%	3.1%
Natural Gas	-10.2%	-27.1%	-45.0%	-43.3%	-28.6%
Copper	4.1%	19.4%	24.5%	5.7%	12.9%
Gold	12.9%	27.2%	41.7%	14.0%	11.2%

Equity Index Returns

Annualized

US Equities	Q3	YTD	1 Yr	3 Yr	5 Yr
Russell 3000	6.2%	20.6%	35.2%	10.3%	15.2%
S&P 500	5.9%	22.1%	36.4%	11.9%	16.0%
Russell 2000	9.3%	11.2%	26.8%	1.8%	9.4%
Non-US Equities	Q3	YTD	1 Yr	3 Yr	5 Yr
MSCI All Country World ex. US	8.1%	14.2%	25.4%	4.1%	7.6%
MSCI EAFE	7.3%	13.0%	24.8%	5.5%	8.2%
MSCI Emerging Markets	8.7%	16.9%	26.1%	0.4%	5.7%

US Equity "Style Box" Returns*

*Uses Russell indexes

	Q3			1 Yr		
	Value	Core	Growth	Value	Core	Growth
Large	9.4%	6.1%	3.2%	27.8%	35.7%	42.2%
Mid	10.1%	9.2%	6.5%	29.0%	29.3%	29.3%
Small	10.2%	9.3%	8.4%	25.9%	26.8%	27.7%



Key Themes

- A soft landing appears to be the most likely outcome for the U.S. economy. Inflation is cooling, wage growth is slowing, and labor market pressures are fading. Notably, the Federal Reserve has begun easing monetary policy before significant signs of economic stress have emerged. While risks remain, the current data set points to a supportive backdrop for the Fed's soft-landing outlook.

Fixed Income

- Yields across the fixed income landscape dropped significantly in Q3 as easing inflation opened the door for the Federal Reserve to lower interest rates.
- Government bonds and credit both delivered solid returns in Q3 on the back of lower rates. Although yields have dropped across fixed income, they remain above their 10-year averages, presenting an opportunity for investors to lock in favorable income levels before further rate cuts.

Equities

- Periods of volatility tested investor confidence before fundamentals reasserted themselves, driving stocks to new highs by the end of the quarter. U.S. equities delivered another quarter of strong gains, with leadership shifting away from big tech and growth stocks to a broader base, including value and small-cap stocks.
- Global equities gained in the third quarter despite pronounced volatility across several regions. Emerging markets outperformed, supported by the announcement of new stimulus measures in China.

Chart of the Quarter: The Path for Policy



Overview

Chart of the Qtr.

Key Themes

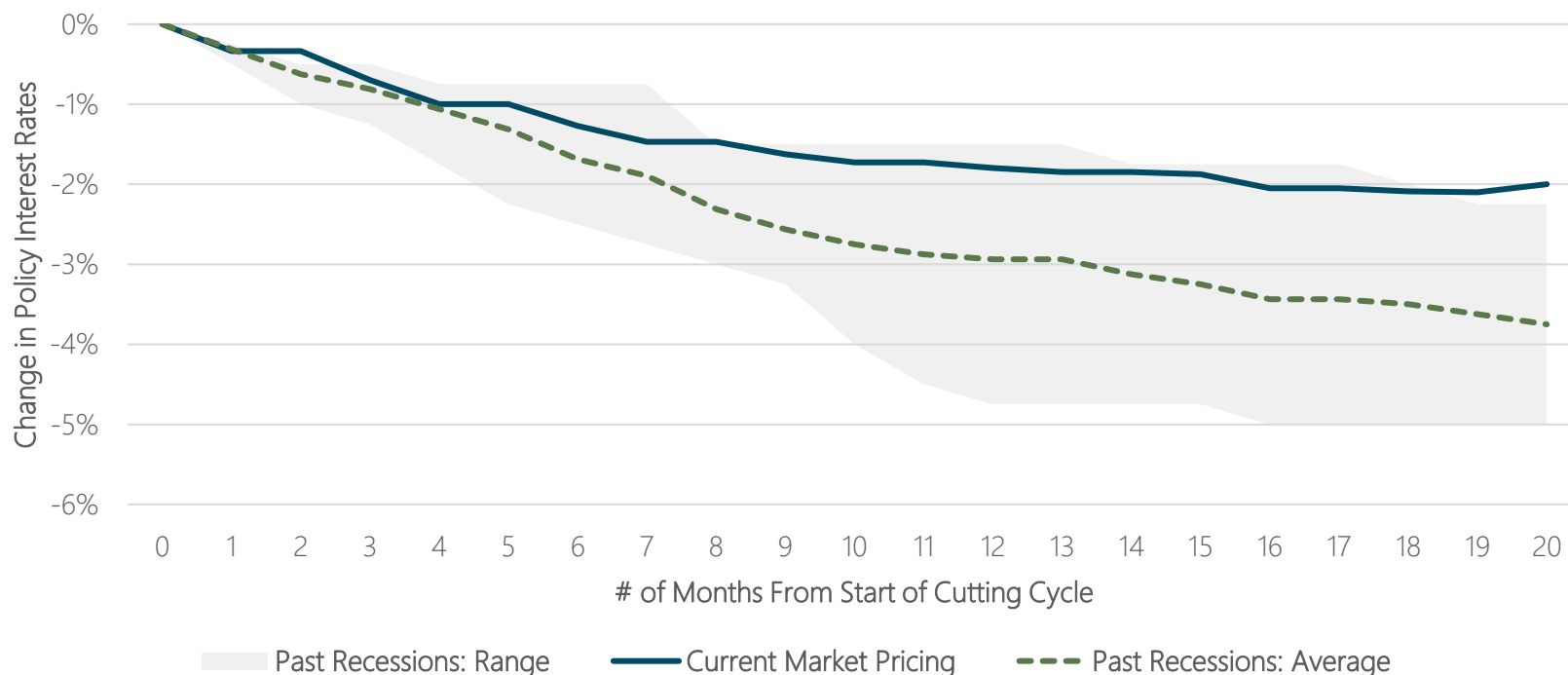
Fixed Income

Equities

- The Fed lowered rates—from a two-decade high—as policymakers walk a tightrope between balancing growth and inflation. Going forward, we believe markets are pricing in more cuts than a soft-landing outcome would suggest and could be a source of volatility as rate expectations are repriced.

