



“If you fail to prepare, you’re prepared to fail”

~ Mark Spitz

Reflecting on the 2024 Summer Olympics in Paris, one can't help but appreciate the skill, preparation, and dedication required to succeed at the highest level. While these games celebrate athletic achievement, they also highlight themes that resonate with investors. Just like Olympians, successful investors need to focus on preparation, strategy, and mindset to achieve their goals. Let's explore some key parallels between the Olympics and investing.

Planning, Preparation, and Setting Goals: Olympians dedicate years to refining their skills and setting measurable milestones. Similarly, in investing, building wealth requires setting clear financial objectives. Staying focused on your long-term aspirations is key to avoiding short-term distractions.

Diversification: Just as athletes compete in various events to maximize their chances of winning medals, investors should diversify their portfolios. Spreading your investments across different asset classes, industries, or even geographical regions can reduce risk and improve your overall performance. Relying on one asset class or stock is as risky as relying on one event in the Olympics.

Adapting to Change and Staying Focused: Olympic athletes face challenges ranging from new competitors to evolving rules. Similarly, financial markets are constantly shifting. While it's important to adapt to market trends, maintaining focus on your long-term objectives is essential. Just as athletes must stay disciplined under pressure, investors should avoid emotional reactions to short-term market movements.

Risk Management: In both arenas, risk management is crucial. Athletes take calculated risks to enhance their performance while avoiding injury. Likewise, investors should assess their risk tolerance and weigh that against efforts to enhance portfolio performance. Continued review and realignment

with financial goals is critical. Proper diversification, asset allocation, and regular reviews can help safeguard your investments.

As we move into the fourth quarter, understanding some of these parallels and sometimes conflicting considerations can offer deeper insights into your financial approach. By appreciating the connections between market events, strategy performances, market outlook, and geopolitical events, we can better anticipate and respond to the multifaceted forces shaping the investment landscape.

Our goal is always to provide you with innovative solutions adapted to the uncertainty of investing, guiding you through an optimal allocation according to your financial goals and risk tolerance. Now for my view on the topics affecting your investments.

A CIO's View

Movement in these areas is monitored daily by our models. We also regularly cover these topics in our monthly Navigator and quarterly Fixed Income Commentary.

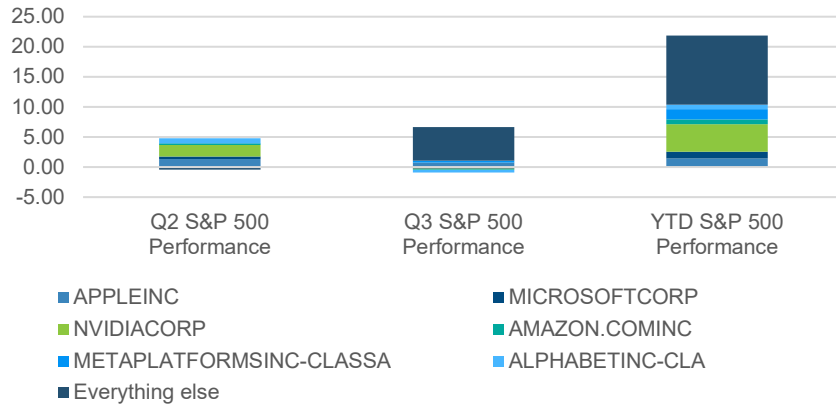
Market Return: A Narrow and Negative Quarter

Last quarter we discussed the magnitude of the distortion of index returns caused by the artificial intelligence gold rush and some technology stocks. This quarter is showing some signs of cooling off in those areas.

A few year-to-date statistics: the S&P 500 Index was up 21.7% at the end of the third quarter, with less than 37% of its stocks beating the index. The average stock return was 14.5% while the top six names (Microsoft, Apple, Nvidia, Amazon, Meta, Alphabet) are up 47% on average, and still disproportionately accounted for more than 10% of the 21.7% return YTD.

Finally, we have seen in the third quarter a break in that dominance from the top 6. Indeed, while the index was up 5.78%, the average stock in the index was up 9.4%, with 67% of the stocks beating the S&P Index (Exhibit 1).

