

SC Capital Advisors Investor Insights



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3rd Quarter 2024

2024 3rd Quarter in Review & Outlook

“Interest rates are to asset prices sort of like gravity is to the apple. When there are low interest rates, there is a very low gravitational pull on asset prices.” —Warren Buffett

Central bank eases

In September 2024, the Federal Reserve lowered the federal funds rate by 50 basis points, setting the new range to 4.75%-5.0%. This was a notable adjustment, as it marked the first rate cut in four years. This decision aimed to address slowing economic activity and help bring inflation closer to the Fed's 2% target. Additionally, policymakers forecasted potential further cuts of up to another 100 basis points by the end of the year, in anticipation of economic conditions needing additional support.

Asset Class Returns 2024 (9-30-2024)

	US Large	US Mid	US Small	REITs	Intl Large	Intl Small	Em Mkts	Bonds
Q1	10.3%	10.0%	5.2%	-1.2%	5.8%	2.4%	2.4%	-0.8%
Q2	3.6%	-3.5%	-3.3%	-1.7%	-0.4%	-1.8%	5.0%	0.1%
Q3	6.1%	6.9%	9.3%	17.1%	7.3%	10.5%	8.7%	5.2%
2024	21.2%	13.5%	11.2%	13.7%	13.0%	11.1%	16.9%	4.5%

Indexes: US Large, Russell 1000; US Mid, S&P MidCap 400; US Small, Russell 2000; REITs, DJ US Real Estate; Intl Large, MSCI EAFE; US Small, MSCI EAFE SSmall Cap; EM, MSCI Emerging Markets; S&P GSCI TR; Bonds, Bloomberg US Agg Bond. Source: Morningstar.

The rate cut was widely anticipated by investors as most global assets classes rallied strongly in the third quarter (above). We also witnessed a broadening of returns in the third quarter over the previous two quarters where the broader market performance was dominated by a select few large cap companies related to the Artificial Intelligence (AI) theme. Small- and mid-cap stocks and international asset classes all dramatically outperformed the broader U.S. market in the third quarter, and value stocks also dramatically reduced the return disparities over growth stocks as exhibited by the accompanying style indexes. We think these valuation disparities will continue to close.

The U.S. bond markets in Q3 2024 were significantly influenced by the Federal Reserve's initial rate cuts, which began reversing the policy-tightening cycle from prior years. These reductions brought down bond yields substantially as investor expectations shifted toward further easing. The 2-year Treasury yield dropped by 111 basis points to 3.64%, and the 10-year Treasury yield also fell, ending the quarter at 3.78%, according to Guggenheim Investments.

US and International Style Indexes

Total Returns through 9-30-2024

Name	Q3 2024	YTD
Russell 1000 Value TR USD	9.43	16.68
Russell 1000 Growth TR USD	3.19	24.55
Russell 2000 Value TR USD	10.15	9.22
Russell 2000 Growth TR USD	8.41	13.22
S&P MidCap 400 Value TR USD	9.52	10.01
S&P MidCap 400 Growth TR USD	4.63	16.87
MSCI EAFE Large Value NR USD	8.60	14.40
MSCI EAFE Large Growth NR USD	4.77	12.62

Data source: Morningstar

The decline in yields drove a rally in bond prices across various sectors. Investment-grade corporate bonds saw yields drop, while high-yield bonds remained attractive but relatively stable. As spreads between corporate bonds and Treasuries narrowed, this indicated some stability in credit risk perceptions, even amid broader economic uncertainties, according to First Citizens Bank. Municipal bonds and asset-backed securities followed suit, with yields decreasing but remaining comparatively high against pre-2021 levels. The bond market has expressed some skepticism with the Fed’s actions in controlling inflation as the 10-year Treasury yield has jumped to nearly 4.3% in October, signaling the Fed’s job is far from over.