Current Market Pricing of Federal Reserve Interest Cuts May Have Gone Too Far

Change in Policy Interest Rates: Past Recessions vs Current Market Pricing



Source: Crescent Grove Advisors, Bloomberg. Past recession periods since 1982. Current pricing based on Federal Funds Futures.

Shifting to Neutral

Inflationary risks remain, but a cooling labor market should contribute to lower prices



Overview

Chart of the Qtr.

Key Themes

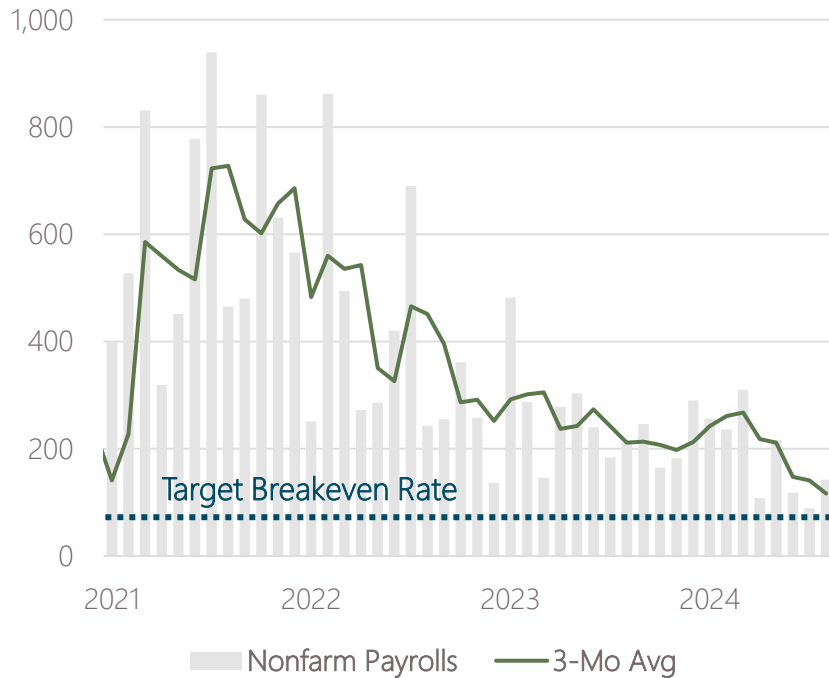
Fixed Income

Equities

- A loosening labor market, marked by moderating payrolls and slower wage growth, indicates economic conditions are normalizing rather than deteriorating sharply. As wage pressures ease, this cooling should help slow inflationary trends.

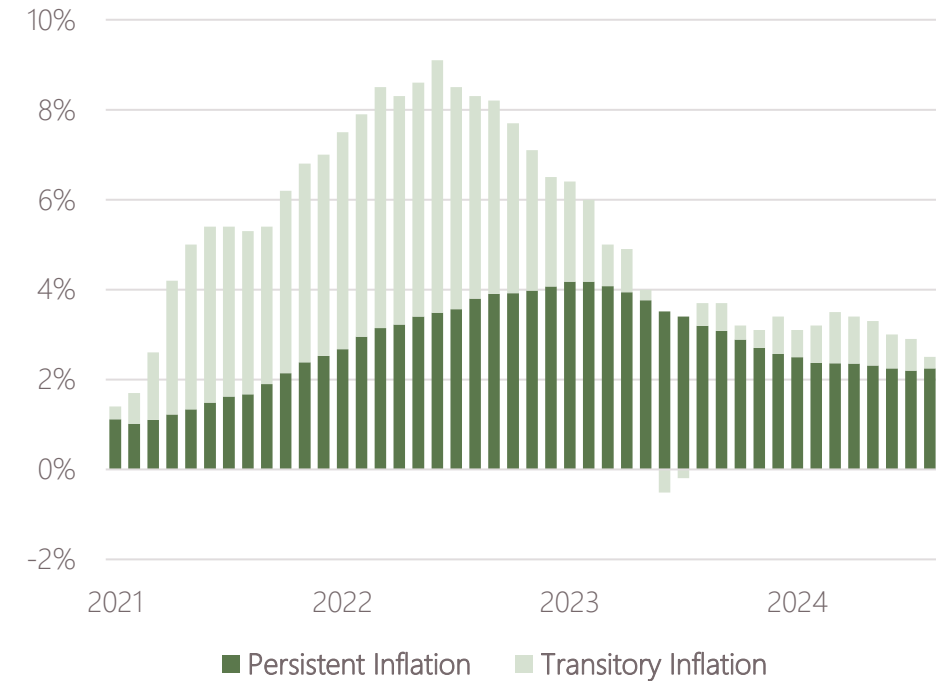
Labor Market Cooling, But Not Cold

Monthly Nonfarm Payrolls



Nearing the Goal: Approaching the Fed's 2% Inflation Target

Persistent vs. Transitory Component of Consumer Price Index



Source: Crescent Grove Advisors, Bloomberg, Fidelity, US Bureau of Economic Analysis. Persistent Inflation categories are housing, education, food and beverage, and apparel. Transitory categories are transportation, recreation, other goods and services, and medical care.

What's Not to Like?

U.S. economic momentum remains solid, suggesting a recession seems unlikely



Overview

Chart of the Qtr.

Key Themes

Fixed Income

Equities

- Broad indicators continue to suggest the economic picture is still reasonably upbeat: jobless rates are low, inflation has eased, and interest rates rate cuts are beginning.