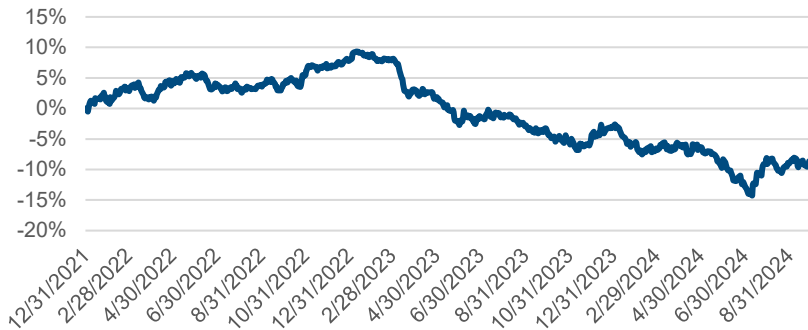
Exhibit 1: S&P 500 Performance Q2, Q3, and YTD



Source: Bloomberg.

We like to measure the notion of market breadth by comparing the performance of the equal-weighted S&P 500 Index versus the cap-weighted index performance. You can see below that there was a strong 2022, followed by a challenging 2023 and Q1/Q2 2024. The race between those two indices has reversed over the past few months (Exhibit 2).

Exhibit 2: S&P500 Cap-Weighted vs. Equal-Weighted Performance



Source: Bloomberg.

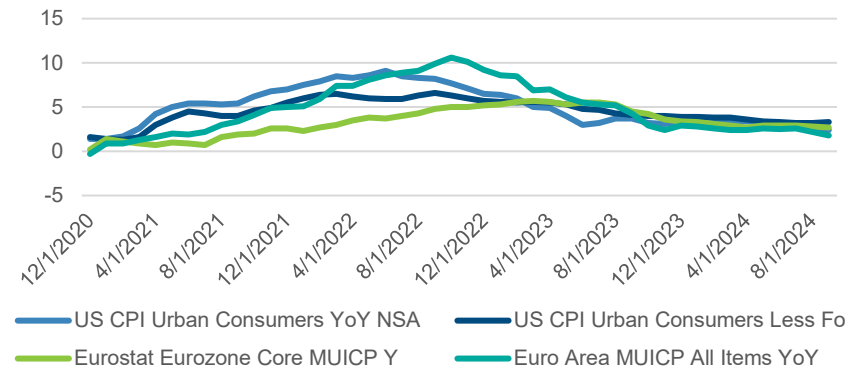
We have stressed over the past quarters the importance of diversification. While the S&P 500 has extended its year-to-date gains to nearly 21.7%, the technology sector gained 22%, utilities gained 30%, telecommunications gained 24.8%, financials gained 20.9%, and industrials gained 18.9%. This sector rotation underscores the value of a well-diversified portfolio and a broadening of the 2024 rally that we had been expecting.

Inflation: Improvements so far but resilience ahead

The September CPI report showed stronger-than-expected inflation (Exhibit 3), with core CPI rising 0.3% month-over-month (3.3% year-over-year), mainly due to higher core goods prices despite some moderation in core services inflation. While shelter inflation slowed, this was offset by increased costs in transportation and medical care services. Food inflation also surged, with the biggest rise in home food prices since January 2023.

The "supercore" inflation measures rose to 0.4% month-over-month, driven by transportation and medical services, suggesting persistent inflation pressures. However, the slowdown in rent and owner-equivalent rent CPI provided some relief. Despite these data, the FOMC is still expected to proceed with a 25bp rate cut in November, considering the disinflation trend and the previous 50bp cut in September.

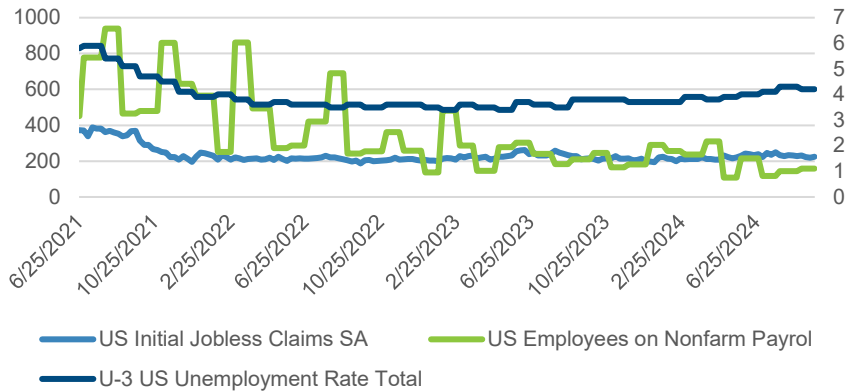
Exhibit 3: US/Europe Core Inflation Rates



Source: Bloomberg.

