CHOATE INVESTMENT ADVISORS

2024 Q3 REVIEW

Economic Conditions Remain Benign Ahead of U.S. Elections

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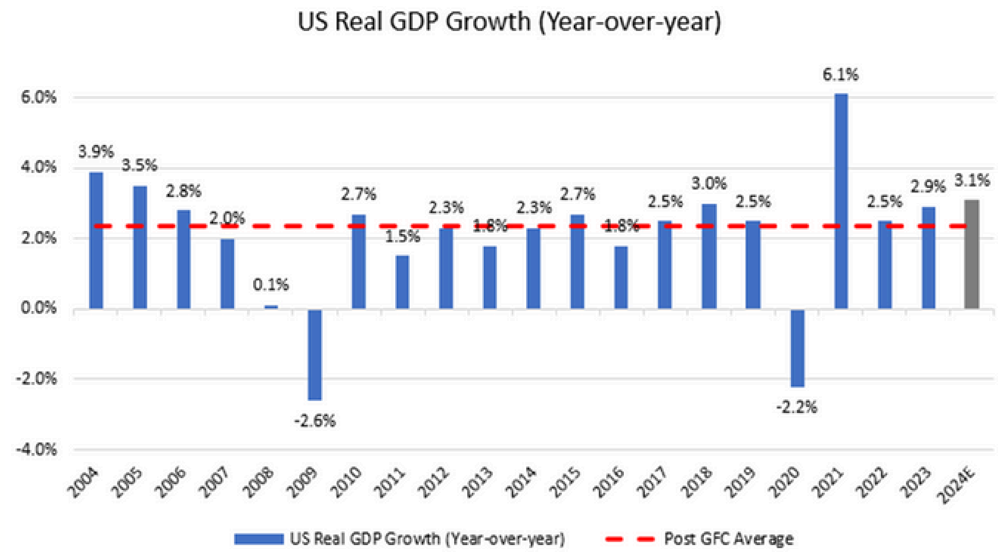
2024 Third Quarter Review

Economic Conditions Remain Benign Ahead of Election

This quarterly update will reach you just before the Presidential elections on November 5th. The outcome of the election may change our perspective in 2025 and beyond. We will have to react to future policy changes along with all investors. For now, we remain focused on explaining our view of current economic and market dynamics. Economic conditions continue to exceed investor expectations, while the heightened inflation fears of the past few years appear to be mostly tamed. Recognizing this good news, combined with strong and steady labor markets, the Federal Reserve finally lowered interest rates in September, providing further grounds for investor optimism about the economic outlook. Company management teams are not mentioning the word 'recession' on investor calls.

Chart 1: Real GDP growth rebounded to over 3%, above post GFC average of 2.4%



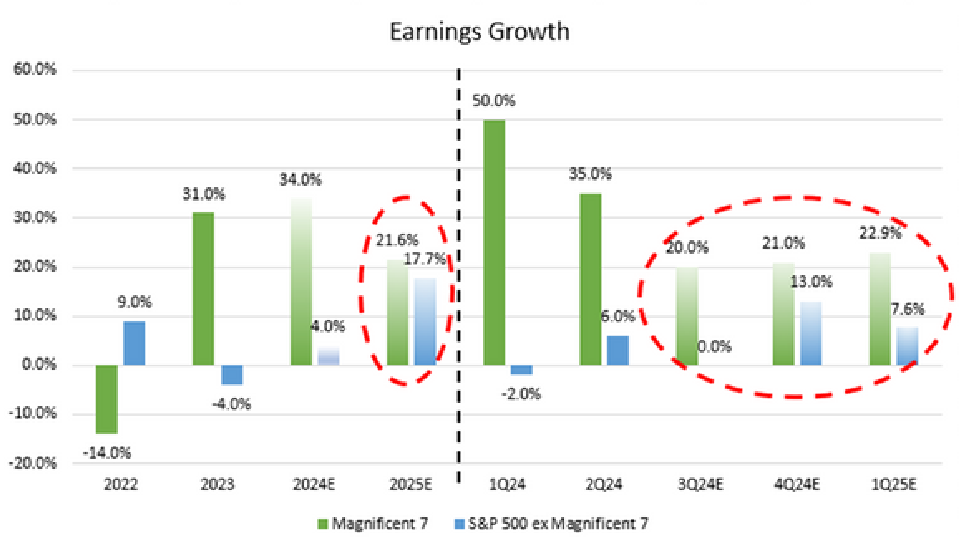
Source: Bloomberg; as of 9/30/2024

The financial market's ongoing rally continued with the MSCI All Country World Index up 6.8% in the 3rd quarter and up 19.0% for the year. The S&P 500 rose 5.9% this quarter and is up 22.1% year to date. The sudden decline in interest rates nudged bond prices higher, and the Bloomberg aggregate bond index rose 5.3% and is up 4.4% for the year.

