Condor Capital Quarterly Newsletter

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Soft Landing Comes into Focus, Value Leads Stocks to New All-Time Highs, Fed Recalibrates Monetary Policy with First Cut

The S&P 500 Index rose by 5.89% in the third quarter of 2024, hitting new all-time highs after a brief summer sell-off in risk assets. Value stocks led the index higher, with small-capitalization companies outgaining their large-cap counterparts. The shift in leadership is a healthy development and a key sign of broadening participation beyond the Magnificent Seven stocks. Additionally, economic data is signaling a soft landing. The Federal Reserve Open Market Committee (FOMC) lowered the federal funds rate by 50 basis points at their September meeting, bringing the target range to 4.75% - 5.00%. Jerome Powell, the Chairman of the Federal Reserve, emphasized the balance of the institution's dual mandate as inflation readings approach their target 2% level and the labor market remains generally stable as pandemic-era tightness abates without spiking unemployment. The recalibration of monetary policy is met with data supporting that a soft landing is in sight, such as the most recent U.S. GDP report from the Bureau of Economic Analysis that topped economists' estimates. To achieve the soft landing, the FOMC wants to ease financial conditions to ensure the labor market does not weaken further while stimulating economic growth. Market participants are pricing in another 50 basis points of cuts across the final two Fed meetings of 2024.

The S&P 500 Index once again finished the quarter at all-time highs, with value stocks outpacing growth this time around.

International equities outperformed the U.S. market for the first time in 2024. China's government announced significant stimulus.

Fixed income posted strong performance, as the beginning of the Fed rate cut cycle boosted bond prices.

International equities outperformed domestic equities in the third quarter of 2024. The MSCI EAFE Index returned 7.35% in the quarter, while the MSCI Emerging Markets Index returned 8.82%. China's economic woes of a struggling real estate market, dismal stock market performance, high youth unemployment rates among recent graduates, and fears of deflation led to an unprecedented all-in government response. The comprehensive plan was met with investor enthusiasm to end the quarter.

In fixed-income markets, the third quarter brought a tailwind following the long-anticipated FOMC decision to cut the federal funds target rate. Bond prices rallied into quarter-end and with a strong total return for the period as the Bloomberg U.S. Aggregate Bond Index posted a 5.20% gain. The U.S. 10-year Treasury finished the quarter more than 60 basis points lower to 3.78%. Investment grade outperformed high-yield credit in the third quarter.

Condor Capital's Outlook

Looking forward, we enter the year's final quarter with a market that has gained over 20% year-to-date and a relatively clear roadmap of where policymakers want to go. To be sure, there are uncertainties like the looming presidential election, and markets could certainly experience some volatility heading into November, but we believe that investment decisions should be based on longer-term fundamentals, and that those longer-term fundamentals remain intact. As a result, we will be focused on economic data to gauge the trajectory of the economy as the Federal Reserve positions monetary policy for a soft landing. When analyzing recent economic data, a sound macroeconomic backdrop remains in the U.S. We have seen a steady decline in inflation since the pandemic peak and, while higher prices have been an important pain point for many consumers, it would likely take a significant change for that trend to reverse at this point. Meanwhile, the labor market is holding firm, and the most recent jobs report from the Labor Department showing 254,000 new jobs vs expectations of 150,000 is another strong data point indicating that the odds of a recession are still low.

Amid this generally positive macro environment, the business environment remains very healthy. Earnings for the largest companies whose stocks underly the S&P 500 Index are expected to grow by 14.6% in the final quarter of 2024 and another 14.9% in fiscal 2025, according to an aggregation of Wall Street analyst expectations by FactSet. Meanwhile, revenue is expected to grow 5.1% in Q4 and by 5.9% over the course of 2025, indicating that earnings power and profit margins should grow even more than top-line revenues. Finally, further declines in interest rates could reinvigorate capital markets activity. Many firms that delayed taking on new debt issuances due to the recent high-rate environment may be more inclined to refinance existing debt issuances at lower rates, reducing their costs, or tap the debt market as rates fall to fund a new wave of R&D and other spending. For private firms and companies earlier in their maturation cycle, lower rates reduce the cost of financing as well and make the prospect of an Initial Public Offering (IPO) more attractive.