The FOMC participants are paying increasing attention to the labor market and noted in the September Minutes that it, "was now less tight than it had been just before the pandemic," and that, "the risk had increased that continued easing could transition to a more serious deterioration." The latest monthly data shows a slight decline in the unemployment rate, and an improvement in the nonfarm payroll and initial jobless claims (Exhibit 4). However, initial jobless claims rose by 33,000 to 258,000 for the week ending October 5, surpassing expectations. In addition, the four-week moving average also increased by 7,000 to 231,000. The rise in claims was driven by 14,000 in states affected by Hurricane Helene, 9,000 in Michigan due to auto plant layoffs, and 2,000 in Washington and Oregon, likely linked to the Boeing strike. Continuing claims increased by 42,000 nationwide.

Exhibit 4: Unemployment and Nonfarm Payroll Display Resilient Economy



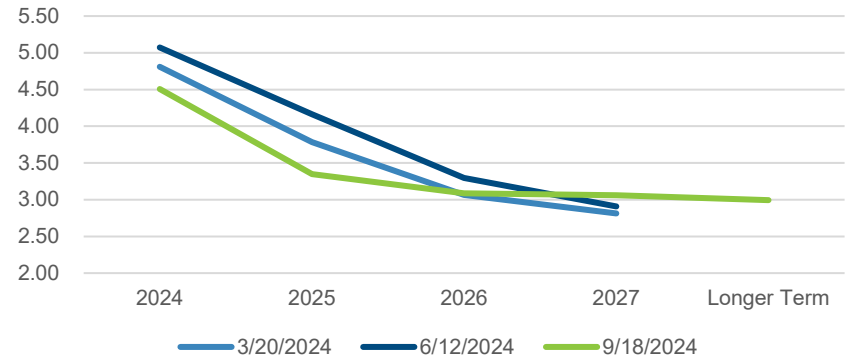
Source: Bloomberg.

FOMC September meeting: Majority Backs a 50bps Rate Cut Amid Cautious Economic Outlook

The FOMC's September meeting minutes revealed that a "substantial majority" favored a 50 basis point (bp) rate cut, though some preferred a 25bp cut. The decision was not intended as a sign of accelerated easing beyond two anticipated 25bp cuts this year. Participants discussed uncertainty around labor market data, signaling some softening yet remaining solid overall, with some concerns about potential economic deterioration. Inflation appeared on track toward the 2% target, supported by modest GDP growth and balanced inflation risks. The Fed staff downgraded 2024 GDP growth to 2.0% and expected core inflation to reach 2% by 2026. The outlook remains for two more 25bp cuts this year.

The dot plot is now lower than the last one for 2025 and 2026, but higher after that (Exhibit 5).

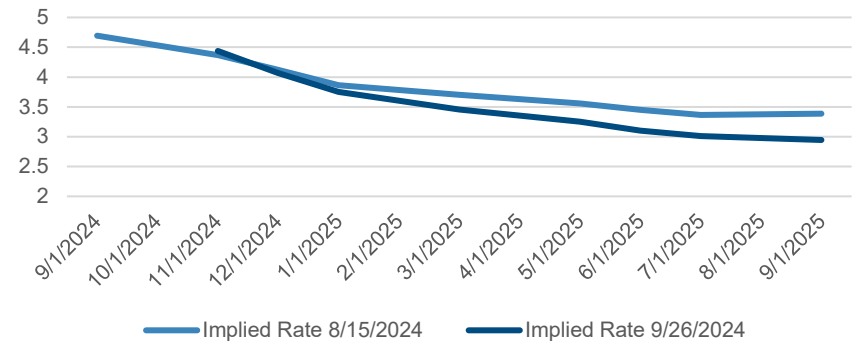
Exhibit 5: FOMC Dot Plots Continue to Signal High Rates for Longer



Source: Bloomberg.

The rates markets have incorporated this information (Exhibit 6) and are pricing in lower rates, optimistically expecting more cuts ahead, showing an implied rate curve lower than the ones of the last two quarters.

