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INVESTMENT REVIEW

3Q 2024

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TABLE OF CONTENTS

	PAGE
ECONOMIC COMMENTARY By Harold G. Kotler, CFA *Founder-Chairman, Chief Investment Officer*	3
MUNICIPAL BOND	7
TAXABLE BOND	8
DOMESTIC EQUITY	9
GLOBAL EQUITY	10

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ECONOMIC COMMENTARY

BY HAROLD G. KOTLER, CFA
Founder-Chairman, Chief Investment Officer

As we enter the final weeks of the presidential election season, pundits will inevitably prognosticate on how any number of events will unfold depending on which candidate wins. This is a mistake. Any attempt to predict what might happen is a fool's errand.

Below I have included excerpts from GW&K's most recent Global Perspectives, "Keeping Your Portfolio Above the Political Fray," by Global Strategist, Bill Sterling, which offers three examples that emphasize this point.

Sector Surprises: When Conventional Wisdom Fails

Even those who correctly predict election results can find their company- or sector-specific bets going awry. Consider three recent examples that defied conventional wisdom:

1. **Apple under Trump:** Despite escalating US-China trade tensions during the Trump administration, shares of the heavily China-exposed Apple gained 351%, handily outpacing the S&P's 81% gain over the same period.

2. **Clean energy under Trump:** Despite Trump being viewed as no friend to the clean energy industry, the iShares Clean Energy ETF soared by 309% during the Trump administration, outpacing the S&P 500 while the traditional S&P 500 Energy sector lost 30%.

3. **Energy under Biden:** Contrary to fears of an anti-fossil fuel agenda, the S&P 500 Energy Sector Index surged 148% under President Biden, outpacing the tech sector and more than doubling the broader market's 53% return. Ironically, the iShares Clean Energy ETF lost half of its value, while oil and gas production rise to record highs.

In this same piece, Bill also notes stock market performance since 1928 under all US presidents; with the exceptions of Presidents Hoover, Nixon, and Bush 43, the stock market rose under every administration, and each time by double digits (see below).

Stock Market Performance Under US Presidents Since 1928

PRESIDENT (1928 - 1977)	Annualized returns (%)	PRESIDENT (1977 - 2024)	Annualized returns (%)
Hoover	-26.3%	Carter	12.5%
Roosevelt	13.7%	Reagan	15.0%
Truman	14.8%	Bush (41)	14.8%
Eisenhower	15.8%	Clinton	17.5%
Kennedy	10.1%	Bush (43)	-3.8%
Johnson	10.6%	Obama	15.5%
Nixon	-0.6%	Trump	16.5%
Ford	15.3%	Biden	12.5%

Note: Data from 3/4/1929 through 7/31/2024
Sources: GW&K Investment Management, Standards & Poors, and Macrobond

Obviously, the list reflects very different policy makers over those 96 years. And yet, the intrinsic strength of the US economy has provided wonderful consistency

Continued on next page

throughout. While there will always be hiccups, a private sector geared to adjust and thrive ensures that those are few and far between. As I discussed last quarter, the Artificial Intelligence (AI) revolution could be as impactful as the Industrial Revolution, taking the recent advances in the technology revolution to a whole new level. I just read Walter Isaacson's book, *Steve Jobs*, a biography of the Apple co-founder, which included a beautiful summary of the relentless push toward innovation over his 30 years with the company.

Knowing our limitation in predicting economic outcomes, how should we approach the present moment? Let's take the easy stuff first. With the Fed's 50 basis point reduction already enacted, we can be fairly certain that short-term rates are trending down; how quickly and by how much are not critical questions. What is important to understand is that the markets are forward-discounting mechanisms and companies will begin to adjust to this new paradigm. The prior cycle's high short-term rates succeeded in cooling inflation, but they also caused major dislocations in the economy, both for businesses and individuals. With the pivot in monetary policy, business activity will accelerate, and investment opportunities will broaden.