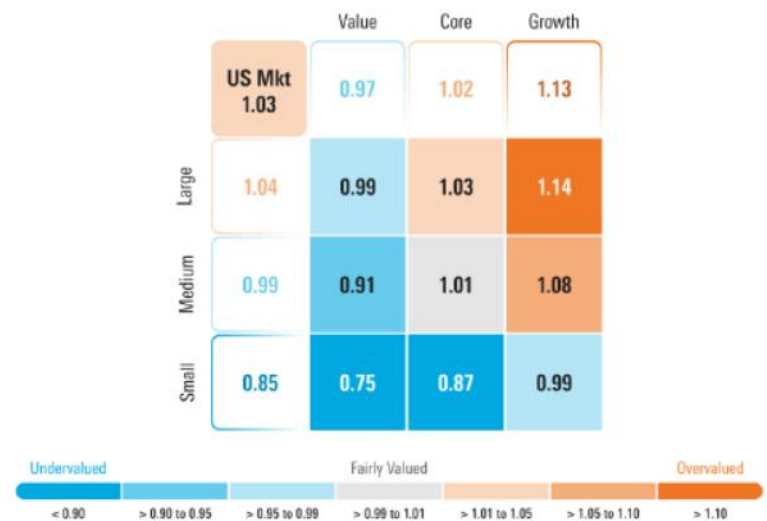
Valuations less attractive

Based on a composite of Morningstar’s intrinsic valuations for more than 700 stocks they cover that trade on US exchanges, as of the end of September, they calculated that the US equity market was trading at a price/fair value estimate of 1.03. This represents a 3% premium to their fair value estimates. While this might not sound like much of a premium, since the end of 2010 the market has traded at this much of premium or more only 15% of the time, according to Morningstar.

Per the accompanying Morningstar valuation chart, growth stocks were trading at a 13% premium to a composite of their stock coverage and core stocks were trading at only a 2% premium, whereas value stocks remained attractively priced at a 3% discount to their valuations at the end of September.

US Stock Market Trading Above Fair Value

Valuations of Morningstar’s equity research coverage by equity style box.



By capitalization, small-cap stocks remain attractive, trading at a 15% discount to fair value. Mid-cap stocks trade near fair value at only a 1% discount and large-cap stocks are at a 4% premium.

Even though the valuation disparities between U.S. large cap stocks versus mid- and small-cap and international stocks close significantly in Q3, valuations remain significantly more attractive in the latter categories, and we expect them to close further.



...the market has traded at this much of premium or more only 15% of the time. . .

Our screens of the companies with the widest economic moats trading at discounts on a price/fair value basis are confirming this data as the number of large cap companies passing these screens are the fewest we have seen in a long time while plenty of attractive valuations exist in the mid- and small-cap areas as well

as among the foreign-based companies that trade as American Depositary Receipts (ADRs). We have found the best way to capture these more attractive valuations in the mid- and small-cap and international space is to increase allocations to our factor-based ETFs that own these cheaper companies.

Strong election year results for stocks

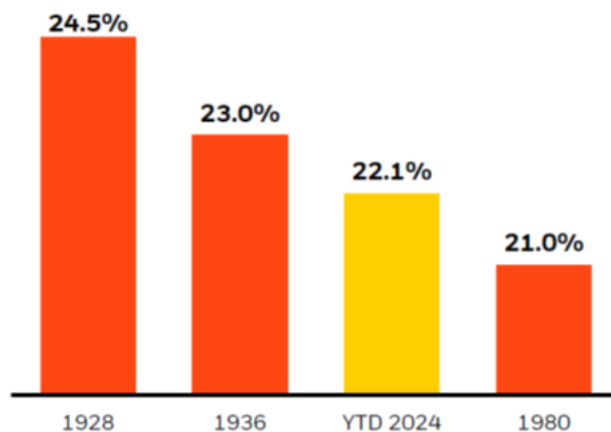
According to Blackrock, the first three quarters of 2024 have been the strongest start to a presidential election year for stocks since 1926. This seems a bit counter intuitive given the extreme divisiveness among the campaigns and unusual circumstances with the late change in Democratic nominee from Biden to Harris. Thus, we think much of the market strength in 2024 has to do primarily with the Fed's successful execution (thus far) of bringing inflation under control without crashing the U.S. economy. Nevertheless, Blackrock points out that strong momentum in past presidential election years usually follows through particularly in the last two months of the year.

