Rembert | Pendleton | Jackson

Financial Advisors

OCTOBER 10, 2024 | QUARTERLY PERFORMANCE REVIEW | THIRD QUARTER 2024

Financial and Investment Advisors for Families, Businesses, Retirement Plans and Charitable Organizations

Dear Client:

We have enclosed your third quarter 2024 Portfolio Performance Report. Please review the materials and maintain for your records.

This table presents the 2024 third quarter and year-to-date returns of the benchmarks for selected asset classes.

Asset Class Returns

Asset Class	3rd Qtr 2024	Year-to-Date 2024	Benchmark Index
Domestic Fixed Income	4.17%	4.68%	Barclays Intermediate Gov't / Corp Bond
Domestic Inflation Protected	4.12%	4.85%	Barclays TIPS Index
International Fixed Income	4.24%	4.38%	Bloomberg Global Aggregate Bond – Hedged
Domestic Equity (Large)	5.89%	22.08%	S&P 500 with Dividends
Domestic Equity (Large Value)	9.43%	16.68%	Russell 1000 Value Index
Domestic Equity (Small)	9.27%	11.17%	Russell 2000
Domestic Equity (Small Value)	10.15%	9.22%	Russell 2000 Value
International Equity	7.26%	12.99%	MSCI EAFE Equity Index with Dividends
Real Estate	16.79%	14.23%	FTSE NAREIT Equity
Precious Metals	12.83%	26.54%	Gold
Natural Resources	-0.71%	7.53%	Dow Jones UBS Commodity Index

Equity markets had very strong positive results in the third quarter of 2024. The S&P 500 had its best 9-month start to a calendar year since 1997 (up 20.8%). It should be noted that the top 10 companies in the S&P 500 make up about 36% of the weight of the entire index, so heavily influenced results. More broadly, other parts of the equity market (i.e., the other 490 companies in the S&P 500, small cap stocks, real estate, and international stocks) also did extremely well. The bond market also saw very nice quarterly gains. J.P. Morgan's Chief Global Strategist, Dr. David Kelly, believes the outlook for the US economy over the next 12-24 months is quite healthy.

One of the prominent economic events of the past quarter was the Federal Reserve action to lower their target interest rates by 0.50%. This reduction was the first since 2020. It was largely expected, although the size of the reduction was not certain until the announcement. This single action has both positive and negative ramifications to most client's financial situation. We believe there are far more positive than negative changes that we can expect as the path to lower interest rates over the coming 1-2 years appears to be solidly underway.

On the downside, we have been enjoying very nice interest rates of 5% or more on very low risk holdings like money market funds, T-Bills, and CDs. That has been an enticing and convenient way to invest cash. Those rates will decline at about the same pace as the Federal Reserve makes interest rate cuts. If the Federal Reserve cuts several more times in 2024 and 2025, the rate of return on these same kinds of investments for our cash may be closer to 3% by end of 2025. That is still respectable but may also serve as a catalyst to consider allocating some of the cash into asset classes that can be a better contributor to our total return objectives.

Quotable Quotes

"That decision [interest rate reduction] reflects our growing confidence that, with appropriate recalibration of our policy stance, strength in the labor market can be maintained in an environment of moderate economic growth and inflation moving sustainably down to our objective."

- *Jerome Powell, Chair, Federal Reserve September 30, 2024*

On the upside, there are interest rate sensitive parts of our financial life that are likely to improve. Those that have credit card debt are likely to see the annual percentage rates decline. That may be a small, but important, opportunity to apply the savings from lower interest payments toward the principal reduction with a goal of eliminating that burdensome debt. Similarly, mortgage rates have already started to decline and will continue to do so. That has a two-pronged benefit of making it a bit easier for some to buy a home (or upgrade) or for others to refinance to lower the cost of an existing mortgage that may have been obtained at higher rates.

Also on the upside, there are parts of your investment portfolio that are likely to improve because of lower interest rates.

Bonds (also known more broadly as fixed income) are investments that have two characteristics that fluctuate as interest rates fluctuate. The first is the yield. The yield is the rate the bond issuer promises to pay the bond purchaser over the life of the bond. It is set at the time the bond is issued and is largely consistent with "current" interest rates. Bond funds today hold a mix of bonds that offer an average yield that has increased significantly over the past few years as the Federal Reserve raised interest rates.