While it's true that the Federal Reserve Board establishes the direction of short-term rates, it has no such control over long-term interest rates, which are determined by the markets. These will instead be driven by the future rate of inflation and the complicated intersection of supply and demand. Turning back to the election, it seems clear that neither presidential candidate has any interest in containing deficits. In fact, we haven't had a balanced budget since President Clinton's first term. The deficit is now $1.9 trillion, up twofold from five years ago, while government debt stands at $35.5 trillion, nearly doubling over the last decade. It sounds like both candidates will be comfortable with deficit spending for different reasons, the Democrats providing funds for the disadvantaged, the Republicans reducing taxes. Both argue that their policies will result in faster economic growth and higher revenues. Practically speaking, deficits will likely continue to grow, as will the cost of servicing the debt.

We are left with an economy that will benefit from the reduction of short-term interest rates, but will be held back by a federal government increasingly comfortable with deficit spending. As short-term rates decline, money market and other short-term debt instruments will lose buying power. Intermediate and longer-term bonds should provide more nominal income, but real rates of return may not look as good.

One solution is to lean on a diversified equity portfolio, even with multiples currently sitting at 20-22x this year's earnings. With the AI revolution supplying a critical tailwind and corporate decision makers prudently deploying capital, profit growth could easily surprise to the upside over these next few years. Fortunately, neither consumers nor companies are over-leveraged and with nearly $7 trillion in money markets waiting for investment opportunities, there seems to be reasonable hope that the markets will continue to improve.

As we look to the next four years, we all realize that there are many areas of government that need a fresh look and creative restructuring. While a business-as-usual attitude from our politicians will not be sufficient to bring our country together, a business-as-usual approach from our private sector should continue to create value and drive investment returns. We only can hope that the new administration finds the courage and creativity to heal social divisions. But even in these complicated times, please know we believe in the resilience of the markets and will maintain our discipline regardless of the outcome in November.

Harold G. Kotler, CFA
Founder-Chairman, Chief Investment Officer

THIRD QUARTER 2024 GW&K AT A GLANCE

$53.5 BILLION — TOTAL ASSETS UNDER MANAGEMENT

180 — EMPLOYEES

49 — INVESTMENT PROFESSIONALS

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THIRD QUARTER 2024

ECONOMY

- The economy has been surprisingly resilient, with the Atlanta Fed estimating Q3 growth of 2.5% following 3.0% for Q2. Consumer spending remains a key driver of growth.
- The labor market is cooling, evidenced by slower job growth and a rising unemployment rate. Overall labor turnover has decreased, with lower rates of hiring, quits, and layoffs.
- Progress towards disinflation has been significant after a brief stall. The Fed's preferred measure of core PCE inflation rose at a 2.1% annual rate over the past three months, slightly above the Fed's 2% target.
- Despite weakness in housing and manufacturing, most economists believe a recession will be avoided due to service sector resilience and generally supportive financial conditions.

FED ACTION

- In September, the Federal Open Market Committee (FOMC) made a significant move, with all but one official voting for a half-point rate cut, initiating the easing cycle.
- This was the first rate cut in four years, lowering the interest rate target to a range of 4.75% to 5%. Officials projected two more quarter-point cuts this year and four more next year.
- The size of the cut suggests the Fed now views the recent labor market slowdown as a greater risk than inflation. This opens the possibility for another half-point cut this year if unemployment rises more than expected.
- Futures markets anticipate steeper rate cuts than the FOMC median through 2025, but then align with hawkish FOMC members' projections from 2026 onward, suggesting a potential rate-increase cycle.

BOND MARKETS

- Taxable fixed income posted strong gains in Q3, with all sectors delivering positive total returns. Overtly dovish Fed messaging combined with weakening employment data drove interest rates significantly lower.
- Corporate bonds continued to herald a benign economic outlook. Aside from a brief bout of risk-off sentiment in early August, spreads traded in a narrow range and within a few bps of their GFC tights.
- Within the securitized space, Agency MBS performed well, as 30-year nominal spreads tightened, which helped drive positive excess returns relative to corporates.
- Municipal bonds posted their strongest Q3 returns since 2011, erasing earlier losses and pushing YTD performance into positive territory. A surge in new issue volume, however, tempered the municipal rally relative to Treasuries.

