NEW REPUBLIC PARTNERS

MARKET COMMENTARY

Q3 2024

NEW REPUBLIC PARTNERS

Market Commentary

Market Monitor 2024	Q3	YTD
MSCI All-Country World Index	6.6%	18.7%
S&P 500 Index	5.9%	22.1%
Bloomberg U.S. Agg. Index	5.2%	4.4%
Bloomberg Commodity Index	0.7%	5.9%

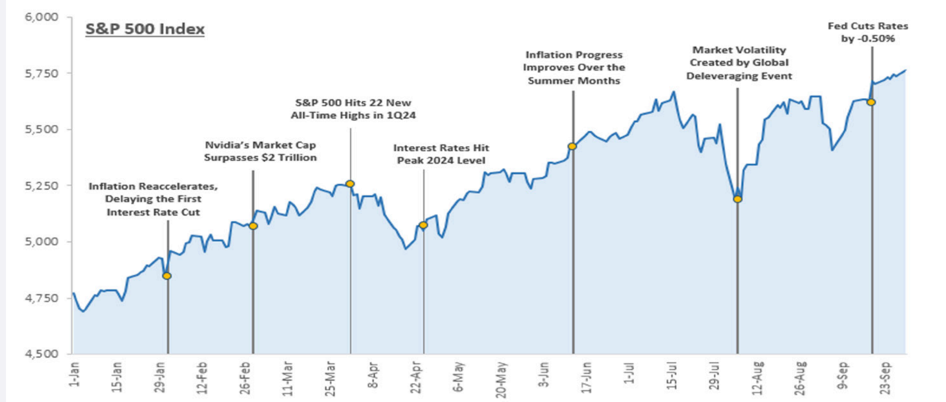
A Change in Leadership

With a soft landing in sight, equity markets marched higher over the third quarter, punctuated by quick downdrafts in early August and September. As they say, "bull markets often climb a wall of worry," and despite the volatility, the S&P 500 set multiple new all-time highs in the third quarter, adding to its list of new highs from earlier in the year.

In the heart of election season, a change in leadership is top of mind for many. However, it was the change in stock market leadership that made headlines in Q3:

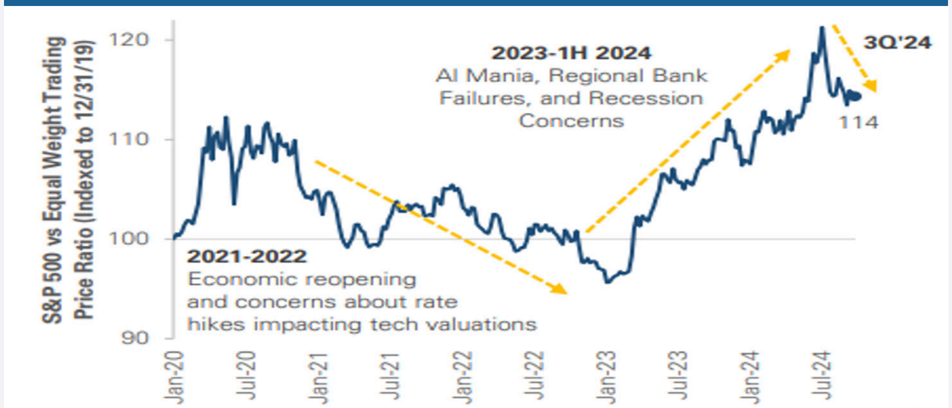
- The Equal-Weighted S&P 500, the Russell 2000, and the Value factor all outperformed the S&P 500, while the Growth factor underperformed.
- A similar pattern occurred at the sector level, with underperformers from the first half of 2024 outperforming in 3Q24. Interest-rate-sensitive sectors outperformed in anticipation of rate cuts, with the Utility and Real Estate sectors both gaining over 17%. Meanwhile, cyclical sectors, including Industrials, Financials, Consumer Discretionary, and Materials, also outperformed the S&P 500. In contrast, the Technology sector lagged the market rally, ending the quarter flat after outperforming in the first half of the year.
- Finally, the Magnificent 7 had checkered performance over the quarter, with Nvidia, Alphabet, and Microsoft pulling back while Amazon, Tesla, Apple, and Meta were all up.

