MARKET REVIEW
SEPTEMBER 2024

RCB BANK
Trust & Wealth Management

Mixed Payrolls Picture
Selected Industries: 3-Month Avg. Job Gains

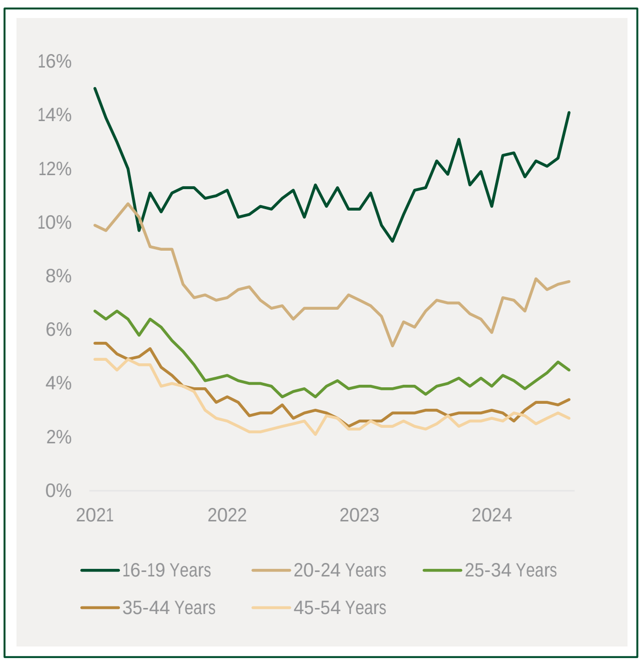
Source: Bloomberg. Past Performance does not guarantee future results.

U.S. nonfarm payrolls grew by 142,000 in August, which was below the Bloomberg median estimate of 165,000. July's payrolls gain was downwardly revised by 25,000 to 89,000, while the originally reported gain of 118,000 in June was revised down by 61,000 to 118,000. On August 21, the Bureau of Labor Statistics estimated the U.S. economy added 818,000 (or 28%) fewer jobs from April 2023 through March 2024 than originally reported.

Construction employment (+34,000 in August) rose to a new all-time high of 8.28 million last month, while the manufacturing sector shed 24,000 jobs. The divergent trajectories of these two cyclical industries suggest resilient demand for new housing and non-office building corporate facilities has been partially offset by weak demand for finished goods both in the U.S. and abroad.

The disproportionate strength in healthcare and government job gains in recent years suggests the job market was perhaps not as overheated as some thought given both sectors are considered relatively insensitive to economic growth. Healthcare (17.7 million) and government (23.3 million) combine to account for roughly 26% of total U.S. payrolls. Local government jobs (14.9 million) make up 64% of total government payrolls.

Youth Employment Challenges
Unemployment Rate by Age Cohorts



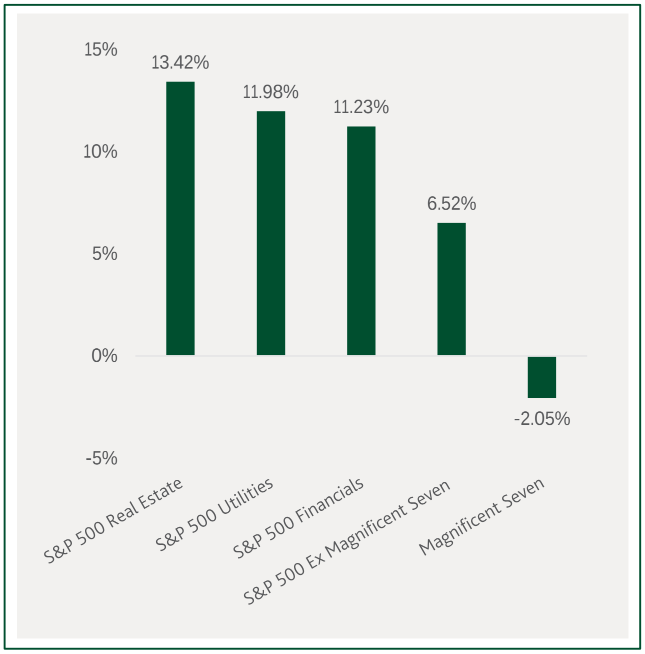
Source: Bloomberg. Past Performance does not guarantee future results.

The headline unemployment rate in the U.S. ticked lower to 4.2% in August from 4.3% in July, up from 3.8% one year ago and a cycle-low of 3.4% in April 2023. Over the last year-and-a-half, labor force participants under the age of 24 have experienced the sharpest rise in unemployment. Some of this might be related to employers prioritizing retaining seasoned staff over hiring inexperienced college graduates.