3rd best start to a presidential election year for U.S. stocks

Strong momentum in a presidential election year has historically carried into the rest of the year

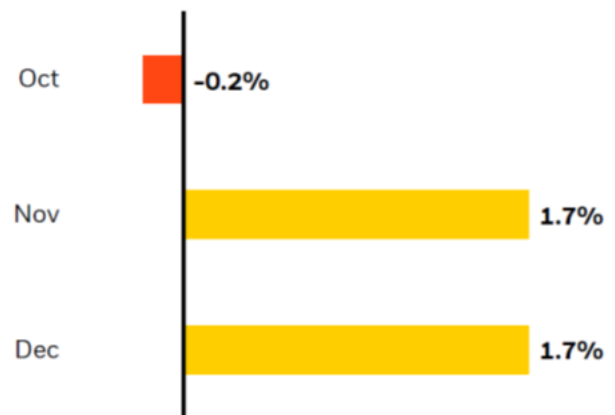
Best starts to presidential election years

Return for the first 9 months of given election years since 1928



Average election performance, last 3 months of the year

Average monthly return during presidential elections years since 1928



Source: Morningstar as of 9/30/24. U.S. stocks are represented by the S&P 500 TR Index from 3/4/57 to 9/30/24 and the IA S&P U.S. Lg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can not invest directly in the index.

Market shrugs geopolitical risk

The stock market has historically been quite resilient to geopolitical risk and has been thus far in 2024. The war between Russia and Ukraine is in its third year, and we recently passed the first anniversary of Hamas' attack on Israel. Additionally, China has continued its military buildup and confrontational activities in the South China Sea, involving close encounters with U.S. and allied forces.

The chart from Blackrock below serves as a reminder that significant geopolitical events can have short term impacts on capital markets, but, in most cases, exhibit long term resiliency going forward.

Stay the course amid geopolitical volatility

Event*	Date	3 months before	1 month after	3 months after	1 year after	3 years after avg annual
Germany invades Poland	3/1/1939	-0.2%	-13.5%	-8.7%	-4.3%	-12.2%
Pearl harbor attack	12/7/1941	-9.8%	-4.1%	-4.1%	0.2%	11.6%
N. Korea invades S. Korea	6/25/1950	9.0%	-8.7%	1.6%	12.6%	8.0%
Cuban missile crisis	10/16/1962	-1.0%	4.7%	13.7%	26.4%	16.9%
Gulf of Tonkin incident	8/2/1964	3.8%	-1.2%	2.0%	2.5%	4.7%
Soviets invade Afghanistan	12/24/1979	-1.5%	2.1%	8.5%	39.6%	15.3%
Iraq invades Kuwait	8/2/1990	-8.0%	-8.9%	-12.8%	12.8%	11.5%
September 11 th attack	9/11/2001	-13.3%	-0.9%	8.0%	-15.5%	2.7%
Iraq war	3/20/2003	-0.7%	2.4%	14.3%	29.2%	16.4%
Russia annexes Crimea	2/20/2014	3.3%	1.9%	3.6%	17.1%	11.1%
Russia invades Ukraine	2/24/2022	-9.7%	-4.5%	0.2%	-3.4%	?
Hamas attacks Israel	10/7/2023	-1.9%	1.4%	9.5%	?	?

Sources: BlackRock, Morningstar as of 9/30/24. *Returns shown for events prior to 1979 are represented by the S&P 500 PR Index, which shows principal returns only (excluding dividends), from 3/4/57 to 12/31/78 and the IASBBI U.S. Lrg Stock Pr USD Index from 1/1/26 to 3/4/57. Returns for these periods would likely be higher if dividends were included. Returns for events in 1979 or later are represented by the S&P 500 TR Index, which shows total return (including dividends), from 1/1/79 to 9/30/24. The indices mentioned are unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Index performance is for illustrative purposes only. It is not possible to invest directly in an index. Past performance does not guarantee or indicate future results.

Going forward

In our long experience, we do not try to predict markets but react to them based on attractive investment opportunities that present themselves. Given the small number of attractive candidates in the U.S. large cap space, we have been and are reducing the individual Core Equity segment across portfolios. With short term yield still attractive, we are increasing cash position moderately in the event of an inevitable market correction at some point. For balanced accounts, we have increased fixed-income allocations and moderately extended portfolio maturities to take advantage of higher yields. As mentioned, we have also increased allocations in the factor-based ETF segment of equity portfolios where the number of attractively priced companies is significantly greater.