Earnings growth appears to be broadening. While investment in AI and the "Magnificent 7" continue to drive earnings and share price increases, a recovery in earnings across most sectors in the market is an encouraging sign of underlying economic strength.

Earnings growth is expanding beyond the "Magnificent 7."

Chart 2: Earnings growth estimates converge in Q4 between mega cap tech and the rest of the market



Note: Earnings per share estimates for 2025 are calculated based off a weighted average weight in the S&P 500 Index as of 9/30/2024

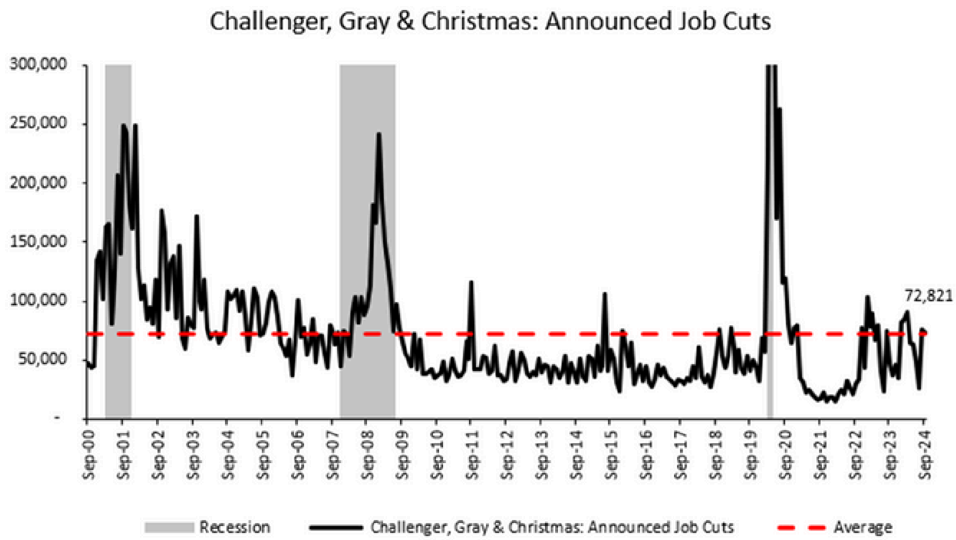
Source: Bloomberg, FactSet, and JP Morgan; as of 9/30/2024

The chart above also highlights that many companies were seeing earning declines over the past 5 quarters. Earnings for those firms may have further room to recover.

In addition, there were two favorable macro events in September. First, the Federal Reserve cut interest rates by 50 bps to 4.75%, which will have a positive and continuing effect on the economy. The cut in interest rates signals that the FED no longer fears inflation and is more concerned with the prospect of slowing economic growth. Economic conditions are a bit softer than a year ago, yet unemployment remains low and there have not been many announcements of sizable layoffs. We expect more interest rate cuts in coming months, but the frequency and size will be determined by any further slowdown in employment.