MARKET RECAP - TIMELINE OF KEY EVENTS IN 2024



Source: Standard & Poor's, Department of Labor, U.S. Treasury, Federal Reserve. Analysis is based on price and does not reflect any management fees, transaction costs, or expenses. Past performance does not guarantee future results. Time period from 1/1/2024 to 9/30/2024. Latest available data as of 9/30/2024.

WILL THE EQUITY MARKET ROTATION CONTINUE?



Source: MarketDesk. Analysis uses SPY and RSP as proxies.

NEW REPUBLIC PARTNERS

Market Commentary

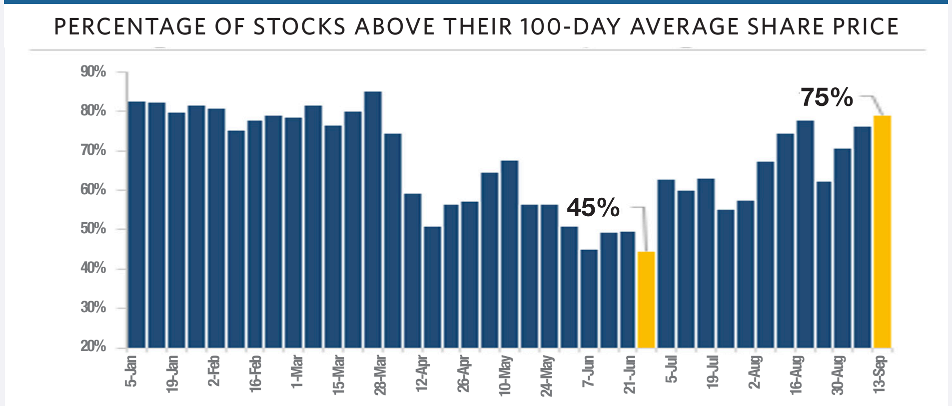
A Change in Leadership continued

Two key events, the Fed's first interest rate cut in September and growing concerns about AI's profitability, led to the change in market leadership in 3Q24. In the first half of 2024, uncertainty around Fed policy and concerns about the economy pushed investors toward large-caps and AI stocks. Meanwhile, smaller companies underperformed due to worries about their sensitivity to higher interest rates. With the Fed now officially cutting interest rates and doubts emerging about AI's monetization potential, investors sought out new investment opportunities in 3Q24.

Broadening Market Rally

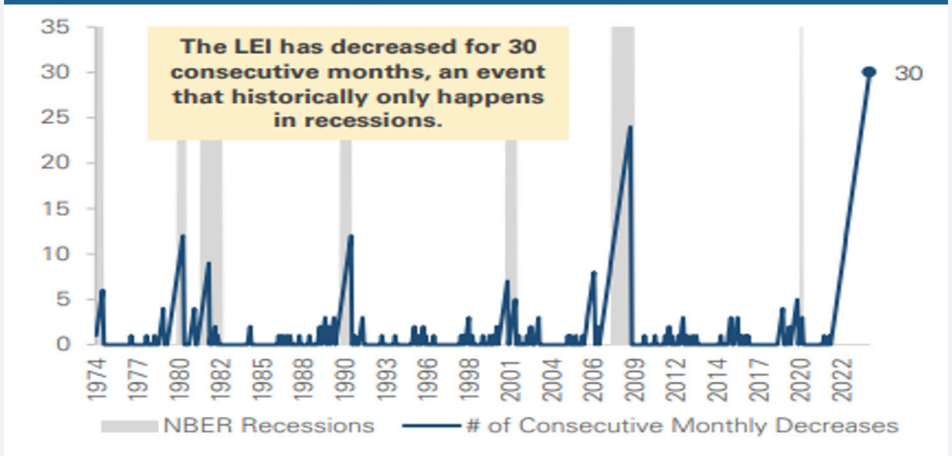
We believe this shift in leadership and broadening of the market rally is telling. Esteemed investor Sir John Templeton once quipped, "Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria." This market almost perfectly demonstrates that quotation. The current bull market in the U.S. began in a challenging macro-economic environment in late 2022 when rates were on a steady rise to 5%, inflation still towered at 7%, and recession/hard landing probability surveys were greater than 50% ... born on pessimism. Fast forward two years and the bull market has grown on skepticism as consumer sentiment, manufacturing survey data, and the famed Leading Economic Indicator has remained poor. And yet, a period of disinflation has taken hold, the labor market has adjusted, and economic growth has marched upward over five straight quarters.

S&P 500 BREADTH IS IMPROVING



Source: MarketDesk.