INDEX PERFORMANCE

09/30/24

	QUARTER	YEAR TO DATE
Bloomberg 10-Year Municipal Bond Index	2.64%	1.02%
Bloomberg Aggregate Bond Index	5.20%	4.45%
Bloomberg High Yield Index	5.28%	8.00%
Dow Jones Industrial Average	8.72%	13.93%
S&P 500 Index	5.89%	22.08%
Russell 2000 Index	9.27%	11.17%
MSCI World Small Cap ex USA Index	10.45%	11.53%
MSCI World Index	6.36%	18.86%

DOMESTIC EQUITY MARKETS

- US equity markets advanced in Q3 supported by cooling inflation and the Fed's long-awaited reduction in interest rates, despite some signs of weakening economic growth. Market leadership broadened and rotated as evidenced by the outperformance of small cap stocks and the resurgence of rate-sensitive market sectors.
- The S&P 500 gained 5.9% for the quarter and underperformed the Russell 2000 (+9.3%). The equal-weighted S&P 500 gained 9.6%, further demonstrating market broadening.
- Within large caps, rate-sensitive sectors led. Utilities and Real Estate performed best, followed by Industrials and Financials. Energy was the only sector to lose value as oil prices declined. Information Technology and Communication Services also lagged.
- Value outperformed Growth in both the large and small-cap markets, and investors demonstrated a preference for value-oriented sectors and low-quality factors.

GLOBAL EQUITY MARKETS

- Non-US developed markets ended Q3 broadly higher supported by monetary easing in Europe and China stimulus.
- The US Dollar Index fell -4.8% as the Fed cut rates for the first time in four years. The yen was a standout, surging 12.5% against the dollar as the Bank of Japan increased its key policy rate to 25 bps.
- The MSCI World Small Cap ex USA Index (SC) advanced 10.5% versus a 7.7% gain for the MSCI World ex USA Index of large cap (LC) companies.
- Sector performance was largely positive in USD excluding Energy, which declined on lower oil and gas prices. LC and SC Real Estate, Utilities, and Communication Services were among the top performers, while Information Technology trailed the Index.

INVESTMENT STRATEGIES

MUNICIPAL BOND

We combine a rigorous, research intensive, credit selection process with active management. Our goal is to take advantage of market inefficiencies and find opportunities across the yield curve to protect and grow principal and income.

TAXABLE BOND

Our multi-sector approach takes advantage of the relative valuation among distinct bond sectors and the increased opportunities to generate income and capital appreciation. We build diversified, yield-advantaged portfolios that generate steady, incremental income and provide downside risk protection.

DOMESTIC EQUITY

We develop a deep understanding of the companies in which we invest through disciplined and intensive fundamental research. Our focus is on finding well-managed, quality companies, which are resilient.

GLOBAL EQUITY

We take advantage of market inefficiencies to find quality growth companies that may be undervalued, underappreciated, or under-researched. Our rigorous, bottom-up process focuses on a company's upside potential and downside risk.

MUNICIPAL BOND STRATEGIES

Municipal bonds posted their strongest third-quarter returns since 2011, erasing earlier losses and pushing year-to-date performance into positive territory. Following the Treasury market's lead, tax-exempt yields fell significantly, particularly at the short end, as the Fed kicked off its first easing cycle in four years. A surge in new issue volume, however, tempered the municipal bond rally, as borrowers rushed to take advantage of lower rates and stay ahead of any election-related volatility. Supply jumped 38% year-over-year, with $136 billion coming to market during the quarter, keeping annual issuance on track to surpass $500 billion for the first time ever. The influx of supply forced many issuers to offer concessions to attract buyers, especially given the large number of megadeals hitting the street on a weekly basis. Demand actually hung in well under the circumstances, supported by heavy reinvestment flows in July and August and a resurgence of mutual fund inflows throughout the quarter. By the end of September, municipal bond yields had fallen 20-80 basis points from June levels, with ratios relative to Treasuries holding steady at the short end, but cheapening slightly for longer maturities. The municipal curve steepened in line with the broader market, marking the end of a prolonged inversion and returning to a more normalized slope.