Category	Metric	Current Value	20-Yr % Rank
Inflation	Long-Term Inflation Expectations	2.29%	49%
Monetary Policy	Fed Funds Rate	5.0%	88%
	Financial Conditions	71	16%
Economic Activity	Consumer Expectations	74	53%
	Household Debt Service	11.5%	22%
	Housing Starts	1,356	66%
	Economic Surprises	-0.8	47%
Employment	Jobless Claims	218,000	13%
	Job Openings	8.0	16%
Investor Sentiment	Broad Investor Sentiment	1.0	14%
	Individual Investor Survey	26	8%
US Equity Fundamentals	Forward P/E Ratio	21.7	97%
	Forward Expected Earnings Growth	14.1%	33%

Source: Crescent Grove Advisors/Bloomberg. Green: 1st – 33rd percentile; Yellow: 34th – 76th Percentile; Red: 68th – 100th Percentile.

Cuts and Consequences: Portfolio Implications



Not all cutting environments are created equal

Overview

Chart of the Qtr.

Key Themes

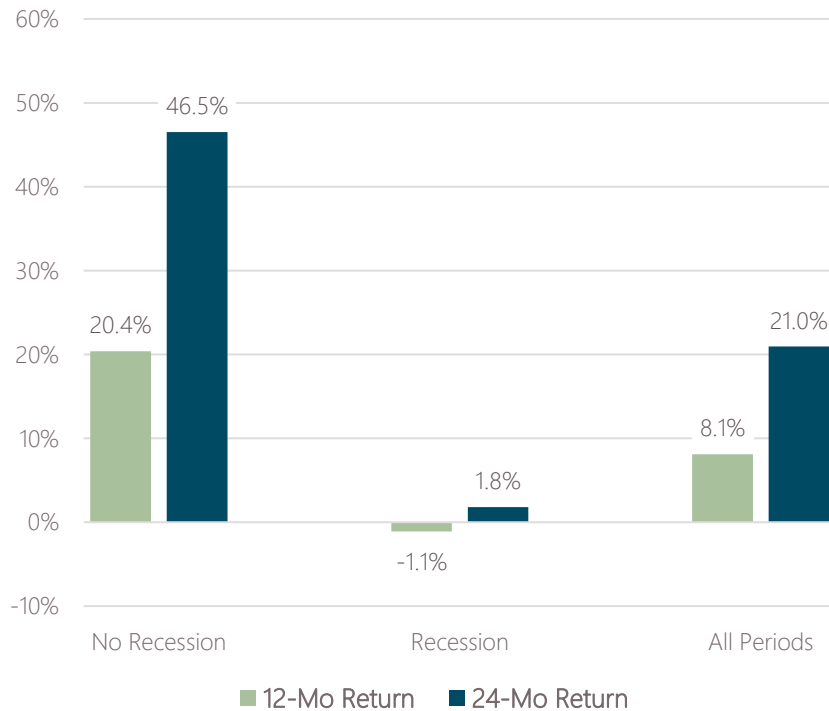
Fixed Income

Equities

- History has shown that equities' response to rate cuts depends on the state of the economy. When rate cuts are not accompanied by a recession, equity markets generally perform well following the start of a Fed easing cycle.

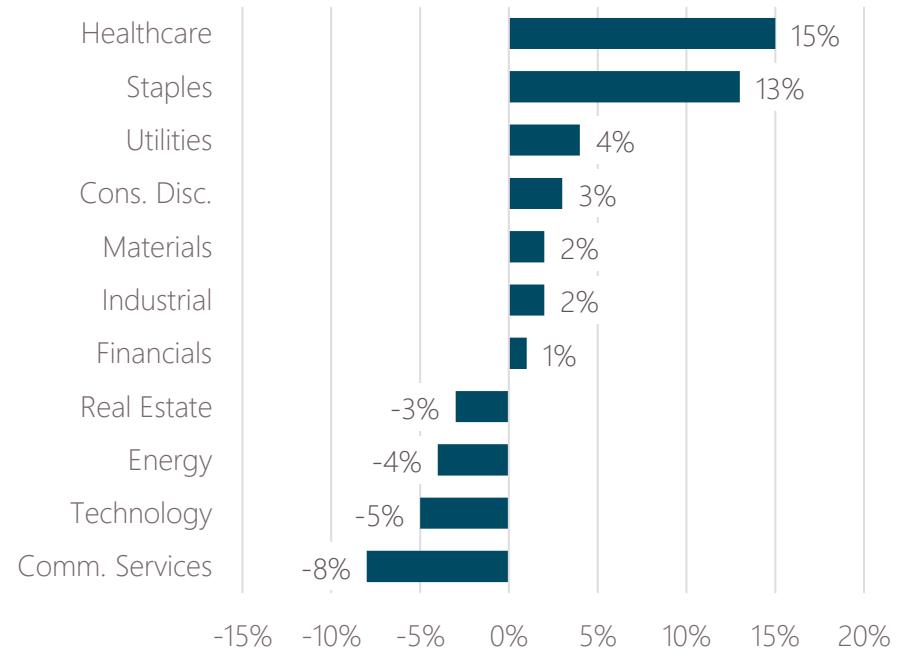
Rate Cuts Don't Have to Upend Market Rallies

Average returns from first rate cut



Easing and Outperformers

Average sector returns one year from first rate cut



Source: S&P, BlackRock, Crescent Grove Advisors. Past performance is not a guarantee of future returns.

The Great Rotation

A broader group of stocks left behind in recent quarters are starting to be rewarded



Overview

Chart of the Qtr.

