GIA PARTNERS

3rd Quarter 2024

Highlights

- **Interest rates declined, and credit spreads narrowed marginally during the quarter. Our strategies underperformed as we had limited exposure to the best performing sub-sectors.**
- **The Fed cut rates in September by a larger-than-expected 50 b.p. in reaction to a weakening labor market. Despite worries, economic data (and forecasts) do not suggest a recession is imminent.**
- **The presidential campaign is in its final weeks. The candidates are proposing countless financial inducements even though the nation cannot afford them.**

Markets

		Returns (%)			
GIA	Average Quality	3Q24 Gross	3Q24 Net	12 Months Gross	12 Months Net
Core Plus Composite	**(A+)**	**4.69**	**4.60**	**12.75**	**12.36**
Global Investment Grade Composite	**(A-)**	**5.21**	**5.11**	**14.32**	**13.86**
Global Credit Plus Composite	**(BBB+)**	**4.62**	**4.49**	**14.11**	**13.54**
Global High Yield Composite	**(BB-)**	**4.87**	**4.71**	**16.81**	**16.11**
Emerging Market Corporate Debt Composite	**(BB+)**	**5.07**	**4.91**	**17.31**	**16.60**
Benchmark Bonds					
Bloomberg U.S. Agg. Index	(AA)	5.20		11.57	
Treasury	(AA+)	4.74		9.72	
Corporate	(A-)	5.84		14.28	
Mortgage	(AA+)	5.53		12.32	
Government/Credit	(AA)	5.10		11.31	
ICE BofA U.S. Corporate & Yankees	(A-)	5.58		13.64	
ICE BofA U.S. Corporate	(A-)	5.72		14.13	
ICE BofA U.S. High Yield	(B+)	5.28		15.66	
ICE BofA Global High Yield Constrained Index (USD)	(B+)	5.84		16.97	
ICE BofA EM Corporate Plus	(BBB)	4.94		14.27	
ICE BofA Global Gov't ex-US	(AA-)	2.90		5.31	
JPM Emerging Markets EMBI GD	(BB+)	6.15		18.60	
JPM CEMBI Broad Diversified	(BBB-)	4.48		14.49	
JPM GBI-EM Global Diversified	(BBB+)	8.99		13.42	
Benchmark Equities					
S&P 500	NA	5.53		34.38	
Nasdaq Composite	NA	2.57		37.60	
Russell 2000	NA	8.90		24.92	
MSCI EAFE	NA	6.65		21.53	
MSCI Europe	NA	6.11		21.93	
MSCI Japan	NA	4.82		19.36	
MSCI Emerging Markets Equity	NA	7.79		22.89	

* Please refer to the respective factsheets for the long-term composite and benchmark returns for each strategy.

Markets

For a normally quiet quarter, this summer boasted a flurry of newsworthy events. In financial markets, the Fed first held rates steady in July on economic strength then cut them more than expected in September on emerging labor market weakness. In U.S. politics, the incumbent presidential candidate was replaced by the vice-presidential candidate without a vote and campaigning shifted into high gear. In the U.K. the ruling party changed after fourteen years. Geopolitically, Ukraine crossed into Russian territory marking the first incursion into the country since World War II, and Israel mounted a comprehensive attack on Hezbollah. Each one of these had consequential repercussions, although none derailed financial markets. At quarter-end, U.S. equities closed at or near record highs with the S&P 500 settling at a record and returning 5.5% for the quarter and 20.8% year-to-date. The Nasdaq, powered by tech stocks, had a quieter quarter up 2.6%, but a strong 21.2% year-to-date return. The Dow also closed at a record following an impressive 8.2% quarterly return and a more modest 12.3% year-to-date performance. Bond markets also posted good performance as interest rates declined on gradually weakening economic data. For the quarter, the Bloomberg Aggregate Index returned 5.20% which took the index to a positive 4.45% year-to-date performance. Within bonds, corporates outperformed other sectors with investment grade up 5.72% for the quarter and 5.76% for the year. High yield also did well, posting a positive 5.28% return for the quarter and 8.03% year-to-date.
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Investment grade credit continued to outperform. Despite some volatility, strong financial performance and steady fund inflows helped spreads narrow. Declining interest rates boosted returns for this longer duration sector. For the quarter, the investment grade corporate bond index, the ICE BofA U.S. Corporate Index (C0A0), was up 5.72%, which lifted the year-to-date return to a similar 5.76% return. After widening slightly during the second quarter, spreads returned to their March levels leading to an excess return of 77 b.p. for the quarter and a healthy 165 b.p. year-to-date. Corporate option adjusted spreads (OAS) narrowed by 4 b.p. to 92 b.p., while the yield to worst of the index fell 78 b.p. from 5.50% to 4.72%. Issuers took advantage of lower rates and spreads to borrow $456.3 billion, a $50 billion increase over the second quarter. The quarter's boost brought issuance to $1.52 trillion for the year exceeding last year's nine-month total by nearly $70 billion.