Individuals in the domestic labor force between the ages of 16 and 24 could also be facing increasing competition from immigrants for unskilled jobs. During the first two years of the pandemic, teenage workers were in particularly high demand to fill labor shortages throughout the service industry amid immigration restrictions and elevated industry turnover.

The expected beginning of the Federal Reserve's rate-cutting cycle on September 18 along with the completion of the U.S. presidential and congressional elections in early November could reduce business uncertainty and create the conditions for an improved hiring environment heading into 2025.

Equity Market Rotation
Two Month Return July & August



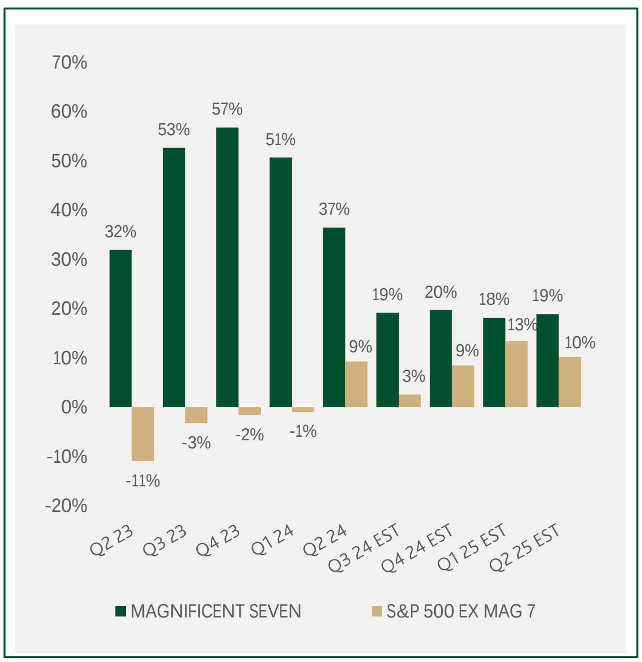
Source: Bloomberg. Past Performance does not guarantee future results.

August began with the equity market extending its largest pullback of the year. The S&P 500 index fell over 6% during the first three trading days of the month, extending its drawdown from July 16 through August 5 to 8.4%. Meanwhile, the technology-heavy Nasdaq index and Magnificent Seven stocks fell into correction territory with drawdowns of 13.1% and 17.1%, respectively.

The selloff was triggered by July's disappointing employment and PMI Manufacturing reports raising concerns about a weaker economy. Technical factors amplified the decline, including the abrupt unwinding of yen carry trade positions. The market quickly rebounded as investors were comforted by solid second quarter corporate earnings and expectations for a Fed rate cut in September.

The market rotation away from the Magnificent Seven stocks continued from July with the S&P 500 Ex Magnificent Seven index gaining 6.52% over the last two months, 8.57% stronger than the Magnificent Seven stocks' 2.05% decline. Interest rate sensitive sectors including real estate, utilities, and financials were among the top rotation beneficiaries as each sector gained over 11% during the last two months. Defensive sectors including consumer staples and health care also posted strong returns in August above 5%.

Improving Earnings Breadth
Earnings Growth YoY



Source: Bloomberg. Past Performance does not guarantee future results. Analyst projections Q3 2024 to Q2 2025. Magnificent Seven: Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Nvidia (NVDA), Meta Platforms (META), and Tesla (TSLA)

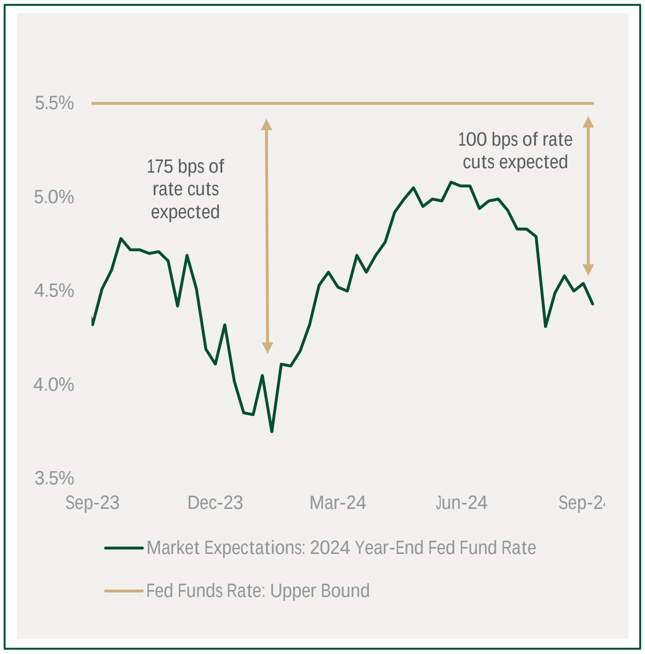
The S&P 500's second quarter earnings were stronger than expected with 13.97% growth that exceeded analysts' forecast for 8.34% growth. The index is becoming less dependent on the Magnificent Seven stocks as their earnings growth moderates and other areas of the index rebound. The S&P 500 ex-Magnificent Seven's 9.34% earnings increase, more than double the 4.04% analyst projection, was the first quarter with positive growth since the fourth quarter of 2022.