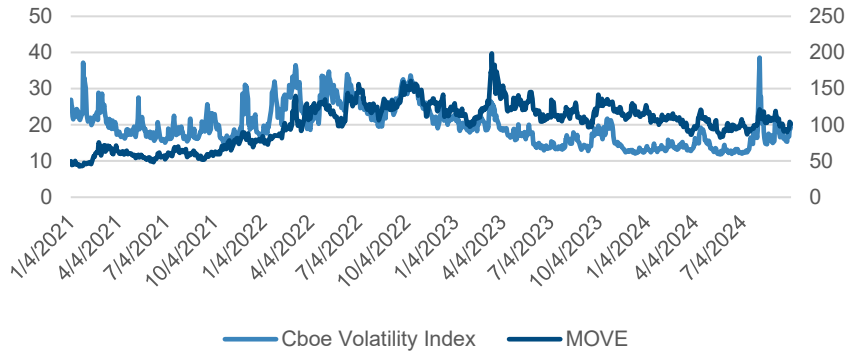
Exhibit 6: Implied Rates Significantly Decreased in Q3



Source: Bloomberg.

Interest rate uncertainty is still high, as can be seen in Exhibit 7. The MOVE Index (implied volatility of a basket of OTC options on US interest rate swaps) illustrates the uncertain environment we are in. With a continuation of the positive trend this quarter, that uncertainty is a little lower than it used to be, indicating that the "higher for longer" scenario might be sinking in. Meanwhile the VIX (Volatility) Index has returned to its lows after a spike in early August, continuing along with tight credit spreads, and reflecting optimism in the current economic situation.

Exhibit 7: The MOVE Index Indicate Moderating Uncertainty in Interest Rates, while the VIX Index Indicates a Constructive Investment Narrative



Source: Bloomberg.

We continue to see US equities trading at multiples of 24X-27X with some signs of economic slowdown in combination with resilient inflation. The prudent thesis makes risk assets seem overbought, exposing vulnerabilities in US equities. The Shiller CAPE (cyclically adjusted price-earnings ratio) is 36, near the highs of the dotcom bubble. In contrast, the Euro Stoxx 50 is trading at 14X-15X multiples, the FTSE 100 Index trades at 12X-14X, the S&P TSX Index trades at 18-20X, offering viable competing alternatives to US equities. Yield spreads continue to compress and are low by historical standards both in corporate and high yield segments.

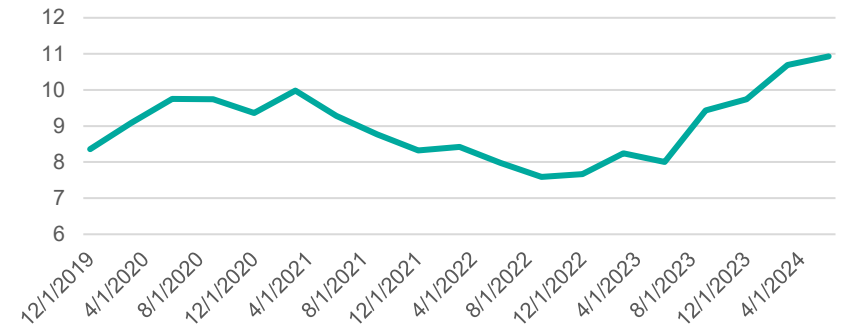
Economy: Resilient with a Moderate Slowdown

Recession risks have continued to inch lower however more recently recession probability has stayed constant over the past few quarters at a moderate 30%.

For the remainder of 2024, we are continuing to see some further signs of slowdown which could grow more substantial: for instance, personal savings buffers are lower than the post-pandemic period which could diminish consumer strength. In addition, the fiscal outlook is looking contractionary with the lapsing of some past policies, the labor force participation rate looks more challenging, and the delayed impact of variable rate debt is likely to be seen in more corners of the economy. US election uncertainty and geopolitical tensions in the Middle East could create additional headwinds.

Relatedly, credit card delinquencies are rising to levels now higher than the 2020 recession (Exhibit 8).

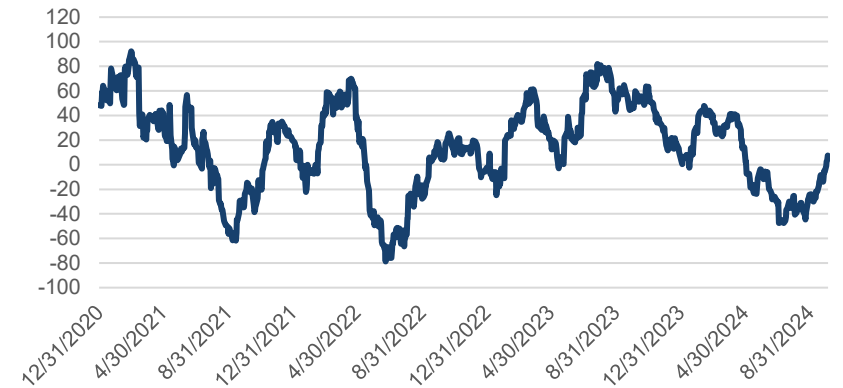
Exhibit 8: Credit Card Delinquencies Starting to Rise (% of balance delinquent 90+ days)



Source: Bloomberg

Another sign of economic slowdown is the Citigroup Economic Surprise Index which despite a rebound last quarter stayed in neutral territory, indicating that while still resilient, the US economy is no longer posting as many strong positive surprises as the majority of 2023 (Exhibit 9).