Broader macro forces drove the third-quarter gains, as economic data pointed toward significant progress on the Fed's dual mandate of maximum employment and stable prices. Inflation pressures eased, with key indicators moving closer to the Fed's two percent target ("a few tenths above two" in Fed Chair Powell's words). At the same time, the labor market cooled off, with decelerating job creation, rising unemployment and increased workforce participation. Citing moderating growth and well-anchored long-term inflation expectations, the Fed delivered a 50 basis-point rate cut in September and indicated that two more 25 basis-point cuts could follow by yearend. The move was widely anticipated, though the magnitude was in doubt right up until decision day. By the end of September, the yield on the two-year Treasury had fallen 111 basis points for the quarter, far more than the 62 basis-point drop for the 10-year, pushing the 2s-to-10s slope back into positive territory for the first time in two years. The Fed has rejected any hint of "mission accomplished" on their mandate and stressed that where we go from here will depend on the data.

The municipal bond market enters the fourth quarter in excellent shape. Tax-exempt yields, while down from their year-to-date highs in May, are still elevated by historical standards. The yield curve has normalized, with the middle portion now back to an upward slope, improving the prospects for roll and increasing expected return in the coming months. On the fundamental side, state and local governments continue to enjoy a stable financial outlook, with most looking at low-single-digit revenue gains, manageable expense growth, and significant financial flexibility, a product of robust reserve balances. To be sure, we could see some near-term volatility emerge, with heavy new issue volume, seasonally low reinvestment flows, and investor caution heading into the November election.

16 MUNICIPAL INVESTMENT PROFESSIONALS

22 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

John B. Fox, CFA	Partner, Director, Fixed Income
Brian T. Moreland, CFA	Partner, Portfolio Manager
Kara M. South, CFA	Partner, Portfolio Manager
Martin R. Tourigny, CFA	Partner, Portfolio Manager

GW&K MUNICIPAL BOND STRATEGIES

- SHORT-TERM MUNICIPAL BOND
- 2–8 YEAR ACTIVE MUNICIPAL BOND
- 2–8 YEAR ACTIVE MUNICIPAL BOND ESG
- MUNICIPAL BOND
- MUNICIPAL BOND ESG
- MUNICIPAL BOND PLUS
- MUNICIPAL ENHANCED YIELD

> *"The municipal bond market enters the fourth quarter in excellent shape...With supply showing no signs of relenting to start the fourth quarter, we remain well-positioned to take advantage of any potential volatility from the upcoming election cycle."*

Even so, the tailwind of the Fed's easing cycle, still in its early innings, should help to counter any hesitation to step into the market, as the desire to lock in favorable tax-equivalent yields before they decline may be hard to resist. In that way, we would likely view any market selloff this fall as a buying opportunity.

Our trading activity in the third quarter reflected the elements at play in the market, namely, heavy primary issuance and very light secondary flow. Approximately three-quarters of our purchases came from new deals, which offered meaningful concessions in order to facilitate market absorption. With so many issuers competing for investor attention, we were able to sift through the bevy of offerings, exploiting the most value-added opportunities. With supply showing no signs of relenting to start the fourth quarter, we remain well-positioned to take advantage of any potential volatility from the upcoming election cycle.

TAXABLE BOND STRATEGIES

12 TAXABLE INVESTMENT PROFESSIONALS

21 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

John B. Fox, CFA	Partner, Director, Fixed Income
Mary F. Kane, CFA	Partner, Portfolio Manager

GW&K TAXABLE BOND STRATEGIES

- SHORT-TERM TAXABLE BOND
- INTERMEDIATE TAXABLE BOND
- CORE BOND
- CORE BOND ESG
- ENHANCED CORE BOND
- ENHANCED CORE BOND ESG
- TOTAL RETURN BOND
- CORPORATE BOND OPPORTUNITIES
- SHORT-TERM FOCUSED HIGH INCOME

Midway through the third quarter, the soft-landing scenario was briefly upended by an unexpected weakening in the labor market that sparked fears around growth and a potential policy mistake. A sharp rise in the unemployment rate triggered a popular recession indicator and sent markets into a state of heightened volatility. While the employment side of the Fed's dual mandate was starting to deteriorate, benign readings in inflation data furthered confidence the 2% target was in sight. With inflation risks ebbing, the key determinant to upcoming monetary policy decisions shifted squarely to employment. Fed Chair Powell wasted no time in indicating that further cooling in labor-market conditions were not welcome and that a rate cut was forthcoming. Citing greater confidence that the risks to achieving its employment and inflation goals were roughly in balance, the Fed cut rates by 50 basis points at the September FOMC meeting and indicated another 50 basis points of cuts by yearend. The Committee also signaled an accommodative policy path, projecting a longer-term fed funds rate of 2.75-3.0%.