Key Themes

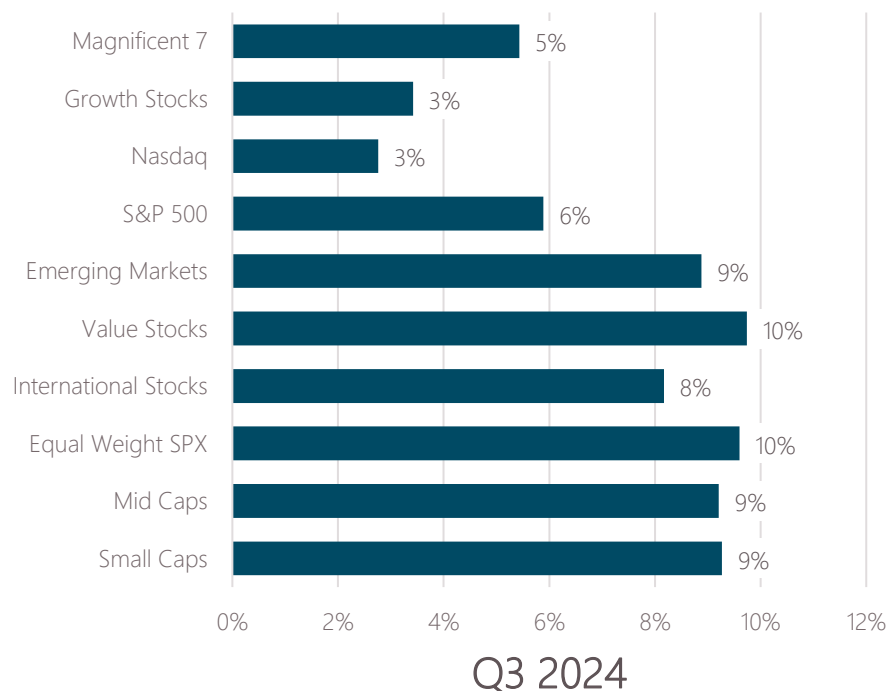
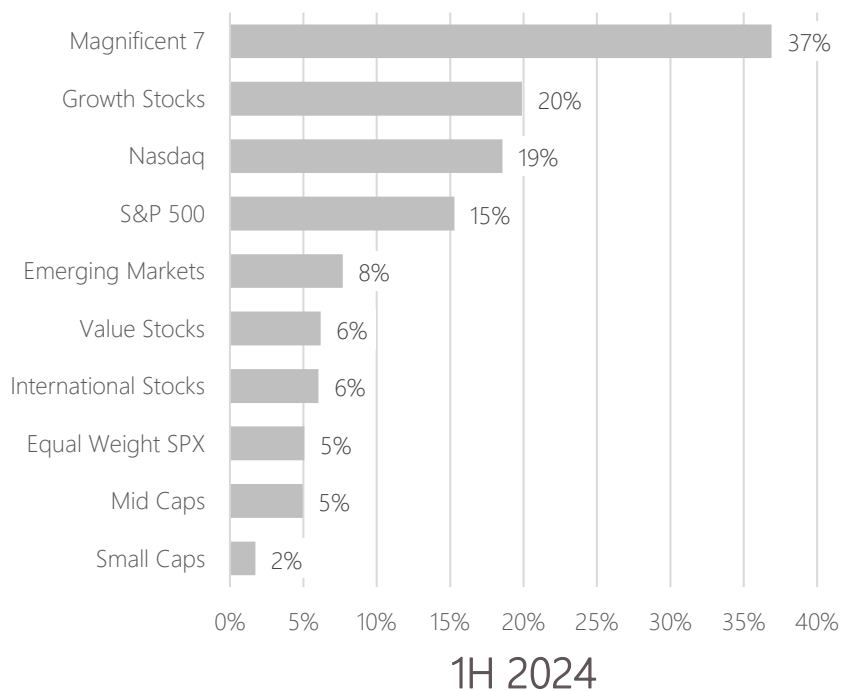
Fixed Income

Equities

- While mega-cap tech carried the market higher over the last two years, we believe the changing rate regime marks the beginning of the end of a period where technology stocks are the only game in town. The quarter saw market leadership shift from large growth stocks toward a broader base that includes value and small cap stocks.

Market Leadership Has Shifted as a New Rate-Cutting Regime Begins

Total Returns: 1st Half 2024 vs 3rd Quarter 2024



Source: S&P, Russell, MSCI, Bloomberg, Crescent Grove Advisors. Past performance is not a guarantee of future returns.

Wake Me Up When November Ends

The stock market is driven by fundamentals, not political outcomes



Overview

Chart of the Qtr.