Cost cuts and lower inflation helped the S&P 500 operating margin grow 0.53% year over year to 15.01%. This was the second consecutive quarter with positive growth following six quarters of margin contraction largely due to inflation pressures.

S&P 500 revenue growth is also on pace to exceed analysts' projection with 5.83% growth versus the 4.56% analyst forecast. Sales growth is being led by the technology, energy, and health care sectors, with each posting growth around 8% or more in the period. Materials was the only sector with a sales decline

100 bps of Fed Cuts Priced in 2024

Fed Policy Rate and Year-End Expectations



Source: Bloomberg. Past Performance does not guarantee future results.

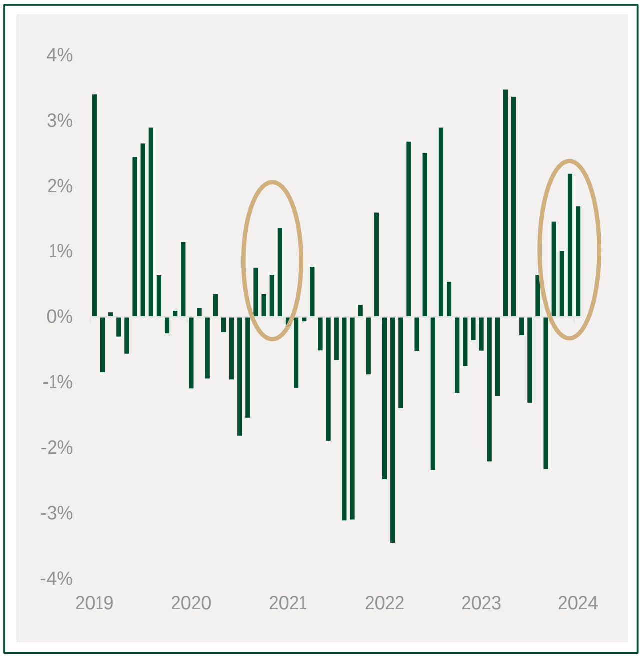
At his Jackson Hole keynote speech on August 22, Fed Chair Powell confirmed the expectations of most market participants when he said, "the time has come for policy to adjust" as the "upside risks to inflation have diminished… and the downside risks to employment have increased." In the first eight months of the year, the unemployment has increased from 3.7% to 4.2%, while the annual core consumer price index has cooled from 3.9% to 3.2%.

As of the first week of September, fed fund futures pricing suggested Fed policymakers would cut their benchmark rate by 1% over the next three months and by another 1% -1.5% in 2025. This marks a significant change from market-based expectations in May and June for less than 0.50% of rate cuts in 2024.

The pace of Fed rate cuts will likely depend on the trajectory of labor market data over the next several months as Fed officials have shifted their focus from the "price stability" part of their dual mandate to "maximum employment."

Treasuries Display Relative Strength

Bloomberg U.S. Treasury Index Monthly Returns



Source: Morningstar. Past Performance does not guarantee future results.

The broad U.S. Treasury market recorded its fourth consecutive monthly gain in August, the longest stretch of positive monthly returns in over 3 years. Since peaking in late April near 4.7%, 10-year Treasury yields have been driven lower over the last five months by tamer inflation, a normalizing job market, and building expectations for Fed rate cuts.

Yields on both the 2-year and 10-year notes fell below 3.7% in the first week of September as markets have priced 100 basis points of Fed rate cuts by the end of 2024 and another 100 basis points of cuts in 2025.

From the end of the first quarter through September 10, the Bloomberg U.S. Treasury Index (+5.50%) has outperformed the S&P 500 (+5.23%), the Nasdaq (+4.29%), the Russell 2000 (-0.71%), and the MSCI ACWI excluding U.S. Index (+2.99%). The strong relative returns of high-quality bonds during the most recent bout of equity market weakness from mid-July through early August helped limit drawdowns in diversified portfolios during this period.