THIS ISN'T A TYPICAL ECONOMIC CYCLE



Source: MarketDesk, Conference Board, NBER.

Market Commentary

Thus, the Q3 market moves, in our view, were emblematic of a maturing phase as the bull market broadened out. This trend can be seen in current and forward earnings estimates as the S&P 493 picks up the earnings growth baton from the Mag 7 in the back half of this year.

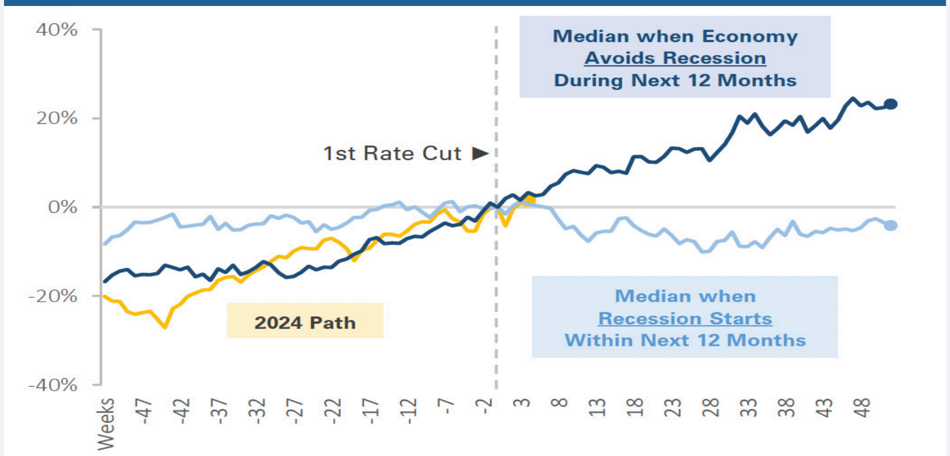
Embarking on a Rate Cut Cycle

This maturing phase context is important as the other major development in 3Q24 was the Federal Reserve's decision to cut interest rates by 0.50%, the first rate cut of this cycle. Historically, after the first rate cut, the S&P 500 has performed very differently depending on whether the economy falls into a recession or not. When rate cuts stimulate economic growth, the S&P 500 gains an average of 23% over the next 12 months. However, if a recession follows, the S&P 500 produces an average return of -4%. With this backdrop, we are leaning into the broadening rally through allocations to Hedged Equity (which exploits market dispersion) and select sectors that perform well during rate cut cycles such as Biotech.

As one biotech investor recently noted, over the past 30 years and across five declining rate cycles, Biotech has outperformed the S&P 500 in the 12 months post the first rate cut. After a quiet period for IPOs, September was the most active month for biotech IPOs since 2022 and YTD activity is tracking towards the normal pacing of 30-50 IPOs per year. Centers for Medicare & Medicaid Services (CMS) has also begun to announce drug pricing, helping to lift the cloud of uncertainty around the Inflation Reduction Act's impact on drug pricing.

In looking at private markets, expectations for a stable rate environment began in late 2023, driving buyer confidence and acquisition activity upward. Now, with the first of a series of interest rate cuts officially in place, we expect an uptick in transaction volume both in M&A and private equity exit activity. The PE market is clearly emerging from a period of sustained macro disruption where companies have faced a raft of uncertainties.

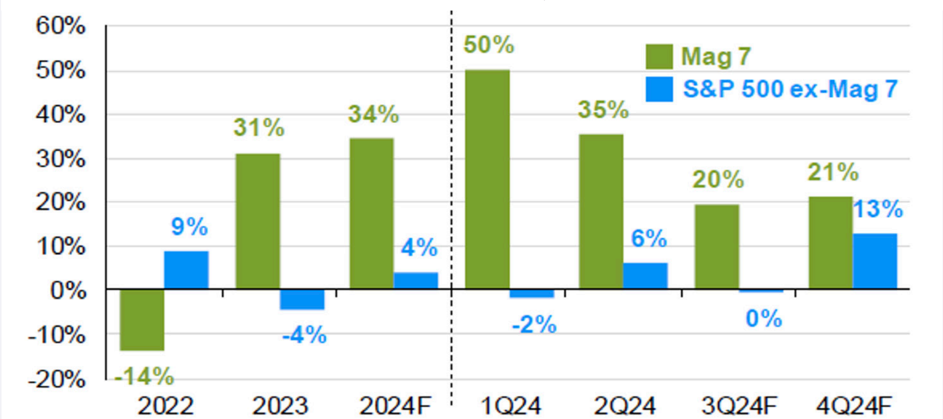
S&P 500 RETURNS AFTER FIRST INTEREST RATE CUT



Source: Standard & Poor's, Federal reserve. Previous rate cutting cycles include June 1989,July 1990, July 1995, September 1998, January 2001, September 2007, and July 2019. Based on S&P500 price returns 52 weeks before and after the first rate cut of the cyde. Past performance does not guarantee future results. Data as of 9/30/2024.