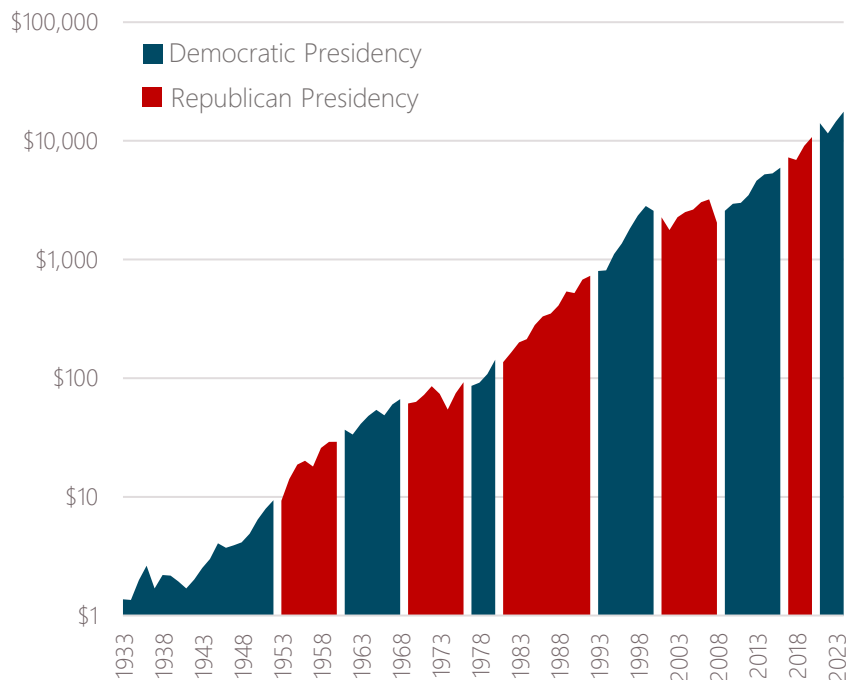
Key Themes

Fixed Income

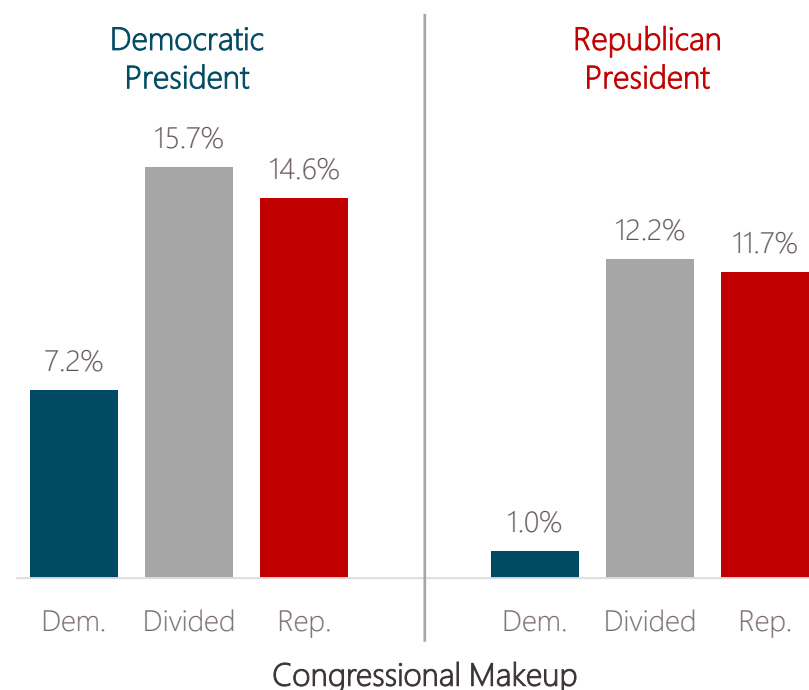
Equities

- Despite the temptation to tie market outcomes to election results, stocks have performed well under both parties.
- Headlines and investor sentiment may influence short-term market movements, but fundamentals guide long-term performance—not political parties. That said, markets tend to perform best when neither party has a mandate to enact sweeping legislative changes.

S&P 500 Index: Growth of Dollar Based on Political Party
1932 to 2024



Divided Government Has Historically Produced Stronger Returns
S&P 500 Returns: 1950 to 2023



Source: S&P, Crescent Grove Advisors. Past performance is not a guarantee of future returns.

Bond Market Returns

Returns for major bond indices



Overview

Chart of the Qtr.