Source: Challenger, Gray & Christmas and Bloomberg; as of 9/30/2024

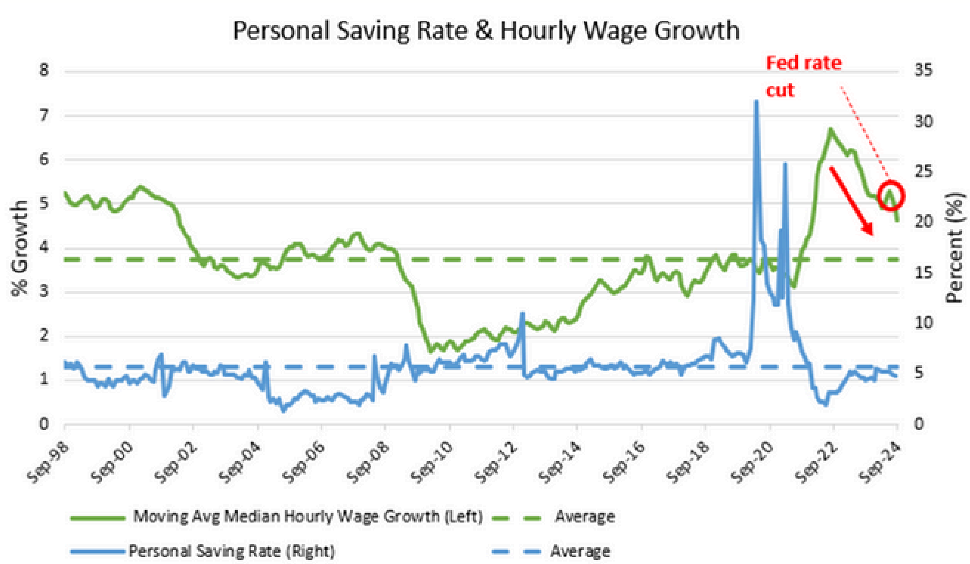
Chart 3: Announced job cuts in line with long-term average - layoffs over 100,000 would cause concern



Source: Challenger, Gray & Christmas and Bloomberg; as of 9/30/2024

In addition, the personal savings rate has rebounded off the lows and with wage growth still above pre GFC level, household finances seem stable.

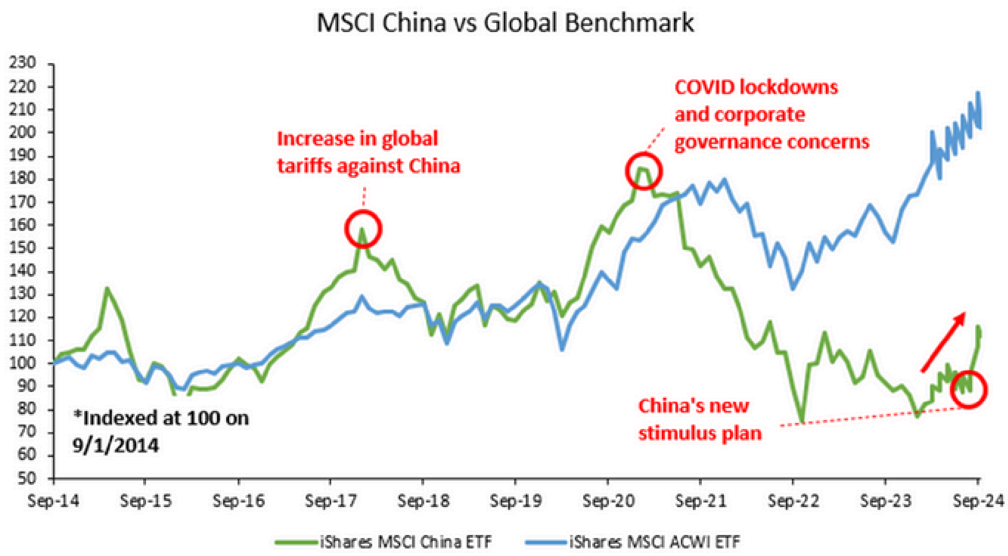
Chart 4: Wage growth remains strong and the personal savings rate is back near its historical average



Source: Bureau of Economic Analysis, Federal Reserve Bank of Atlanta, and FactSet; as of 9/30/2024

Near the end of September, China announced a substantial stimulus package intended to stabilize the real estate sector, and to support domestic consumption, as well as the stock market. This sparked a surge in Chinese stocks that had imploded over the past several years. We do not own Chinese securities directly, nor do we think the announced measures address the governance issues that are central to our China concerns. However, China's economy is 19% of global GDP and second only to the US at 24%. Therefore, the substantial stimulus in China can affect commodity prices, trading partners and certain economic sectors.