EARNINGS GROWTH

PRO-FORMA EPS, YLY



Source: JPMorgan.

Market Commentary

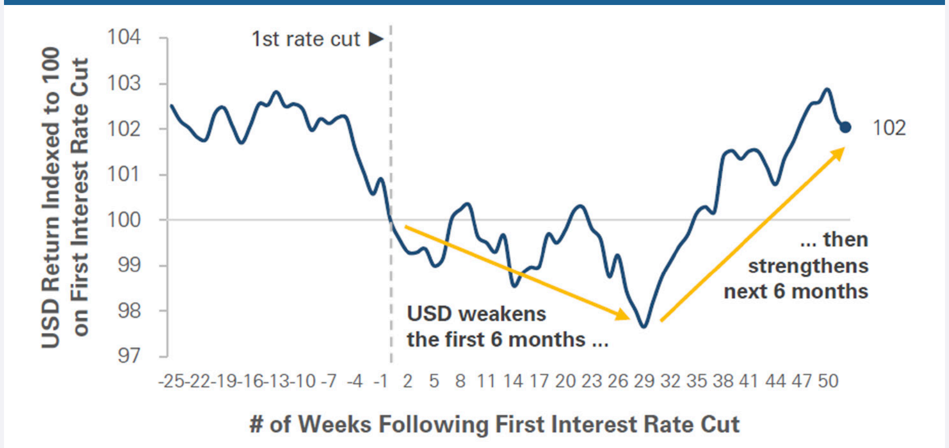
However, it is precisely these sorts of periods and their immediate aftermath where PE firms find some of their most compelling long-term opportunities. Our managers will remain disciplined in their approach as they continue to pursue new and innovative investment theses and seek out high-quality assets in resilient sectors.

Broadening Rally Beyond Borders

Looking abroad, International stocks outperformed U.S. stocks in the third quarter for the first time since 4Q 2022. The MSCI Emerging Market Index gained 7.7%, outperforming the S&P 500 by almost 2%. The MSCI EAFE Index of developed market stocks also outperformed the S&P 500, returning 6.8%. International stocks benefited from two themes: a weaker U.S. dollar and AI companies' underperformance during the stock market rotation.

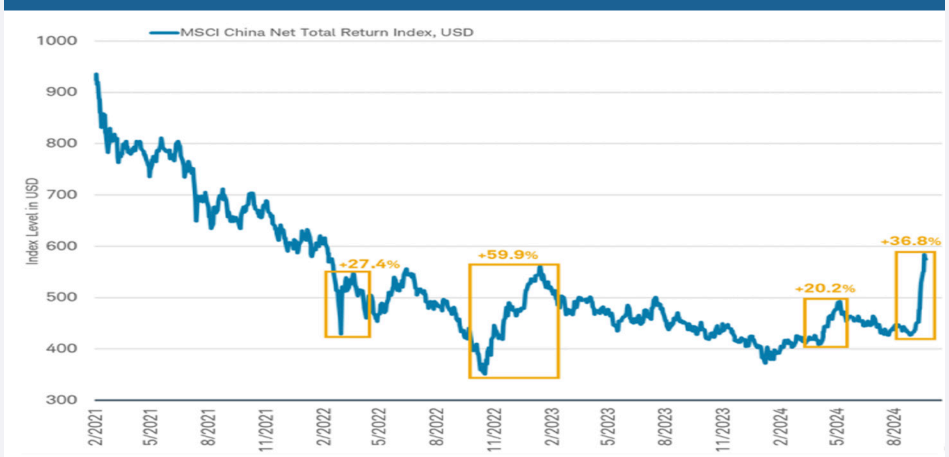
Notably, Emerging Markets raced ahead in September, driven by an impressive rally in Chinese equities (MSCI China, +23%). After 18+ months of slowing economic growth and reluctant easing, China's regulators unleashed a strong stimulus of support across its monetary, fiscal, property, and market channels. There have been a couple of "false dawns" of stimulus in prior quarters, one as recent as April of this year. However, this recent combination of fiscal stimulus and policy support has awakened market animal spirits as investors assess whether this market condition is more real. We continue to believe more needs to be done with respect to safeguarding private sector investment, reform of local government finances, and an overall turn in consumer sentiment. Actual policy implementation is critical as well to further policy credibility. In addition, the start of an earnings revision cycle is a key fundamental support we are looking for before adding to our current underweight position. Until then, our EM managers are investing selectively in China's domestic disruptors and global champions while increasing allocations to Indian equities.