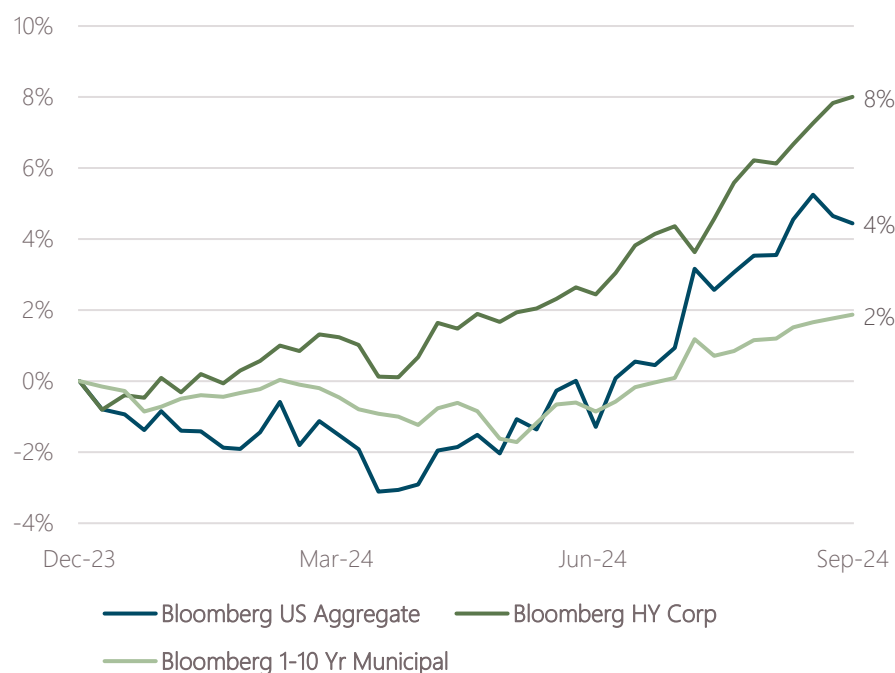
Key Themes

Fixed Income

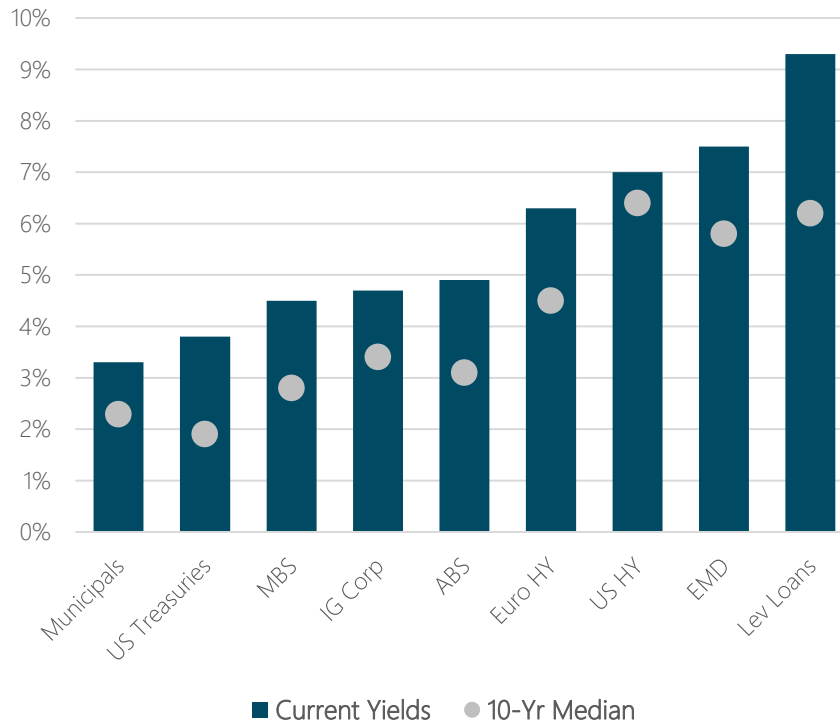
Equities

- Rate cuts in the quarter—and the prospect of more to come—helped fixed income markets deliver solid returns. Although yields have dropped across the landscape, they remain above their 10-year medians, presenting an opportunity for investors to lock in favorable income levels before further rate cuts materialize.

Core Bonds Run On Rate Cut Optimism
Major Bond Index Returns – YTD



Bond Yields Remain Attractive Despite Recent Rally
Yield to Worst: Fixed Income Sectors



Source: Bloomberg, Crescent Grove Advisors.

Treasury Yields

Benchmark Treasury rates



Overview

Chart of the Qtr.

Key Themes

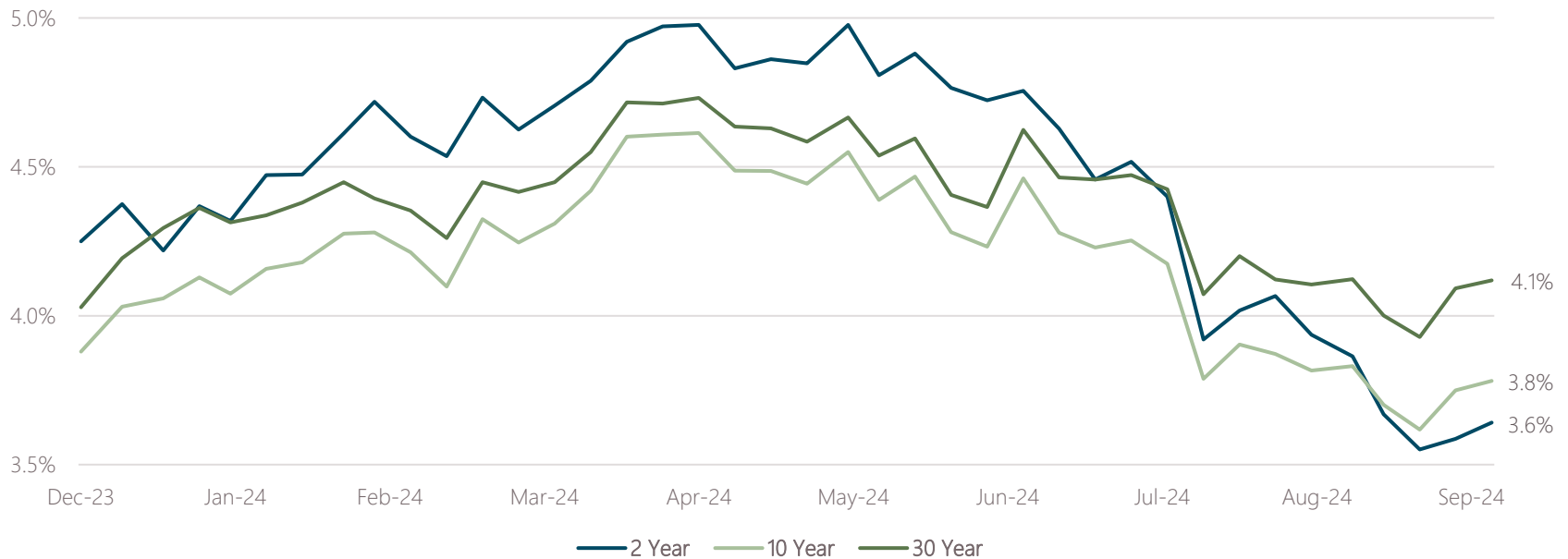
Fixed Income

Equities

- Treasury yields continued to trend downward from their April highs. As the Fed reiterated its dovish guidance, short-term rates fell further, leading to a re-steepening of the yield curve. The 10-year and 2-year Treasury yield spread finished the quarter at 14 basis points, turning positive for the first time since mid-2022.

Beyond the Peak: Yields Set to Normalize

Treasury Yields – YTD



Source: Bloomberg, Crescent Grove Advisors.

Credit Spreads

Investment grade and high yield credit spreads



Overview

Chart of the Qtr.