Chart 5: Despite recent bounce, China benchmark return has been only half as much as the return for the global benchmark over the past 10 years

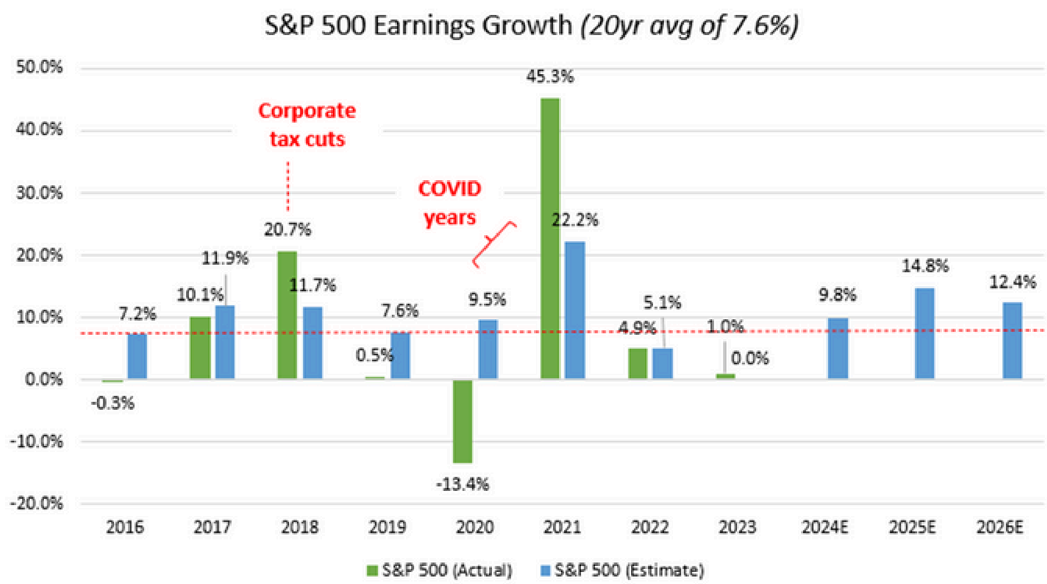


Source: Bloomberg; as of 9/30/2024

Promoting Chinese domestic consumption may reduce friction around China's large trade surplus and may boost corporate earnings of many multinational firms such as Nike, Starbucks, and Caterpillar, as well as many European firms. Both US presidential candidates are touting trade restrictions, so investors should expect tariffs to be a factor going forward. For example, the Petersen Institute assessed the potential impact of proposed Trump tariffs as both regressive and inflationary, and larger than any positive effect from a possible extension of the 2017 tax cuts.

Voters are anxious ahead of the US election. Historically, elections have not had dramatic impact on capital markets and investors are quite optimistic regarding corporate earnings growth in 2025. We do worry that a delay in the election outcome and any destabilizing disinformation are potential concerns for the market and economy.

Chart 6: Investors are forecasting above average earnings growth over the next two years, which could lead to disappointment



Source: FactSet; as of 9/30/2024

Over time, it is the growth in corporate earnings that drives stock prices higher, and markets will likely prove resilient if growth forecasts are accurate. A real concern is that investors are more optimistic going into 2025 than they were entering either 2023 or 2024. In those two years, many were predicting a recession, so expectations were lower than the current outlook.

Today, forecasts are for a "soft landing" and double-digit earnings growth. However, there are signs of economic weakness. For example, Amazon describes how consumers are "trading down" within segments, and Subprime (typically more vulnerable households) delinquencies for credit cards and auto loans recently rose above the post GFC averages. Lastly, the Conference Board collection of leading economic indicators continues to decline. This has historically been an accurate predictor of future economic concerns.

Chart 7: Conference Board US leading economic indicators continue to point to an economic slowdown

Source: The Conference Board and Bloomberg; as of 8/31/2024

Given positive sentiment and elevated valuations, we believe it is unlikely for stocks to repeat the stellar returns we have seen in 2023 and year-to-date in 2024.

We recently released a podcast discussing the election as it affects investing. Our August podcast talked about AI. Looking forward over the next few months, we will be discussing cybersecurity, the streaming media landscape and charitable giving. Our podcast series permits us to go into greater depth on relevant topics, and we hope you have the opportunity to listen.

We remain cautious optimists and believe owning stocks in line with your strategic target is an appropriate baseline. However, we will be monitoring unemployment, inflation, corporate earnings and key leading economic indicators, while awaiting the election outcome.

We look forward to hearing from you, and please reach out with any questions. We look forward to updating you on your portfolio and on our outlook for the next year.

Best regards,
The ChoateIA Investment Team

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The Bloomberg US Aggregate Bond Index is an unmanaged index that covers the investment grade fixed rate bond market index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.