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Market Breadth Returned in the Third Quarter of 2024

- Mega-cap technology stocks were no longer the best performers in the third quarter.
- Value-oriented, small, and mid-cap stocks outperformed mega-cap tech stocks.
- The equal-weight version of the S&P 500 outperformed the market-cap-weighted version of the S&P 500 this quarter by its widest margin since 2022.
 - The 10 largest companies represent a 35% allocation of the market-cap-weighted S&P index. These same 10 stocks are only a 2% allocation of the equal-weight S&P index.
 - Historically, the equal-weight S&P 500 does not underperform the market-cap-weighted S&P index for extended periods, as evidenced by the long-term history in the chart below. In fact, over the last 20 years, the equally weighted version has often outperformed.
 - When the equal-weight S&P 500 is outperforming, investors have more confidence that the broader economic environment and the stock market are strong. When most of the stock market's growth is concentrated in a few large tech stocks, investors should have much less confidence in the strength of the overall economy and stocks in general.



Broad Market Indices Q3 2024 Overview

- S&P 500 Index
 - Q3 2024 return: 5.89%.
 - Year-to-date return: 22.08%.
 - Last three years annualized: 11.91%.
- MSCI All Country World Index
 - Q3 2024 return: 6.72%.
 - Year-to-date: 19.08%.
- Bloomberg U.S. Aggregate Bond Index,
 - Q3 2024 return: 5.20%.
 - Year-to-date: 4.45%.
 - Last three years annualized: -1.39%.
- Bloomberg 1-3 Year Government/Credit Bond Index
 - Q3 2024 return: 2.96%.
 - Year-to-date: 4.38%.
- S&P Goldman Sachs Commodities Index
 - Q3 2024 return: -5.26%.
 - Year-to-date: 5.23%.
 - Last three years Annualized: 8.81%.

iSectors[®] Allocation Q3 2024 Return Attribution Review

iSectors[®] Capital Preservation Allocation

- Q3 2024 return
 - Model: 2.88%.
 - Benchmark (Bloomberg 1-3 Year Government/Credit Bond Index): 2.96%.
- Year-to-date return
 - Model: 5.01%.
 - Benchmark: 4.38%.
- Last 12 months return
 - Model: 7.58%.
 - Benchmark: 7.19%.
- Holdings with positive contribution to returns during the quarter (descending order):
 - High yield bond ETFs.
 - Investment grade corporate bond ETFs.
 - Treasury bond ETFs.

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- Since the model's January 2010 inception, it has offered better risk-adjusted returns than both the Bloomberg 1-3 Year Government/Credit Bond Index and the Bloomberg US Aggregate Bond Index, as represented by its higher Sharpe ratio of 0.54 vs. 0.33 and 0.34, respectively.
- The iSectors[®] Capital Preservation Allocation offers a high-quality cash alternative with short durations to preserve investment principle in our current economic environment characterized by high and volatile interest rates. It also provides the potential for enhanced returns versus money market funds while maintaining daily liquidity.

[iSectors[®] Domestic Fixed Income Allocation](#)

- Q3 2024 return
 - Model: 4.33%.
 - Benchmark (Bloomberg US Aggregate Bond Index): 5.20%.
- Year-to-date return
 - Model: 6.09%.
 - Benchmark: 4.45%.
- Last 12 months return
 - Model: 9.09%.
 - Benchmark: 11.57%.
- The model has also outperformed the Bloomberg US Aggregate Bond Index over the past 3-, 5-, and 10-year periods with less volatility and lower drawdowns.
- Holdings with positive contribution to returns during the quarter (descending order):
 - Investment grade corporate bond ETFs.
 - High yield bond ETFs.
 - Treasury bond ETFs.