Key Themes

Fixed Income

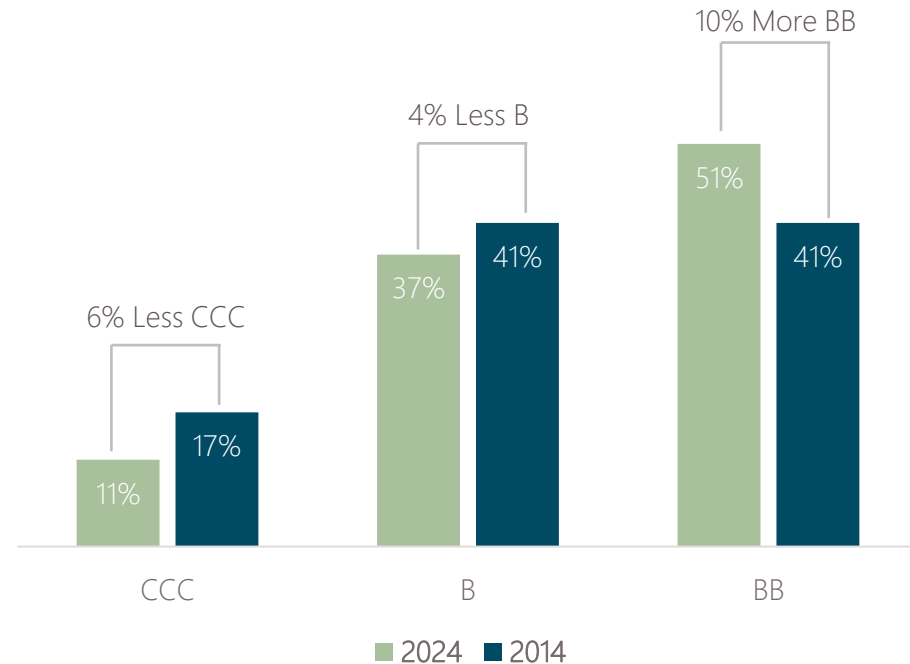
Equities

- Corporate credit risk continues to signal a stable outlook for underlying fundamentals. While high yield spreads are approaching multi-year tights, they reflect a market that has evolved into one of higher quality and lower leverage compared to a decade ago.

The Case for Credit: Narrower Spreads, Still Attractive Yields
Investment Grade and High Yield Corporate Spreads (bps)



The High Grading of High Yield
Tighter Spreads Supported by Higher Quality Market Makeup



Source: Bloomberg, ICE BofA, Crescent Grove Advisors.

Stock Market Returns YTD – US vs. Non-US

Russell 3000 vs. MSCI All Country World ex. USA



Overview

Chart of the Qtr.

Macro

Fixed Income

Equities

- Despite bouts of volatility, international stocks outperformed U.S. large-caps for the first quarter since early 2023, as U.S. returns were dragged down by tech sector relative weakness. Developed markets saw gains, fueled by expectations of rate cuts from coordinated global central bank easing.

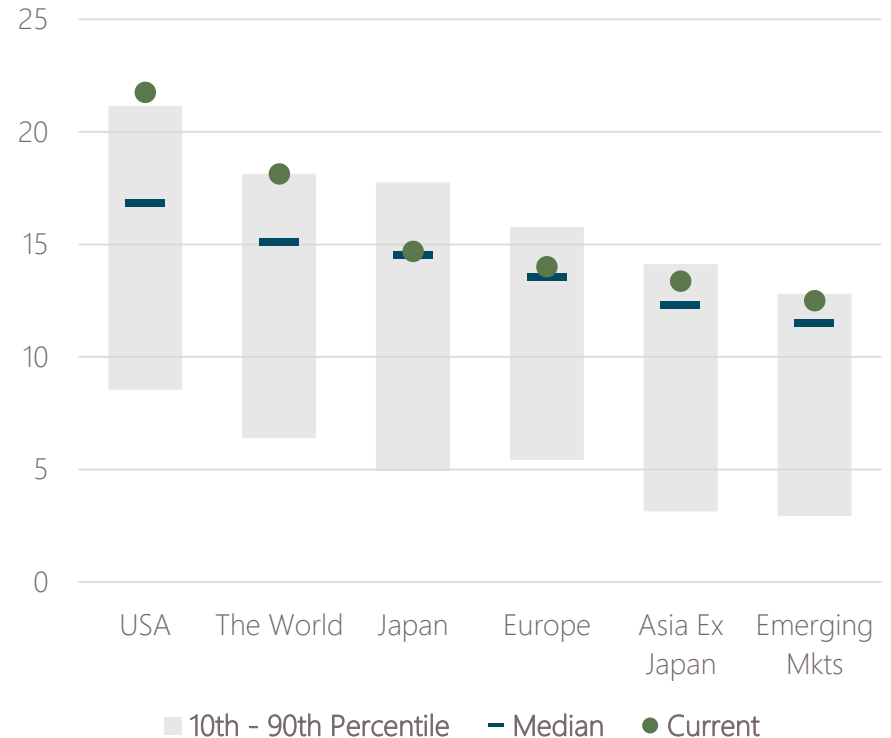
Stocks Abroad Rally on Central Bank Easing Hopes

US (Russell 3000) vs. Non-US (MSCI ACWI ex. USA)



International Stocks Appear Cheap Relative to US Stocks

MSCI Regions: 12-Mo Forward P/E Relative to Last 15 Years



Source: Bloomberg, MSCI, Crescent Grove Advisors.

Stock Market Returns YTD – US Large vs. Small

S&P 500 vs. Russell 2000



Overview

Chart of the Qtr.