The Bloomberg Aggregate Bond Index delivered a strong return of 5.2% for the third quarter, with all sectors of the taxable bond market delivering positive total and excess returns. Overtly dovish messaging, combined with weakening employment data, drove interest rates significantly lower. The front end of the yield curve led the rally, with 2-year and 10-year Treasury yields sliding 111 and 62 basis points, respectively. This bullish steepening pushed the slope of the 2s-to-10s yield curve into positive territory for the first time in two years. If the economy manages a soft landing, the recession foretold by the yield curve will go down as the biggest false signal in history.

The corporate bond market continued to herald a benign economic outlook, indicating little more than a 10% chance of a recession, in contrast to the 30% odds assigned by economists. Aside from a brief bout of risk-off sentiment in early August, spreads traded in a narrow range and within a few basis points of their GFC tights. Within the high yield sector, lower-quality idiosyncratic stories in CCC-rated securities drove spreads 166 basis points tighter, handily outperforming the higher-quality BB-sector, which saw modest spread widening. The corporate sector continues to benefit from a strong fundamental backdrop supported by solid balance sheets, resilient earnings, and low-default rates. Supply-demand dynamics remain favorable as robust issuance is met with investors' insatiable appetite for appealing all-in-yields.

Within the securitized space, Agency MBS performed well as 30-year nominal spreads tightened, helping drive positive excess returns relative to corporates. Spreads remain attractive from a historical standpoint and offer appealing risk-adjusted returns relative to many lower-quality areas of the corporate market. Specified pool valuations stand to benefit from the concern around higher prepayment activity as investors seek call protection. Asset-backed securities widened modestly, but continue to offer an attractive high-quality source of income in the front end of the yield curve.

> *"While the risks to the economy have undoubtedly risen, a soft-landing scenario remains our base case...Strong consumer spending, subdued inflation, and a recalibration of Fed policy are all supportive of modest growth ahead."*

While the risks to the economy have undoubtedly risen, a soft-landing scenario remains our base case. We believe that after an extended period of restrictive monetary policy the economy is slowly moderating, not collapsing. Strong consumer spending, subdued inflation, and a recalibration of Fed policy are all supportive of modest growth ahead.

Absent a significant deterioration in the economic outlook, we expect to see a protracted period of range-bound rates. The futures market has already fully discounted the Fed's projected easing policy path to be realized by early 2026, making it difficult for front-end maturities to rally meaningfully from here. On the other hand, with the Fed recalibrating before declaring total victory on inflation, and with fiscal policy still aggressively stimulative, the yield curve could see longer rates sell off. While rates have slipped off recent peaks, they remain attractive relative to post-GFC history, and any significant weakness is likely to be capped by investors seeking compelling absolute yields.

A soft-landing scenario and the return of the so-called "Fed put" is a supportive setup for risk assets to be emphasized for the positive carry. That said, tighter valuations, a slowing economy and heightened concerns around the downside risks, warrants an up-in-quality bias and defensive positioning within the spread sectors.

DOMESTIC EQUITY STRATEGIES

14 EQUITY INVESTMENT PROFESSIONALS

26 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director, Equities
Aaron C. Clark, CFA	Partner, Portfolio Manager
Joseph C. Craigen, CFA	Partner, Portfolio Manager
Jeffrey W. Thibault, CFA	Partner, Portfolio Manager
Jeffrey O. Whitney, CFA	Partner, Portfolio Manager

GW&K DOMESTIC EQUITY STRATEGIES

EQUITY DIVIDEND PLUS
DIVERSIFIED EQUITY
SMALL/MID CAP CORE
SMALL/MID CAP GROWTH
SMALL CAP VALUE
SMALL CAP CORE
SMALL CAP GROWTH