U.S. DOLLAR RETURNS 12 MONTHS AFTER FIRST RATE CUT



Sources: MarketDesk. Analysis based on the 1989, 1990, 1995, 1998, 2000, and 2007 rate-cutting cycles. The 2019 cycle is excluded due to the impact of COVID in 2020.

HISTORY OF FAILED CHINESE RALLIES



Source: Charles Schwab.

NEW REPUBLIC PARTNERS

Market Commentary

Reshaping Fixed Income Exposure

In Fixed Income, the Fed's transition to cutting interest rates comes as its focus shifts from lowering inflation to supporting the labor market, with unemployment rising to a 33-month high and inflation moving back to target. Since the last rate hike in July 2023, inflation has dropped from 3.3% to 2.6%. However, over the same period, unemployment has risen from 3.5% to 4.2%, the highest level since October 2021.

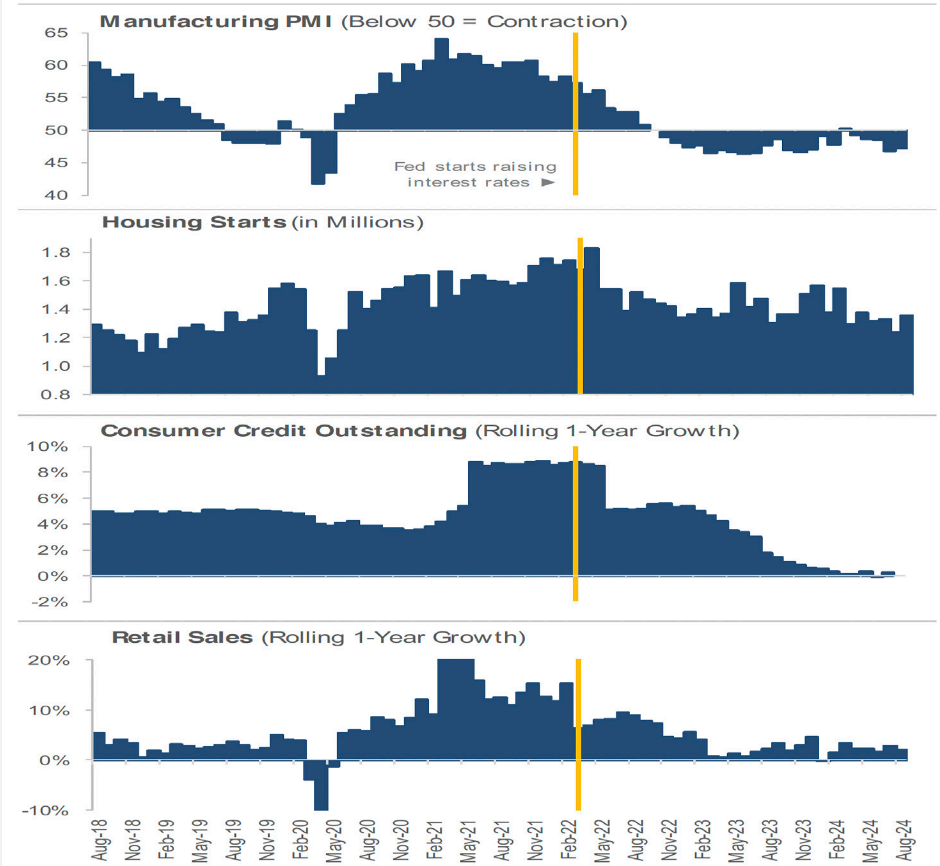
Aside from bringing inflation towards its 2% target, the Fed's hike in interest rates had a real impact on the U.S. economy as evidenced by a contraction in manufacturing activity, reduction in housing starts and loan growth, as well as a slowing of retail sales.