The high yield market continued to defy naysayers by outperforming despite worsening macroeconomic data. Compelling yields, stable default rates, and favorable fund inflows kept the market well bid. The ICE BofA U.S. High Yield Index (H0A0) was up 5.28% for the quarter and 8.03% over nine months, ahead of other fixed income sectors. At quarter-end, the spread to worst for the sector was narrower by 5 b.p. from 339 b.p. to 334 b.p. The yield to worst remained attractive at 6.99% compared to 7.84% in June. Investors added $10.2 billion to high yield funds bringing the year-to-date total to $14.9 billion, a sum that more than reversed 2023's $13.2 billion nine-month outflow. The default rate including distressed exchanges decreased further to 1.64% from 1.79% at the end of June (0.94% not including distressed exchanges). Confounding expectations, bond defaults declined during the year's nine months even though distressed exchanges continue to exceed defaults as the form of restructuring. The new issue market remained subdued at $74.3 billion for the quarter and $237.7 for the year. While September issuance was robust, year-to-date borrowing appears modest given supportive fund flow related demand.

Emerging markets hard currency bonds continued to perform well, although the sector lagged both investment grade and high yield during the quarter. Regionally, Latin America was the best performing area while Asia was the worst. Chinese economic activity came in below expectations causing the authorities to implement stimulus measures in early October. In Latin America, markets continued to support Argentina's policy shift and be encouraged by Mexico's new president. Away from geopolitical conflict zones, emerging market credit performed reasonably well. The JPM Emerging Market Bond Index – Global Diversified (EMBIGD), a dollar denominated sovereign index, was up 6.20% for the quarter and 8.60% year-to-date. Similarly, the JPM Corporate Emerging Markets Broad Diversified Index (CEMBI BD) rose 4.50% and 8.5% for the quarter and nine months respectively. The JPM Global Bond Index – Emerging Markets Global Diversified (GBI-EM Global Diversified), a local markets index, had strong quarterly performance of 8.99% on the back of declining rates and appreciating currencies. Year-to-date, local markets returned 4.95%.

Economy

Economic data released during the quarter came in largely as expected, although labor markets showed signs of weakening. The Fed skipped a July rate cut due to elevated inflation readings in Q2 and then was forced into a larger 50 b.p. cut in September. Toward quarter end the data improved suggesting the economy is indeed in a soft landing. Economists responding to the October Wall Street Journal Economic Survey confirmed this by raising their forecasts for activity during Q4 and for 2025. A common observation this year has been the economists' repeated underestimation of the economy's strength. With one quarter to go, the average forecast for 2024 growth is now 2.21% compared to 1.01% in January 2024's survey. The average forecast for 2025 stands at 1.92%, with no survey participant expecting a recession.

Our review of industries generally reiterated last quarter's healthy top and bottom-line performance. However, this quarter the outlook for consumer services and financing sectors was mixed with reports of mounting stress and debt pressure on lower income consumers. While some softening seems consistent with the Fed's restrictive monetary policy, it does not square with euphoric stock markets and creeping multiple expansion. A significant implication is that economy wide financial conditions remain easier than the Fed Funds rate implies, and the central bank's rate cutting may proceed slower than expected.

Away from the U.S., the improvements we expected from the Chinese and European economies did not materialize in the third quarter. Authorities in both regions took further measures to ignite consumer spending. In Europe, the ECB and BOE cut rates and left markets anticipating further cuts. In China, authorities cut rates and added fiscal stimulus. Other emerging economies continued their monetary stimulus as currency stability returned. While geopolitical friction remains an ongoing concern, it appears the world away from the U.S. should be poised for a period of improved economic activity.

Scenarios

We propose three scenarios for the U.S. economy over the next 6 months:

1. Our most likely case has the U.S. economy growing at a steady clip of about 1.5% to 2.0% in 4Q 2024 and 1Q 2025. With the Fed expected to lower rates further during the next twelve months, the economy should receive enough support to grow at a lower, yet steady, rate. Momentum from a better-than-expected nine months in 2024, stable labor markets, and an improving outlook abroad should sustain the economy as we move into 2025. While the U.S. presidential candidates have different approaches to policy, the outcome is unlikely to alter the outlook over the short term. The eventual implementation of policy proposals may affect the economy's direction in late 2025 or early 2026. PROBABILITY 65%

2. A second scenario has the economy slowing abruptly to a rate of 0.0% to 1.0% at an annual rate during the next six months. In this scenario, the Fed slows rate cuts due to a pickup in inflation, firm labor markets, and elevated wages. In this scenario, longer-term rates return to levels last seen in April, lending becomes more restrictive, and consumers downshift their expenditures further. In addition, businesses curtail their investments, and activity overseas fails to lift off. PROBABILITY 15%

