DIVERSIFIED STRATEGIST PORTFOLIOS (TAX SENSITIVE)
QUARTERLY COMMENTARY

THIRD QUARTER 2024

INCOME WITH MODERATE GROWTH

Despite a handful of underwhelming key U.S. data releases, U.S. economic resilience persisted throughout the third quarter. The Federal Reserve kicked off its rate cutting cycle with a 50-basis-point cut, joining the many global central banks that have embarked on rate cutting campaigns. Amid mounting growth concerns, China announced major monetary and fiscal support for its economy in late September. The supportive macro backdrop helped investors tolerate uncertainty around Middle East geopolitical tensions and the U.S. election. Financial market returns in the third quarter were robust with mid-single-digit gains or higher in a number of major asset classes. Steadily declining interest rates supported fixed income returns in addition to a healthy credit backdrop – leading to similar returns across investment grade and high yield. Equity markets were helped by wider support across both regions and sectors. The major non-U.S. regions modestly led the U.S. in dollar terms. Emerging markets received a late-September boost from China, while non-U.S. developed market returns benefited from a weaker U.S. dollar with more muted returns on a local currency basis.

We made one change in asset allocation in the quarter. In September, we increased global real estate and global listed infrastructure while decreasing municipal investment grade fixed income and developed ex-U.S. equities. Both global real estate and global listed infrastructure should benefit from a less-onerous rate backdrop ahead – both from a company fundamentals and investor sentiment standpoint. We removed our overweight to developed ex-U.S. equities given a less-favorable economic growth outlook in Europe while also extending our underweight to municipal investment grade fixed income. Currently, the portfolio has overweights in municipal high yield fixed income, U.S. equities, emerging market equities, global real estate and global listed infrastructure, funded by underweights across municipal investment grade fixed income, inflation-linked fixed income, cash and natural resources. The portfolio ended the quarter with a modestly higher risk level than its strategic benchmark.

The portfolio outperformed in the quarter with benefits from fund implementation, strategic positioning and tactical positioning. Strategic positioning helped performance as benefits from stronger returns in global real estate and global listed infrastructure relative to global equities outweighed drag from weaker performance in natural resources. Tactical positioning helped performance due to the underweight to municipal investment grade fixed income, the underweight to cash, the overweight to U.S. equities and the overweight to emerging market equities, slightly offset by some drag from the overweight to municipal high yield fixed income. Our quality dividend U.S. equity (QDF) was the main contributor in terms of fund implementation, while our municipal investment grade fixed income (NOTEX) and our broader-based developed markets ex-U.S. factor tilt (TLTD) were the main detractors.

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