Lower interest rates will likely be a tailwind to the consumer and spur a refinancing cycle there as well. The average 30-year fixed mortgage has declined nearly 1.00% since the spring, hitting the lowest level since September 2022. This is a welcome development for a housing market that has a structural supply shortfall where lower financing costs will hopefully help increase the supply of single-family homes in the coming quarters. The lower mortgage rate story is more of a medium-term trend and likely a 2025 story to monitor.

Outside of the U.S., we will be monitoring the developments in China's economy. China's government stepped into financial markets at the end of the third quarter to support the battered property sector. They eased monetary policy, and we look next to see if they will deploy a fiscal component to aid their recovery. Their stimulus measures will likely reverberate beyond their borders and impact the global economy more broadly. Another potential risk outside the U.S. is the evolving unrest in the Middle East. As tensions spill beyond borders, the potential risk of a crisis rises. How these developments impact financial markets is uncertain, but we will monitor the events as they develop.

In conclusion, while we are aware that we will be entering a time of heightened stress and headlines as we get closer to November 4th, 2024, we reiterate that this is not historically a key driver of the investment returns that your nest eggs rely on. We believe the potential short-term gyrations should not be the primary focus, but instead corporate earnings and economic data should drive medium and long-term investment decisions.

After a Massive Breach, Is Your Data in Danger?

National Public Data, a consumer data broker, confirmed recently that a hacker had targeted the company in December 2023, “with potential leaks of certain data in April 2024 and summer 2024.”[1] Other reports indicate that this leaked data had been found on the dark web and could include the names, addresses, phone numbers, and Social Security numbers of millions of Americans.[2] A data breach of this magnitude is especially worrisome, and is the latest in a string of major data breaches this year.[3] If you’re wondering what you can do to help protect yourself against the growing threat of identity theft, here are some steps to consider.

One way to reduce your risk after a data breach is to place a fraud alert or a credit freeze on your credit report. Both are free tools that can help you prevent fraud, but they work somewhat differently.

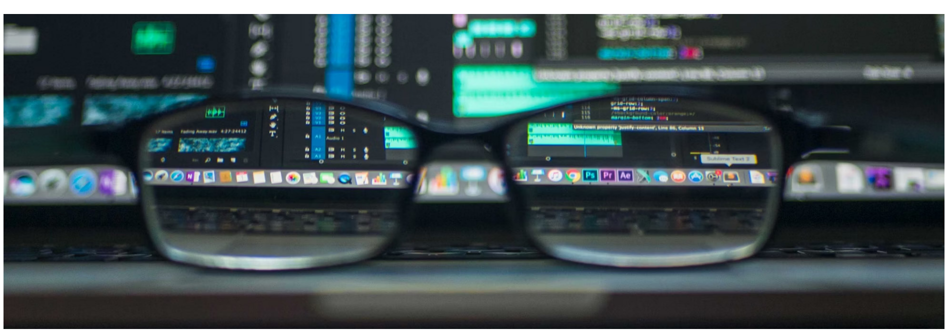
A fraud alert is a notice placed on your credit report that warns potential creditors that your identity has been compromised. It allows them to check your credit but requires them to take extra steps to verify your identity before issuing new credit in your name. You can place a fraud alert by contacting one of the three major credit bureaus (Equifax, Experian, and TransUnion), and that agency will notify the others. An initial alert will last for one year, but can be extended to seven years if you have become an actual, rather than potential, victim of fraud.