[iSectors[®] CryptoBlock[®] Allocation](#)

- Q3 2024 return
 - Model: 4.55%
 - Benchmark (INDXX Blockchain Index): 9.12%
- Year-to-date return
 - Model: 29.86%
 - Benchmark: 18.48%
- Last 12 months return
 - Model: 86.35%
 - Benchmark: 32.11%
- Holdings with positive contribution to returns during the quarter (descending order):

- Spot Bitcoin ETFs
- Fintech ETFs
- Blockchain equity ETFs
- Holdings with negative contribution to returns during the quarter:
 - Crypto-miner focused ETFs.
- Changes made to the model this quarter:
 - Passive crypto-equity focused ETF removed from portfolio.
 - Crypto miner companies' performance is tied directly to the price of Bitcoin.
 - Given heavy Bitcoin exposure in the model via spot Bitcoin ETF holdings, mining companies' heightened volatility was only hurting risk-adjusted performance, especially because of the smaller miners included in the crypto-equity focused ETF we sold.
 - The most successful crypto miners will still be represented in our model by way of the other blockchain equity and technology ETFs we own.
 - Spot Ethereum ETF added to the model.
 - Ethereum is not a true cryptocurrency when compared to Bitcoin, however we do believe that it fulfills an important role within the overall blockchain and cryptocurrency-adjacent ecosystem.
 - Ethereum's smart contract platform is a direct application of blockchain technology and should be viewed as a part of the blockchain portion of the model as opposed to the cryptocurrency/Bitcoin portion of the model.

[iSectors[®] Post-MPT Allocations](#)

- iSectors[®] Post-MPT Growth Allocation
 - Model Q3 2024 return: 8.18%.
 - Benchmark: 5.89%.
 - Model year-to-date return: 17.50%.
 - Benchmark year-to-date: 22.08%.
- iSectors[®] Post-MPT Moderate Allocation
 - Q3 2024 return: 8.60%.
 - 60/40 stock/bond benchmark: 5.61%. (60/40 = 60% S&P 500 and 40% Bloomberg U.S. Aggregate Bond Index).
 - Model year-to-date return: 21.42%.
 - Benchmark year-to-date: 14.80%.
- Holdings with a positive contribution to returns during the quarter (descending order):
 - Gold bullion (highest positive returns by a wide margin)
 - Long-term treasury bonds
 - Utilities
 - Healthcare
 - Utilities
 - Basic Materials
- The Post-MPT models remain positioned for potential stagflation, with large weightings in gold and steadily increasing exposure to treasury bonds over the last few quarters. They each also have a portion of their portfolios allocated in a similar proportion to technology

in case stock market strength rebounds amidst the positive sentiment surrounding interest rate cuts by the Federal Reserve.

- Given the balanced and diversified exposure currently employed by each model, they should be able to perform well in almost any market environment. The gold exposure can hedge against inflation or geopolitical issues, treasury bonds hedge recession risk or other unforeseen potential Black Swan events, and the technology holdings give the models pathways to keep up with broad stock market indices if all the potential risks lying under the surface do not come to fruition.

[iSectors[®] Inflation Protection Allocation](#) and [iSectors[®] Precious Metals Allocation](#)

- Inflation Protection
 - Q3 2024: 4.82% return.
 - Year-to-date: 9.77%.
 - Last 12 months: 13.26%.
- Precious Metals
 - Q3 2024: 7.78% return.
 - Year-to-date: 21.31%.
 - Last 12 months: 30.36%.
- Holdings with positive contribution to returns during the quarter (descending order):
 - Gold bullion ETFs/closed-end funds (both models)
 - Silver bullion ETFs/closed-end funds (both models)
 - Palladium bullion ETFs (Precious Metals)
 - Natural resources and pipeline ETFs (Inflation Protection)
 - Short-term TIPS (Inflation Protection)
 - Broad commodity ETFs (Inflation Protection)
- Holdings with negative contribution to returns during the quarter:
 - Platinum ETFs (Precious Metals)
- At iSectors[®] we believe the unprecedented growth in money supply in recent years is causing, and will continue to cause, persistent price inflation over many years to come. Basically, the purchasing power of people's savings will slowly be drained over time. Therefore, most investors would be wise to allocate at least a portion of their investment portfolio to assets that will help maintain their purchasing power in the face of the potential weakening of the US dollar brought about by inflation.