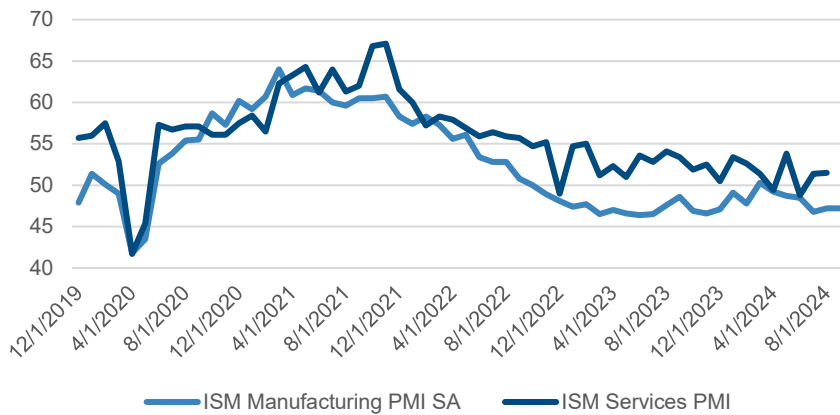
Exhibit 9: The Citigroup Economic Surprise Index Indicates How Economic Data Compares with Consensus Estimates



Source: Bloomberg, Citigroup.

Further signs of a moderate slowdown can be seen in the leading indicators of the PMI ISM surveys (Exhibit 10). Both indices are hovering around the neutral 50 level. While the declines seem to have stabilized, they have not shown any clear signs of improvement over the past six months.

Exhibit 10: ISM Manufacturing and Services Indices are in Neutral Territory



Source: Bloomberg.

US Elections: More Uncertainty Later in the Year

We continue to monitor the election, with some unprecedented developments for both candidates over the past quarter. The outcome of the election could yield significant changes to regulation, fiscal policy, trade policy and foreign policy. Of particular interest are the risks of higher tariffs and increased fiscal spending which could reinvigorate inflation risks. While this aspect is dominating the news, with some uncertainty, we take comfort that it has not yet seemed to impact the markets. We anticipate some volatility as the year progresses and the agendas become more clearly defined by the next US Presidential administration on fiscal, trade, and regulatory policies.

Investment Implications

Olympians often rely on expert coaches for guidance. While working toward your financial goals, an advisor can offer the insights and strategies necessary for long-term success. As with many endeavors, educating yourself or seeking expert advice can make a significant difference in reaching your financial objectives. After watching the world's top athletes compete in Paris, we should remember that the principles that lead to Olympic success can also guide us in our investment journey. By applying these lessons of preparation, diversification, adaptability, risk management,

and seeking expert guidance, investors can navigate the complex financial landscape with greater confidence and skill.

Looking forward, while we do not see any specific imminent risks to the upside or the downside, the current overall return/risk environment does not appear the most favorable, thus the reason for our cautious stance looking for higher quality equity and fixed-income segments, repositioning capital from short and long-term fixed income to intermediate maturities, as well as a willingness to embrace any trading weaknesses to capitalize on future opportunities.

Given the current market conditions we reiterate our recommendations:

- Diversify-Diversify-Diversify: by asset class (bonds, equities, alternatives, options), by investment approach (long, tactical, premium income), by style (active, passive, defined outcome), by benchmark (equal-weighted vs. cap-weighted), by geography (US, international, global). Embrace other scenarios.
- Be realistic and remain cautious and opportunistic in the current environment with active risk management and tactical strategies.
- Follow a systematic and flexible approach and stick with it during episodes of volatility.

I hope this letter finds you and your family happy, healthy, and enjoying the fall season. If you have any questions about your portfolio or would like to discuss your current positioning, please contact your advisor at any time. Our team always has your interest at heart and stands ready to help meet your goals with the appropriate allocations and proactive financial planning. As always, we thank you for your business.

Warm regards,

Patrick Jamin
President & CIO

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