A credit freeze (sometimes called a security freeze) may also help protect you if you suspect your personal information was stolen, but it’s more stringent. Once you have a credit freeze in place, potential creditors won’t be able to access your credit report or credit score (there are some exemptions). This helps prevent identity thieves from opening fraudulent accounts in your name. To request a credit freeze, you will need to contact each of the three major credit reporting agencies. The credit freeze will stay in place until you decide to lift it, which you will need to do at least temporarily, before applying for credit.

A fraud alert or credit freeze can be set up online, by phone, or by mail, following each credit bureau’s instructions. This may also be a good time to request a free credit report so that you can check recent credit activity.

Continue to monitor your personal and financial information:

- Consider subscribing to a credit monitoring service if you need extended support. These services come at a cost, but may bundle together credit report monitoring, credit report locks, scans of the dark web, help with recovering from identity theft, and identity theft insurance.
- Periodically review your credit reports to spot suspicious activity. You can receive free weekly online reports from all three credit bureaus at the official site annualcreditreport,com.
- Sign up for alerts for your bank, financial, and credit card accounts that will notify you when a transaction has occurred or someone has signed into your account. Check your accounts frequently and review your statements.
- Pick strong passwords that are different for each account, and change them periodically. For an extra layer of protection, use a password manager that generates strong, unique passwords that you control through a single master password.



Here are the website addresses and phone numbers for each of the three major credit bureaus.

- Equifax at Equifax.com
  888-298-0045
- Experian at Experian.com
  888-397-3742
- TransUnion at Transunion.com
  800-916-8800

1) National Public Data, August, 2024

2) KrebsonSecurity.com, August 15, 2024

3) Identity Theft Resource Center, 2024

Chaos in the Sky: New Consumer Protections for Weary Airline Passengers

Banks, hospitals, retailers, and airlines are still dealing with the fallout from the massive CrowdStrike IT outage in July. The tech meltdown impacted businesses across the globe, and airlines were hit particularly hard. This was not good news for the airline industry, which just last year had the highest number of flight delays ever recorded.[1]

The U.S. Department of Transportation determined that the delays and cancellations resulting from the CrowdStrike outage were "controllable," or caused by the airline. As a result, most airlines were obligated to provide some sort of compensation and assistance to stranded travelers.[2]

Fortunately, there could be much-needed relief for airline passengers on the horizon, thanks to a new federal law and rules issued by the U.S. Department of Transportation.

In the past, airline passengers were forced to figure out how to obtain a refund by researching an airline's website or waiting for hours on the phone with an airline's customer service department. Airline passengers will be entitled to an automatic refund for:

- Cancelled or significantly delayed flights (e.g., departure or arrival times delayed by three hours or more for domestic flights and by six hours or more for international flights), regardless of the reason
- Significantly delayed baggage return
- Extra services (e.g., Wi-Fi, seat selection, or inflight entertainment) that were paid for but not provided

Airlines must issue refunds of the full amount of the ticket purchased within seven business days of refunds becoming due for credit card purchases and 20 days for other payment methods. Passengers who accept a ticket for a significantly delayed flight or are rebooked on a different flight to their destination will not receive refunds. The refunds must be in the form of cash or whatever original payment method was used to make the purchase (e.g., credit card or airline miles). Finally, airlines are not allowed to substitute other forms of compensation (e.g., vouchers or travel credits) unless a passenger affirmatively chooses to accept an alternate form of compensation.

Many airlines advertise cheap "teaser" fares that don't take into account additional fees — all of which can significantly increase the cost of a ticket. Airlines will be required to disclose various ancillary fees up front, such as charges for checked bags, carry-on bags, and changing or cancelling a reservation. They must also provide a detailed explanation of each fee before a ticket can be purchased. In addition, under a proposed rule airlines will be prohibited from charging families an extra fee to guarantee a child will sit next to a parent or adult travel companion.

These consumer protections are scheduled to have different implementation periods over the next year. In addition, the rule on surprise fee disclosures was temporarily blocked by a U.S. Appeals Court last week. Visit the U.S. Department of Transportation's website at transportation.gov/airconsumer for more information.

1-2) U.S. Department of Transportation, 2024