> *"...our focus on quality companies has not diminished. While this sometimes impacts our shorter-term relative performance when the market favors riskier names, it does not impact our confidence that high-quality companies with leading market positions, strong management teams, and strong financial characteristics should outperform over time."*

Domestic large cap equities posted their fourth consecutive quarterly gain and seventh gain in the last eight quarters, driven by moderating inflation readings, decent economic growth, the beginning of the Fed's rate-cutting cycle, and aggressive stimulus by China. The S&P 500 Index gained 5.9% in the quarter, pushing its year-to-date return up to 22.1%. Unlike the very narrow participation in last quarter's rally, this quarter saw broad market strength across large caps, as the S&P Equal Weight Index gained 9.6%, with particular strength among value and interest-rate sensitive names. Utilities led the way, benefiting from both lower interest rates and anticipated incremental demand from power-guzzling AI software. Real Estate and Financials also rallied on lower rates. Industrials were strong, as cyclical stocks were up in anticipation of an improving economic outlook. Energy stocks were particularly weak, the only down sector for the quarter, on lower oil prices. Information Technology and Communication Services were held back by mixed performance among the Magnificent 7.

The Russell 2000 Index of small cap stocks also participated in the broad-market rally, gaining 9.3% for the quarter, and reaching double digits through the first nine months with a return of 11.2%. As they were with large caps, Real Estate, Financials, and Utilities were the sector performance leaders. Communication Services were also strong, as these more leveraged names also caught a bid after struggling much of the year. Energy and Information Technology also brought up the rear among small caps.

With the strength in interest-rate sensitive and cyclical sectors, the performance of Value stocks was quite strong in the quarter, with returns among large and small cap Value Indexes up about 10%. This was not nearly enough, however, to offset Growth's sizable performance advantage versus Value accrued in the first half of the year. The broad rally slightly favored lower-quality stocks, especially among smaller caps, as factors such as low ROE and non-earners outperformed.

The Fed finally took the long-anticipated step of lowering rates. Importantly, the Fed has gained confidence that its fight against inflation has been successful, allowing it to sharpen its focus on its other mandate of maximum employment. As such, the Fed's first step was a 50 basis-point cut, with several 25 basis-point cuts likely to follow over the next 12-15 months. The economy remains rather resilient, as evidenced by solid GDP growth and the still positive ISM Services survey. But there are still some areas of weakness such as manufacturing, so the impact of rate cuts should give support to the more cyclical areas of the economy. There has also been some sluggishness in employment data, with a slowdown in new job creation, so this area too could benefit from further economic improvement. Lastly, the unexpected stimulus program in China, coming late in the quarter, is further indication of a global easing cycle that could help the world economy.

Corporate balance sheets remain quite strong, giving support to stocks through share repurchases, dividends and M&A activity. In fact, through mid-September, share buyback authorizations are at a record high of nearly $1 trillion in 2024. Personal balance sheets remain flush with cash, with an estimated $6.7 trillion invested in money market funds whose interest rates are starting to decline in step with Fed action. This creates pent-up demand for all risk assets as investors seek out investments with higher potential rates of return.

Lest we only focus on the positives, recessionary risk cannot yet be completely ruled out, especially given the end-of-quarter port strike which impacts the flow of several billion dollars of goods in and out of the country each week. There is also the harder-to-analyze impact on both growth and inflation of large fiscal deficits, the presidential election, and geopolitical hot spots that could spill over into wider conflicts.

Lastly, our focus on quality companies has not diminished. While this sometimes impacts our shorter-term relative performance when the market favors riskier names, it does not impact our confidence that high-quality companies with leading market positions, strong management teams, and strong financial characteristics should outperform over time.