Since "current" interest rates are now starting to be lower, then new bond issues will have lower interest rates for purchasers, which means overall yields will gradually start to decline. Essentially, a higher paying bond matures and is replaced by a lower paying bond, reducing aggregate yield.

The other characteristic is the price of the bond. When newly issued, the price of the bond is at "par" - or said another way, the purchaser pays the issuer exactly the face value of the bond and expects to get the "yield" promised every year until the bond matures and is redeemed for its full-face value.

However, bonds can change in value over time before maturity. If current interest rates increase after the bond is issued, it loses some value because a secondary purchaser would not be interested in paying face value for a bond with a lower interest rate than a new one would pay. Conversely, if current interest rates decline after the bond is issued, it gains in value because a secondary purchaser would be interested in owning a bond with a higher yield than a new one would pay.

So, in a declining interest rate environment, bonds will see their average yield decline AND their price increase. The two characteristics combined represent the total return of the bond. We believe total return of bonds over the next 18-24 months could be quite attractive due to the a combination of nice yields and some price appreciation.

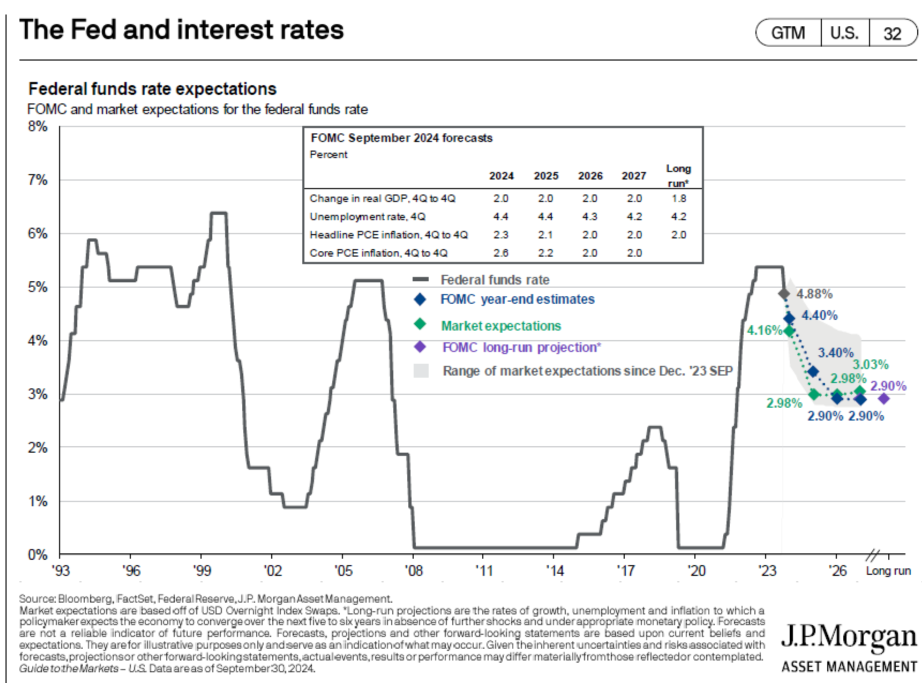
Another asset class that is likely to benefit from a decline in interest rates is real estate. Even though there are many different sectors that are included in the real estate asset class (i.e., office, warehouse, malls, storage units, data centers, multi-family housing, etc.) most include the cost of mortgage payments in their business model. When interest rates decline, the cost of those mortgages can also decline, providing more cash to allocate to profit and/or property improvements that will increase value.

Wit or Wisdom?

"Beware of little expenses. A small leak will sink a great ship."

- *Benjamin Franklin*

Yet another asset class that has historically benefitted from a decline in interest rates is US Small Cap stocks. Small companies routinely use loans to help finance their day-to-day operations as they develop/mature their products, services, market, staff, and competitive advantage. They also work towards establishing a more consistent cash flow. Any dollars that can be saved from lower interest payments on loans can be directly used to help the business in more productive ways.



Our investment philosophy continues to advocate participation in the markets with a globally diversified portfolio as a prudent strategy for the long journey. We welcome your comments and value the relationship we have with each of you. Our sincerest best wishes that you all stay safe!

Regards,

Rembert Pendleton Jackson

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"I hate machine intelligence when an ATM says we've spent enough money tonight."

RPJ Investment Advisory Services

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Rembert | Pendleton | Jackson
1945 Old Gallows Road
Vienna, VA 22182
(703) 821-6655
www.rpjadvisors.com

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