CHARTWELL INVESTMENT PARTNERS

Chartwell Current Outlook and Investment Strategy

Macroeconomic Update

Economic forecasting is inherently uncertain. In early 2024, it seemed the Federal Reserve's interest rate policy was reducing demand, with declining monthly inflation and employment increases. However, the second quarter GDP surprised us at 3.0%, and third quarter's GDP is likely similar, as expansive fiscal policy is likely supporting economic growth. While the manufacturing sector remains in contraction, the services sector is strong, with the Institute for Supply Chain Management Services index at its highest since February 2023. Personal Consumption was also stronger than anticipated, as U.S. consumers have more savings than expected and continue to spend. In addition, employment growth and wage growth are exceeding inflation which is helping to keep demand healthy. The economy added 531,000 jobs in the third quarter, with year-over-year average hourly earnings growth at 4.0% in September, outpacing the latest Consumer Price Index increase of 2.5%.

In sum, the U.S. economy continued to expand at a healthy pace in the third quarter. The Federal Reserve has begun moderating interest rates, though perhaps slower than markets anticipated. Election uncertainty and natural disasters may temper fourth quarter results but are not expected to have a lasting impact.

Asset Class Returns

As of 09.30.2024

	QTD	YTD
Equities		
Large Cap	5.9%	22.1%
Large Cap Growth	3.2%	24.6%
Large Cap Value	9.4%	16.7%
Small Cap	9.3%	11.2%
Small Cap Growth	8.4%	13.2%
Small Cap Value	10.2%	9.2%
Fixed Income	5.8%	5.3%
Treasury Inflation Protected Securities	4.1%	4.9%
High Yield	5.3%	8.0%
Cash	1.4%	4.1%

*Please see endnotes for asset definitions

Equity Market Update and Outlook

Equities concluded a very strong quarter, with the S&P 500 rising by 5.9% and achieving a 22.1% gain for the year through September. This latest surge was largely driven by lower inflation readings and moderating economic growth, which increased the prospects of lower interest rates from the Federal Reserve. Consequently, 10-year yields dropped to 3.8% from 4.3% at the beginning of the quarter. Additionally, some areas of the market benefited from a China stimulus-fueled surge at the end of the quarter. These factors led to a broadening rally, with investors shifting their focus away from the large-cap technology stocks that had powered the market for the first six months of the year. Value stocks outperformed growth stocks in the quarter, with the Russell 1000 Value index up 9.4% compared to a 3.2% increase in the Russell 1000 Growth index. Small-cap stocks also outperformed, with the Russell 2000 index rising by 9.3%. By sector, Utilities, Real Estate and Industrials were the best performing sectors, rising 19.4%, 17.2% and 11.5%, respectively.

The outlook for equities is always influenced by a mix of positive and negative factors, but overall, we believe it remains promising. While economic growth and employment may have weakened recently due to prior interest rate increases and potential election uncertainty, we do not foresee a rapid decline in economic activity. Instead, we expect economic growth to remain fairly steady, which should create a favorable environment for the growth in the earnings power of many companies. Additionally, the Federal Reserve and other global central banks are in a cycle of cutting interest rates which is a positive leading indicator of future economic growth. Therefore, we maintain our long-standing optimism and will continue to strive to outperform relevant benchmarks by building a portfolio of companies that are growing their earnings power at superior rates while trading at reasonable prices compared to these prospects.

Fixed Income Market Update and Outlook

In the third quarter, fixed income markets experienced a significant rally, with the Bloomberg U.S.Aggregate rising by 5.8%, bringing its year-to-date gain to 5.3%. Investment researcher Morningstar reported that the bond market's performance was the second best quarterly showing in over two decades. This rally was driven by lower inflation and the Federal Reserve's decision to reduce the Federal Funds rate by 50 basis points on September 18, which caused interest rates to decline across the yield curve. Longer-dated corporate bonds outperformed short maturity paper due to their higher sensitivity to interest rate changes. However, Treasury Inflation-Protected Securities (TIPS) underperformed core fixed income for both the quarter and the year, as market expectations for inflation declined, reducing the performance of this segment. High yield bonds also performed slightly below average for the quarter, primarily due to their shorter duration in a period of falling interest rates. Overall, duration was the key determinant of relative performance during the quarter, with longer-dated securities benefiting the most from the decline in interest rates.

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Fixed Income Market Update and Outlook *(continued)*

As of early October, the yield to maturity for the bond market, as measured by the Bloomberg U.S. Aggregate Index, stood at approximately 4.42%. This yield serves as the best estimate for future returns in this segment of the index, supported by research from Morgan Stanley, which indicates a 0.94 correlation between starting yields and total returns over the subsequent five years. Looking ahead to 2025, should there be turbulence surrounding the economic and inflation outlook, we believe that fixed income portfolios caan provide as a source of consistent returns during uncertain times.

Definitions

Bloomberg US Aggregate Bond Index or the Agg, is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. Investors frequently use the index as a stand-in for measuring the performance of the US bond market.
Bloomberg US Corporate Index Average Option-Adjusted Spread (OAS) are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. An OAS index is constructed using each constituent bond's OAS, weighted by market capitalization. The Corporate Master OAS uses an index of bonds that are considered investment grade (those rated BBB or better).
Dow Jones Industrial Average is the DJIA or "The Dow" is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.
The Nasdaq Composite Index is the market capitalization-weighted index of more than 2,500 common equities listed on the Nasdaq stock exchange.
Russell 1000 Growth Index measures the performance of the US large-cap companies whose earnings are expected to grow at an above-average rate relative to the market. It is a subset of the Russell 1000 Index. To refl ect the growth style characteristics, the index selects the companies that exhibit growth characteristics, i.e. higher price-to-book ratios and higher forecasted growth. Like other growth indexes, the index is largely biased toward the Information Technology sector which represents more than 40% of the index.
Russell 2000 Growth Index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small-cap stocks.
Russell 2000 Index: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). ©LSE Group 2024. FTSE Russell is a trading name of certain of the LSE Group companies. Russell® is a trade mark of the relevant LSE Group companies and is used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.
Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.
Russell 1000 Value Index measures the performance of the large-cap value segment of the US equity universe. It includes the Russell 1000 companies with lower price-to-book ratios and lower expected growth values.
S&P 500® Index: (registered trademark of The McGraw-Hill Companies, Inc.) is an unmanaged index of 500 common stocks primarily traded on the New York Stock Exchange, weighted by market capitalization. Index performance includes the reinvestment of dividends and capital gains.
Treasury Inflated Protected Securities is a market value weighted index that tracks the performance of inflation-protected securities issued by the US Treasury. It's a rules-based, benchmark index that doesn't have a defined investment objective, incur fees or expenses, or is actively managed.

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