GLOBAL EQUITY STRATEGIES

9 EQUITY INVESTMENT PROFESSIONALS

25 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director, Equities
Reid T. Galas, CFA	Partner, Portfolio Manager
Karl M. Kyriss, CFA	Partner, Portfolio Manager

GW&K GLOBAL EQUITY STRATEGIES

GLOBAL SMALL CAP

INTERNATIONAL SMALL CAP

Global equity markets climbed steadily throughout the third quarter, despite a bout of intra-month volatility in August. The large cap, MSCI World ex-USA Index advanced 7.8%, but was finally surpassed by very strong performance of the MSCI World ex USA Small Cap Index (+10.5%). Non-US markets benefited from a USD selloff, which erased all the year-to-date dollar strength. The US Dollar Index was down -4.8% during the quarter with a particularly large move in the Japanese yen (+12%). Even with this recent pullback, the US Dollar Index remains strong by historical standards, and although it is premature to call an end to the current upcycle, signs are pointing in that direction. This would turn a 15-year headwind into a tailwind for non-US equity market returns.

Major shifts in central bank interest-rate policies, even though well telegraphed, contributed to the significant market volatility. Continued interest-rate cuts in Europe, the US Fed's first rate cut, and the Bank of Japan's (BOJ) second interest-rate increase, combined to shift the global monetary policy landscape. This shift reduced the attractiveness of the 'Japanese carry trade' resulting in sharp and significant moves in currencies and asset prices. The early August selloff was focused on Japanese equity markets, which saw a 20% selloff over three days as the yen appreciated. However, after a violent realignment of positioning, the equity market quickly rebounded and ended the month essentially flat, in US dollar terms. While major changes in FX can sometimes have an impact on business fundamentals, the moves this time were more about investment flows and positioning. It is possible that the easy money, post financial crisis era is finally ending after 15 years. Rather than worry about the impact this might have on asset prices, investors should see this as a return to normalcy.

Just prior to quarter end, China finally implemented meaningful policies meant to address increasingly serious signs of weakness in their economy. The government dramatically loosened property curbs and financial conditions, provided funding to prop up equity markets and and increased supply-side industry support. The mainland China and Hong Kong equity markets rallied sharply as a result. Our view is not as positive as the stock market would indicate. After selling off for several years the markets were due for a rebound, and when the Chinese government puts in place policies to jump start the market it should work…for a time. However, the country's underlying economic issues are not being directly addressed by current policies, although there are some hints that this might occur. The Chinese economy is almost unprecedentedly focused on investment at the expense of consumption. Making a shift towards consumption is easy to say, but harder to do given entrenched vested interest and what seems a personal opposition from President Xi Jinping to most of the obvious fixes. It appears that China is undergoing a balance-sheet recession similar, although not identical, to what occurred in Japan in the 1990s. Trying to use supply-side policies to fix China's issues is like the proverbial 'pushing on a string.' This is not to say the stock market can't go higher, but we would be quite cautious about long-term investment exposure to the mainland until there are signs the underlying, structural problems are being addressed.

> *"Overall, the markets seem to be in one of those periods where patience and stock selection are likely to be rewarded, but it might not pay to take significant risks. We remain focused on specific company fundamentals, valuation, and growth outlooks."*

Moving to the company level, earnings reports in the quarter were acceptable, but not exciting. Part of the problem has been a series of significant 'one-off' problems occurring repeatedly, such as auto-production issues in Japan and various natural disasters, as well as early signs of consumer spending exhaustion. Offsetting these issues have been continued corporate investment in regional 'reshoring' and technology advancement. Individual companies continue to be extremely profitable, and balance sheets are in good shape. Earnings revisions are generally slowing, although in Japan, which remains a preferred market, they continue to be robust. One potentially important tailwind would be the impact of lower US rates in non-US countries, many of whose central banks have been waiting for cover from Fed cuts to lower their own policy rates. We also think the market may be overestimating how quickly the BOJ raises rates, even though in hindsight they should have started well before the Fed cut.

Overall, the markets seem to be in one of those periods where patience and stock selection are likely to be rewarded, but it might not pay to take significant risks. We remain focused on specific company fundamentals, valuation, and growth outlooks. We believe the best advice during such a volatile period is to maintain diversification and focus on quality businesses at good prices.

Our passion for providing thoughtful and highly disciplined investment strategies, combined with a deep commitment to personal service, results in long-term relationships built on trust. We believe accessibility, a willingness to listen, and a desire to educate can be just as important as investment acumen. With 50 years' experience managing assets for individuals and families, we are a partner you can trust.

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