Our focus for the remainder of the year will be to harvest some tax losses where possible in non-qualified accounts, process any remaining Required Minimum Distribution from IRAs, plan for any strategic Roth conversions, and cash flow planning for 2025.

Please let us know if you have any questions. We look forward to talking with you soon.

—Dana L. Crosby, CFA, CFP®

ETF Returns

For the period ending 09-30-2024

Name	Ticker	YTD	1 Month	3 Months	12 Months	3 Year	5 Year	10 Year
U.S. Large Cap								
iShares Russell 1000	IWB	20.95	2.07	6.02	35.55	10.68	15.48	12.96
iShares Edge MSCI USA Momentum Factor	MTUM	29.76	2.95	4.27	46.07	6.32	12.50	13.45
iShares Edge MSCI USA Quality Factor	QUAL	22.75	1.16	5.32	37.56	12.28	15.81	13.47
PowerShares S&P 500 Low Volatility ETF	SPLV	16.24	1.04	10.94	24.76	7.99	6.64	9.8
Vanguard High Dividend Yield ETF	VYM	17.26	1.33	8.82	27.96	10.82	11.08	10.21
VanEck Vectors Morningstar Wide Moat ETF	MOAT	14.23	1.71	11.96	28.94	10.98	15.46	13.49
U.S. Mid Cap								
SPDR® S&P MidCap 400 ETF	MDY	13.24	1.06	6.77	26.29	7.17	11.50	10.04
PowerShares S&P MidCap Low Volatil ETF	XMLV	16.72	1.70	11.11	26.82	7.44	5.22	9.62
PowerShares DWA Momentum ETF	PDP	20.82	2.16	5.52	34.31	5.23	11.41	10.47
PowerShares High Yld Eq Div Achiev™ ETF	PEY	7.32	0.94	12.90	20.20	8.22	8.46	10.22
U.S Small Cap								
iShares Russell 2000	IWM	11.02	0.71	9.25	26.55	1.71	9.27	8.73
PowerShares S&P SmallCap Low Volatil ETF	XSLV	10.60	0.25	10.79	24.67	3.11	2.10	7.31
REITs								
iShares US Real Estate	IYR	13.36	3.07	16.92	33.75	2.70	4.53	7.36
International Large Cap								
iShares MSCI EAFE	EFA	12.95	0.78	6.77	25.05	5.61	8.14	5.68
iShares Edge MSCI Intl Momentum Factor	IMTM	19.33	0.35	4.37	31.36	5.75	9.48	-
PowerShares DWA Developed Mkts Mom ETF	PIZ	20.39	1.15	6.19	33.85	1.79	9.02	5.96
iShares Edge MSCI Intl Quality Factor	IQLT	12.23	0.63	6.25	26.68	5.89	9.51	-
PowerShares S&P Intl Dev Quality ETF	IDHQ	13.03	-0.68	4.71	25.19	4.45	8.77	7.54
iShares Edge MSCI Min Vol EAFE	EFAV	12.88	-0.03	10.59	21.48	3.49	3.76	5.06
iShares International Select Dividend	IDV	13.35	2.68	10.80	26.62	6.67	6.38	4.17
International Small Cap								
iShares MSCI EAFE Small-Cap	SCZ	10.95	2.58	9.83	23.30	-0.34	6.17	6.11
WisdomTree International SmallCp Div ETF	DLS	11.66	2.34	9.66	24.92	2.12	5.79	5.21
Emerging Markets								
iShares MSCI Emerging Markets	EEM	14.84	5.74	7.68	24.02	-0.71	4.69	3.22
PowerShares S&P Em Mkts Low Volatil ETF	EELV	11.82	4.29	11.91	21.09	6.24	6.76	3.18
PowerShares DWA Emerging Markets Mom	PIE	6.79	1.07	-2.73	13.70	-2.61	5.75	3.05

Data source: Morningstar

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