In 3Q 2024, bonds traded higher as investors prepared for the start of the Fed's rate-cutting cycle. The 10-year Treasury yield fell from 4.37% at the end of June to 3.79% at the end of September. The 2-year yield, which is a proxy for investors' rate cut expectations, fell from 4.72% to 3.64% over the same period. Over the past 18 months, we have supported a barbelled approach to Fixed Income with cash and short duration Fixed Income on one end and Private Credit on the other. Now that the Fed has embarked on a rate cutting cycle and the yield curve un-inverts, we believe now is the time to take on an incremental amount of duration by shifting capital towards the belly of the curve in munis and corporate credit. This shift remains on the margin though as the incremental yield pickup from taking on more credit risk (shown through credit spreads) is quite small today.

Credit spreads, which measure the difference in yield between two bonds of similar maturity but different credit quality, remain tight by historical standards. The chart on the next page graphs the credit spreads for corporate investment grade (IG) and high yield (HY) bonds over the past 20 years. The IG spread stands at 0.92%, meaning investors are earning an extra 0.92% of yield by owning IG over similar Treasury bonds. Since 2004, the median IG spread has been 1.35%. The situation is similar for HY bonds,

RESHAPING FIXED INCOME EXPOSURE

KEY ECONOMIC INDICATORS IMPACTED BY RATE HIKES



Source: Federal Reserve, Institute of Supply Management, U.S Census Bureau.
Time Period: 8/31/2018 to 8/31/2024. Latest available data as of 9/30/2024.

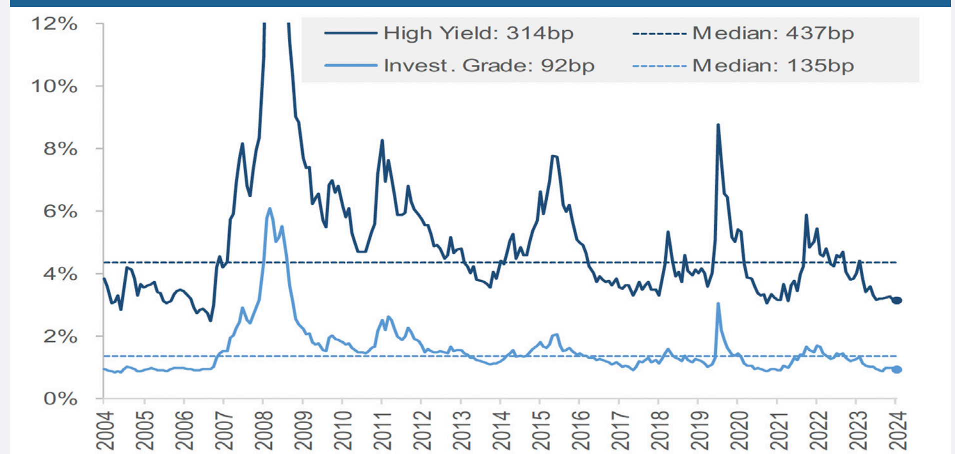
NEW REPUBLIC PARTNERS

Market Commentary

where the current spread is 3.14% compared to a median of 4.37%. Given the lack of compensation for credit risk, we are only shifting a small portion of money market funds to medium term munis and investment grade credit at this stage.

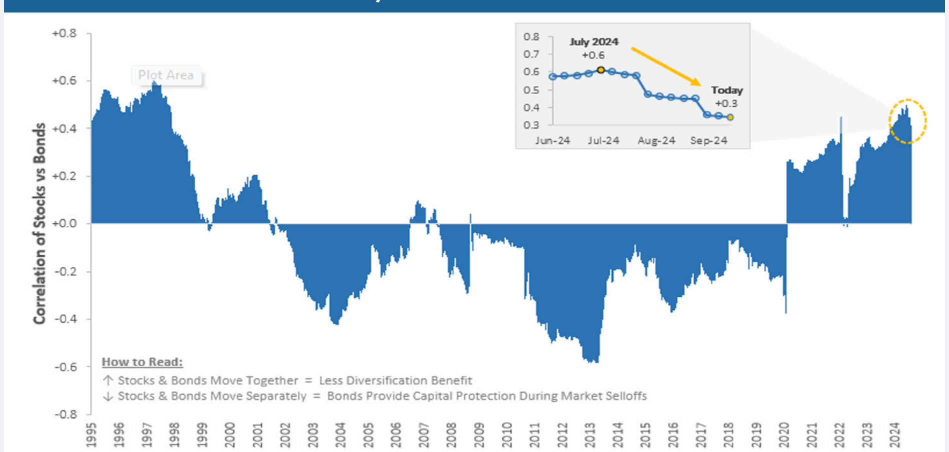
Duration has been a headwind for credit investors in recent years, as inflation soared to a 40-year high and the Fed raised interest rates. However, in 3Q 2024, long duration bonds outperformed due to bouts of worries about slowing economic growth and rising unemployment. History, along with a steepening yield curve, indicate a significant portion of the market's expectations, such as economic growth concerns and aggressive rate-cut expectations, are likely already reflected in today's bond prices. Short and intermediate duration bonds have historically outperformed long duration bonds following periods with these conditions. Thus, we are still reluctant to utilize long duration bonds as a hedge in the portfolio and prefer to anchor portfolios with Absolute Return strategies.

