

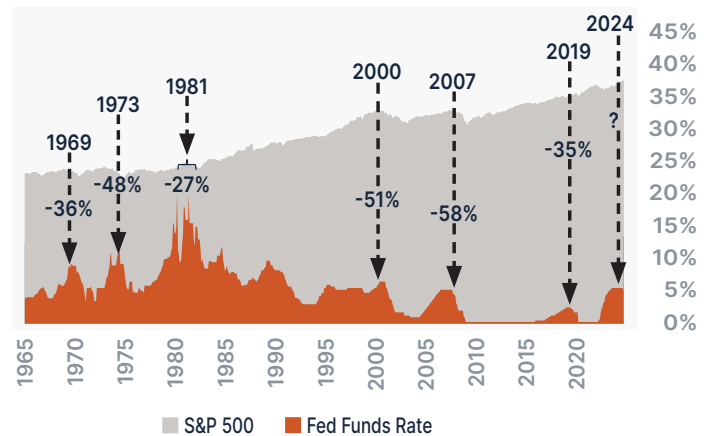
Highlights

- ▶ Market volatility is increasing as investors process data related to the economy, inflation, jobs, interest rates and the results of the recent U.S. elections.
- ▶ As inflation has cooled, the Federal Reserve has begun reducing rates and there is growing speculation about the timing and scale of potential additional interest rate reductions.
- ▶ In this economic landscape, corporate earnings have taken center stage as investors assess how forward earnings will compare to trailing earnings. The trajectory of artificial intelligence (AI) developments will significantly impact worker productivity, corporate earnings and economic growth.
- ▶ Investors are increasingly focused on how policy outcomes from the U.S. election might shape the economy. Maintaining discipline while adapting to an evolving landscape of opportunities and risks is essential for navigating what will likely be volatile markets ahead.
- ▶ Overall, we think that consumers will be able to manage economic challenges if they arise, due to their strong asset balances and reasonable credit loads.

Macro Environment at a Glance

S **&P 500 When FED Pivots:** **Figure 1**, chronicles six rate-cutting cycles, or pivots, following their respective rate-hiking cycles. These six cycles began in 1969, 1973, 1981, 2000, 2007 and 2019. On average, across all six cycles, the Fed cut rates by about 6%, and over the ensuing 14 months the S&P 500 dropped approximately 36%. To be clear, that drop occurred after the Fed had begun cutting rates, implying many investors thought the Fed was too late. Although painful, on average, the S&P regained its prior level within about two years. While we do not believe a significant drop in equities is likely during the current rate-cutting cycle, such a drop could occur.

FIGURE 1



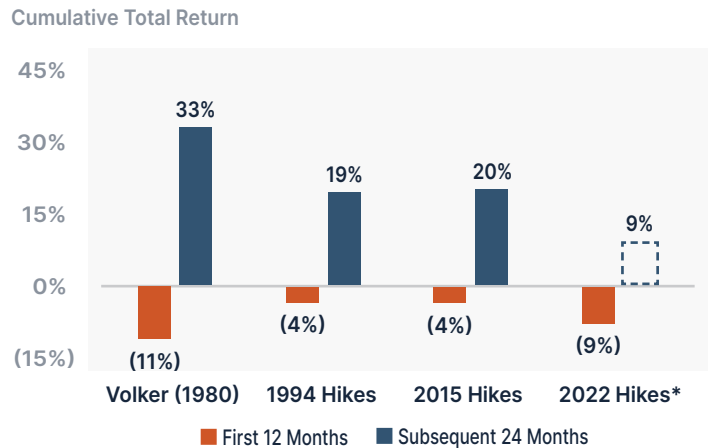
Data as of 9/30/24. Source: Aspiriant analysis. Data from Bloomberg, Board of Governors of the Federal Reserve System. Past performance is not indicative of future results. All investments can lose value. Indices are unmanaged and have no fees. An investment may not be made directly in an index. Please see additional disclosures regarding third-party data and other considerations.

Fixed Income in Rising Rate Environments
Bloomberg Municipal Bond Index: Figure 2 shows the impact on bonds during four rate-hiking cycles that began in 1980, 1994, 2015 and the most recent cycle in 2022. On average, across all four cycles, bonds decreased by about 7% over the 12 months following the rate-hiking cycles and then increased by about 20% over the subsequent 24 months.

In the first 12 months following the 2022 rate-hiking cycle, bonds fell by 9% and in the next 21 months recovered by 9%. They're roughly flat over the period, but we believe there will be higher-than-average returns going forward—with bonds expected to outperform some equity asset classes in the years ahead.

Bonds don't always act like a ballast to equities—2022 was an example of when both asset classes sold off—but they often do, and we believe they will continue to do so going forward.

FIGURE 2



Data as of 9/30/24. Source: Aspiriant analysis. Data from Bloomberg, Board of Governors of the Federal Reserve System. *2022 Hikes - Blue hollow bar represents subsequent 21 months (Jan 2023-Sep 2024) following the 2022 hiking cycle. Past performance is not indicative of future results. All investments can lose value. Indices are unmanaged and have no fees. An investment may not be made directly in an index. Please see additional disclosures regarding third-party data and other considerations.

Portfolio Considerations

Diversification Remains Essential

- ▶ Given the wide range of risks facing investors, we believe diversification across markets and asset classes is key to balancing risks.
- ▶ Broad portfolio diversification is critical, as companies and countries are in different phases of their economic and market cycles.

Opportunities in Fixed Income

- ▶ Within fixed income, core or investment-grade bonds are generally priced to deliver better returns than they have in recent years.
- ▶ Additionally, bonds could offer more stability, once again acting as a ballast in portfolios if equities encounter challenges in the years ahead.

Strategic Role of Value Stocks and Non-U.S. Equities

- ▶ Given current equity valuations, we believe returns over the next decade will be lower than those of the past decade. However, we also believe there will be portfolio tailwinds from value stocks and non-U.S. equities.

Enhanced Risk Management with Alternative Investments

- ▶ For portfolios that include diversifiers, these assets continue to offer greater diversification through strategies such as long/short hedging, relative value (profiting from pricing differences between related assets), global macro (capitalizing on global economic trends) and gold.

Please note: This outlook was prepared before the final results of the Nov. 5 U.S. election were available. We will provide additional insights on any significant economic and market implications in a forthcoming Market Perspective article and in our Q1 2025 update.

Important disclosures

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