September 30, 2024

Cantor Fitzgerald Equity Dividend Plus

MARKET AND PORTFOLIO COMMENTARY

Separately Managed Account

Economic and Market Overview

The third quarter was quite the roller coaster ride for investors. Early August was brutal, with the S&P 500 dropping more than 6% in just three trading days, registering its worst daily performance in almost two years along the way. Perhaps the market was signaling that the oft predicted recession was coming soon. Or maybe investors were concerned that the much-loved Magnificent Seven had become overextended. As it turns out, the sell-off was short lived with equity markets storming back to end the quarter at or near record high levels. Perhaps the oft doubted soft landing had arrived instead, with a noticeable change in market leadership.

Some credit for the rally must surely go to Jay Powell and the members of his Federal Reserve Open Market Committee. After wearing out the mantra "higher for longer" to describe its interest rate policy as it attempted to curb the highest levels of inflation in 40 years, the committee lowered the fed funds rate in September for the first time since the pandemic in 2020. Reported inflation numbers haven't quite hit the Fed's stated 2% target, but apparently were close enough for the FOMC to declare victory. Investors cheered the move. Stock prices surged higher in anticipation of the cut, and higher still when the announcement was made that the reduction was a somewhat surprising 50 basis points. Some had speculated that if the Fed moved 50 basis points, markets would be spooked into thinking that maybe the FOMC saw major risks to the economy in the near term. In his post-meeting press conference, Powell assuaged those fears with words of confidence about the health of the economy. Based on Fed governor comments and the FOMC's own projections, further cuts to the fed funds rate in the coming quarters are expected, although it is likely to move more slowly in increments of 25 basis points.

Looking more closely at market returns during the quarter, it is noteworthy to mention that value outperformed growth by a wide margin. It was the first significant quarterly win for value over growth since the bear market of 2022. Only time will tell if this trend will hold, but we are pleased to see market leadership broadening to include value stocks, dividend stocks and even small caps. This market action is consistent with historical patterns during periods of falling interest rates. Believe it or not, the two best performing sectors for the quarter were Utilities and REITs, a far cry from the high-flying tech stocks that had been leading the way for some time.

Market Leadership Rotation Underway?

	3Q 2024	2Q 2024	1Q 2024
Russell 1000 Value	9.4	-2.2	9.0
S&P 500	5.9	4.3	10.6
Nasdaq	2.8	8.5	9.3

Outlook

As we look ahead, it is hard not to focus on the presidential election less than a month away. Most pundits believe it will be another very close race, decided by a small number of votes in a handful of swing states. The uncertain outcome may lead to economic and market disruptions, exacerbated by additional risks including the escalation of the conflict in the Middle East and the costly cleanup in the aftermath of Hurricane Helene. It is possible that these factors could bring inflationary pressures to bear, calling into question the ability of the Fed to enact its forecasted rate cuts. With these uncertainties, and given that we are near record high levels with stretched valuations in certain sectors of the market, continued market gains will likely be dependent on the earnings outlook. Currently, consensus estimates are for double-digit earnings growth for the market next year, well above long-term averages. While these estimates are subject to change at any time, it appears earnings momentum is bullish heading into 2025.

Strategy Update

The Equity Dividend Plus strategy performed in line with the Russell 1000 Value benchmark and ahead of the S&P 500 for the quarter. Given that EDP uses covered call options, which enhance cash flow but limit upside potential of the underlying stock, we are always pleased when strategy total returns are in line with the Russell during strong bull market periods, which we have been experiencing since last fall. The one year return is slightly below the benchmark but is still very strong. We are also pleased to report that our full year target for option premiums has been achieved already, with an entire quarter of the year ahead of us. We added two new stocks to the portfolio during the quarter. Schlumberger, doing business as SLB, is a global energy services company. After understandably cutting its dividend during the pandemic, SLB has been ramping up its payout, but it still remains below 2019 levels. We believe dividend growth, along with sizable share repurchases, will continue to be a key part of the company's capital allocation plans going forward. We also purchased Dollar General during the quarter. The stock appears out of favor today, after being a Wall Street darling in the recovery after Covid. We expect the company to stabilize its earnings as it implements operational improvements at its stores, some of which have been underperforming. Additional portfolio activity included the elimination of M&T Bank from the portfolio and reductions in Bank of New York Mellon, MetLife and International Flavors & Fragrances, primarily through covered call option exercises. Cash is moderately elevated following these sales.

We encourage you to contact us with any questions you may have. For additional firm wide information please visit our website at cantorassetmanagement.com or call us at (855) 9-CANTOR.

Important Disclosures

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