CORPORATE CREDIT SPREADS VS HISTORICAL AVERAGES



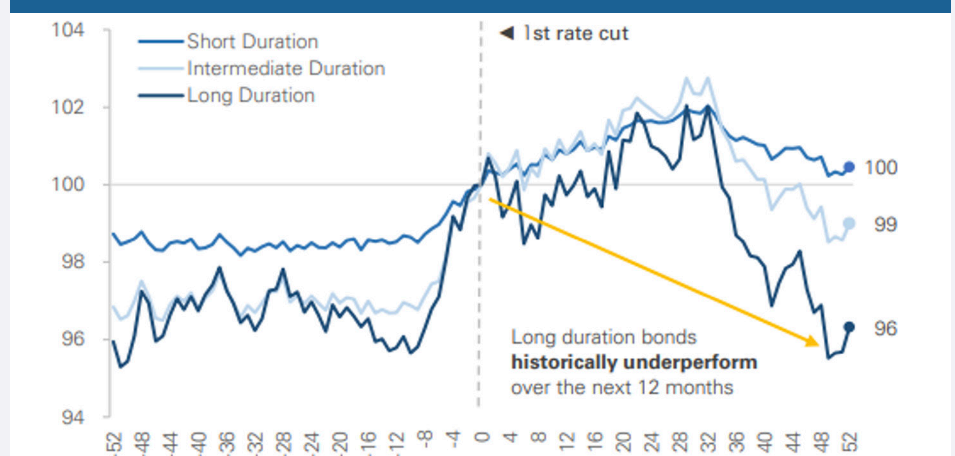
Source: Federal Reserve. Time Period from 9/30/2004 to 9/30/2024.

NEW OPPORTUNITIES - STOCK / BOND CORRELATION RETURNING TO NORMAL



Source: Federal Reserve. Correlation is based on a rolling 24-month period of weekly price returns. Analysis is based on the Bloomberg Aggregate and the S&P 500. Past performance does not guarantee future results. Time period from 1/1/1995 to 9/30/2024. Latest available data as of 9/30/2024.

AVERAGE PRICE RETURNS NEAR START OF RATE-CUTTING CYCLE



Source: MarketDesk. Analysis based on the 1990, 1995, 1998, 2000, and 2007 rate-cutting cycles. The 2019 cycle is excluded due to the impact of COVID in 2020.

NEW REPUBLIC PARTNERS

Market Commentary

A Final Word on the Election Season

As we wrap up this quarter's market update, we want to briefly touch on the upcoming presidential election. With the election quickly approaching, you might wonder how the outcome will affect financial markets and whether you should change your investment strategy based on the outcome. Political views can stir strong emotions, but making investment choices based on those feelings can lead to poor portfolio decisions. Data suggests that the party that occupies the White House has little to no impact on investment performance, with fundamental factors such as corporate earnings growth and valuations impacting the stock market far more than political headlines. The U.S. economy's success, growth, and resiliency rarely change with each new election, nor should your long-term investment strategy. That said, if we do see some market volatility, which could be short-term noise related to the elections, Fed policy, or geopolitics, our managers can take advantage of price dislocations. That is a benefit of using both active managers and our direct indexing strategies, both of which have investment objectives and track records of adding "alpha" to portfolios in periods of price volatility.

—NRP Investment Committee
October 25, 2024

NEW REPUBLIC PARTNERS

704.626.1526

NEWREPUBLICPARTNERS.COM