3. A third scenario has the economy expanding at a stronger pace of 2.5% to 3.0% at an annual rate during the next six months. In this scenario, the economy's momentum is boosted by productivity enhancing investments and more buoyant personal consumption. The Fed continues its rate cuts encouraging companies to invest further. The unemployment rate remains low and healthy wages arrest deterioration in consumer finances. Inflation stabilizes at a more acceptable pace without damaging confidence. Furthermore, China and Europe achieve better growth which helps power the global economy to better performance. PROBABILITY 20%

Market Outlook

Credit spreads narrowed slightly during the quarter reflecting sturdy creditworthiness and supportive investor demand. At current levels, they remain tight relative to history. In September, the Fed commenced a rate cutting cycle that we believe will proceed slower and involve fewer cuts than the rate hiking cycle. The economy will likely avoid a recession, although the Fed's slower pace of easing and the absence of fiscal stimulus may result in a more tepid growth rate for a prolonged period. Given this, we believe the portfolios should remain cautiously positioned, gaining the benefit of "carry" while avoiding the riskiest segments.

Consistent with our outlook, we began to upgrade our credit exposure and will likely limit purchases to the new issue market when borrowers offer attractive concessions or opportunities to improve yield without conceding creditworthiness. We continue to believe the securitized sector offers value relative to credit and will likely increase exposure to the sector if rates move higher and federal deficits remain unaddressed.

October 15, 2024

Important Information

GIA Partners, LLC ("GIA") is an SEC registered investment adviser.

This material is for information purposes only. It does not constitute an offer to or a recommendation to purchase or sell any shares in any security. Investors should consider the investment objectives, risks and expenses of any strategy or product carefully before investing.

Past Performance: The performance data quoted represents past performance. Past performance is not an indication of future performance provides no guarantee for the future and is not constant over time. The value of an investment may fluctuate and may be worth more or less than its original cost when redeemed. Current performance may be lower or higher than the performance data quoted.

Forecasts and Market Outlook: The forecasts and market outlook presented in this material reflect subjective judgements and assumptions of the investment manager and unexpected events may occur. There can be no assurance that developments transpire as forecasted in this material. Certain assumptions made in the preparation of the material may be subject to change without notice and GIA is under no obligation to update the information contained herewith.

Management Fees, as well as account minimums and other important information are described in GIA's Form ADV - Part IIA. Since management fees are deducted quarterly, the compounding effect will be to increase the impact of such fees by an amount directly related to the account's performance. For example, an account with a 10% gross annual return and a 1% annualized management fee that is deducted quarterly will have a net annual return of about 8.9%.

Index Definitions

Bloomberg U.S. Aggregate Index
The Bloomberg U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Bloomberg U.S. Treasury Index
This index is the U.S. Treasury component of the U.S. Government index. Public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Bloomberg U.S. Government/Credit Index
The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries and agencies. The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Corporate Index
This index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. (Future Ticker: I02765US)

Bloomberg U.S. Mortgage-Backed Securities Index
This index is the U.S. MBS component of the U.S. Aggregate index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

ICE BofA U.S. Corporate & Yankees Index
The ICE BofA U.S. Corporate & Yankees Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market by US and non-US corporations and non-US quasi-governments.

ICE BofA U.S. Corporate Index
The ICE BofA U.S. Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings).

ICE BofA U.S. High Yield Index
The ICE BofA U.S. High Yield Index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

ICE BofA Global High Yield Constrained Index
ICE BofA Global High Yield Index tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or eurobond markets and issuer exposure is capped at 2%..

ICE BofA US Emerging Markets Corporate Plus Index (EMUB)
The ICE BofA US Emerging Markets Corporate Plus Index is a subset of The ICE BofA Emerging Markets Corporate Plus Index including all securities denominated in US dollars.

ICE BofA Global Government Excluding the U.S. Index (N0G1)
The ICE BofA Global Government Excluding the U.S. Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency. N0G1 excludes U.S. government bonds.

Emerging Markets Bond Index Global Diversified (EMBI® Global Diversified):
The EMBI Global Diversified is a uniquely-weighted version of the EMBI Global. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts of debt outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global.

JP Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified)
The CEMBI tracks total returns of US dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries. Two variations are available: CEMBI Broad and CEMBI. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds. The CEMBI Broad Diversified limits the weights of those index countries with larger corporate debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding.

JP Morgan Government Bond Index-Emerging Markets (GBI-EM)
The GBI-EM is the first comprehensive, global local Emerging Markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. Variations of the index are available to allow investors to select the most appropriate benchmark for their objectives.

S&P 500 Index
An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

Nasdaq Composite Index
An index that tracks the change in the total market value of all companies listed on the Nasdaq Stock Market.

Russell 2000 Index
An index measuring the performance of the 2,000 smallest companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small cap stocks in the United States.

MSCI EAFE Index
The index is a capitalization weighted index that monitors the performance of stocks from Europe, Australasia and the Far East.

MSCI Europe Index
The index is a free-float weighted equity index measuring the performance of Europe Developed Markets.

MSCI Japan Index
The index is a free-float weighted equity JPY index.

MSCI Emerging Markets Equity

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.