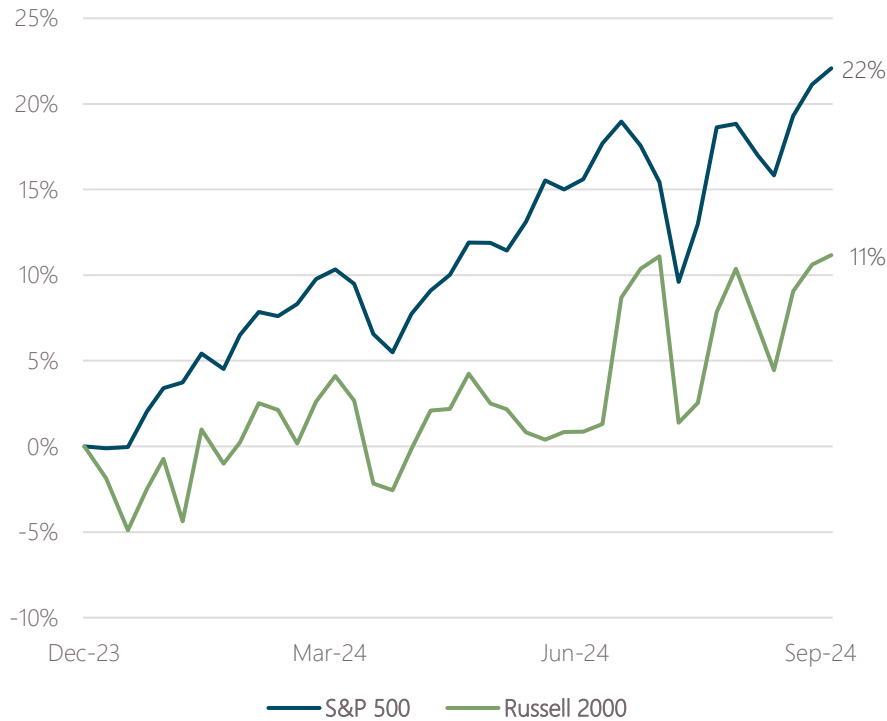
Macro

Fixed Income

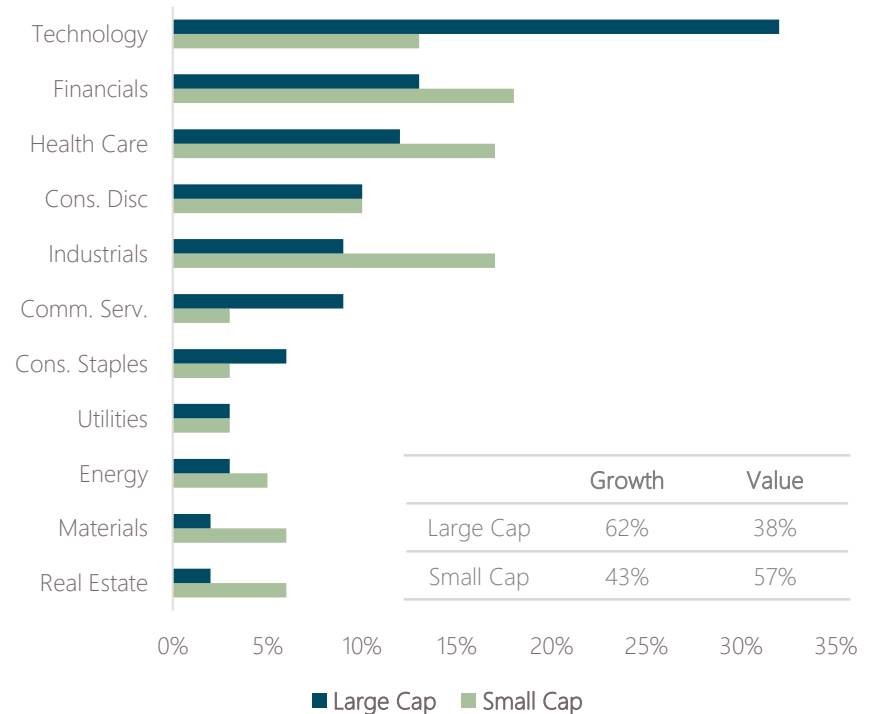
Equities

- Bucking a prolonged trend of underperformance, small caps materially outperformed larger peers during the quarter. An easing monetary environment could represent an inflection point in the market for smaller-sized companies more sensitive to interest rates.

Small Caps Close Underperformance Gap Relative to Large US Large Caps (S&P 500) vs. Small Caps (Russell 2000)



Are Lower Rates A Catalyst for Small Cap Strength?
Sector Composition: % of Market Cap



Source: Russell, S&P, JPMorgan.

Stock Market Returns YTD – Developed Int’l vs. EM

MSCI EAFE vs. MSCI Emerging Markets



Overview

Chart of the Qtr.

Macro

Fixed Income

Equities

- Emerging markets outperformed developed peers in Q2, driven by a surge in Chinese stocks. The gains came after China's government introduced a series of stimulus measures—ranging from interest rate cuts to fiscal support—aimed at reversing a slowdown in its economy.

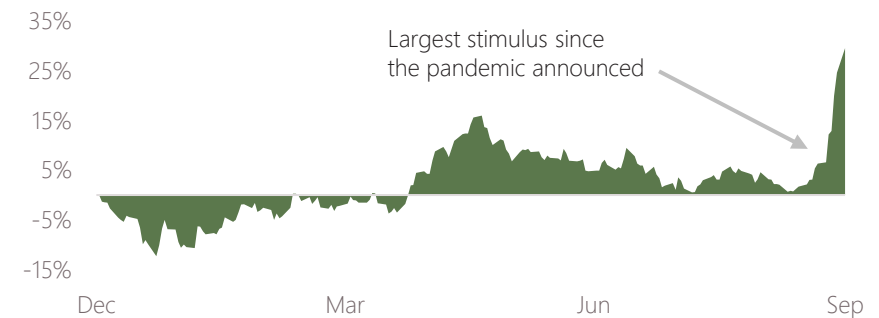
EM Surges on China Stimulus Hopes

Dev Int'l (MSCI EAFE) vs. Emerging Markets (MSCI EM)

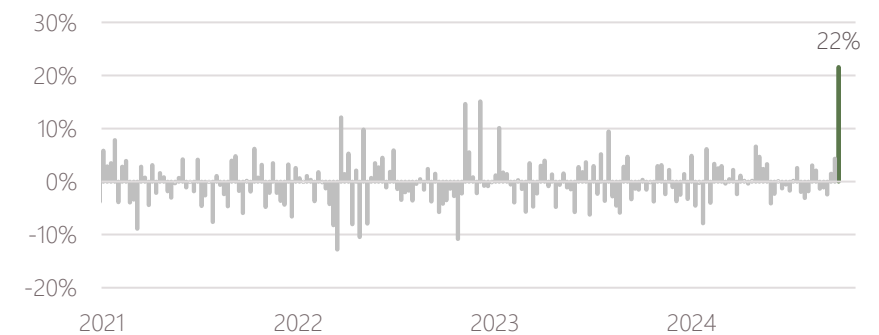


Pulling Out All The Stops

MSCI China Index: YTD Cumulative Returns



MSCI China Index: Weekly Returns



Source: MSCI, Crescent Grove Advisors.



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