[iSectors[®] Future Growth Allocation](#)

- Q3 2024 return
 - Model: 2.83%.
 - Benchmark (MSCI All Country World Index): 6.72%.
- Year-to-date return
 - Model: 19.86%.
 - Benchmark: 19.08%.

- Last 12 months return
 - Model: 73.66%.
 - Benchmark: 32.35%.
- Holdings with positive contribution to returns during the quarter (descending order):
 - Fintech ETF.
 - Blockchain equity ETFs.
 - Artificial Intelligence ETF.
 - Semiconductor ETF.
- The iSectors[®] Future Growth Allocation is a diversified portfolio of growth stocks that are on the cutting edge of the technological revolution brought about by the changing digital economy. The combined individual stock holdings of the underlying ETFs total about 250 publicly traded companies, diversified across many sectors.

[iSectors[®] Tactical Global Balanced Allocation](#)

- Q3 2024 return
 - Model: 8.64%.
 - Benchmark (60/40 Stock/Bond): 5.61%.
- Year-to-date return
 - Model: 12.92%.
 - Benchmark: 14.80%.
- Last 12 months return
 - Model: 16.39%.
 - Benchmark: 25.98%.
- Holdings with positive contribution to returns during the quarter (descending order):
 - Real estate ETF.
 - Gold bullion ETF.
 - Developed international and emerging market equity ETFs.
 - Domestic equity ETFs.
- Holdings with negative contribution to returns during the quarter (most negative to least negative):
 - Broad commodity ETF.
- The iSectors[®] Tactical Global Balanced Allocation is currently fully invested in the following asset classes: gold bullion, domestic large and small-cap equities, developed international equity, emerging market equity, aggregate bonds, and REITs.

[iSectors[®] Domestic Equity Allocation](#)

- Q3 2024 return
 - Model: 9.08%.

- Benchmark: 5.89%.
- Year-to-date return
 - Model: 15.53%.
 - Benchmark: 22.08%.
- Last 12 months return
 - Model: 26.00%.
 - Benchmark: 36.35%.
- Holdings with positive contribution to returns during the quarter (descending order):
 - Quality dividend ETFs.
 - Dividend growth ETFs.
 - Free cash flow ETF
 - Large-cap growth ETFs.
- Growth ETFs, driven mainly by their outsized technology exposure, have outperformed quality dividend/value ETFs for most of the last 18 months. However, in the third quarter, this trend was finally broken with the other 490 names in the S&P 500 showing relative strength vs the top 10 mega-cap names that had been the source of almost all the returns in recent years.
- The iSectors[®] Domestic Equity Allocation employs a dividend/value overweight, which has led to a lower volatility profile of the model vs. its benchmark. Over the last three years, the annualized standard deviation of the model is 15.43% vs. 17.53% for its benchmark, with a maximum drawdown of 19.33% vs. 23.87% for the S&P 500.

[iSectors[®] Enhanced Allocations](#)

- Q3 2024 return
 - Model (represented by the iSectors[®] Enhanced Balanced Allocation): 7.03%.
 - Benchmark (Morningstar Moderate Target Risk Index): 6.97%.
- Year-to-date return
 - Model: 12.28%.
 - Benchmark: 11.45%.
- Last 12 months return
 - Model: 20.16%.
 - Benchmark: 22.04%.
- The drivers of returns in these models are the same as those in the iSectors[®] Domestic Equity Allocation, the iSectors[®] Domestic Fixed Income Allocation, and the iSectors[®] Post-MPT Growth Allocation.
- The iSectors[®] Enhanced Allocation series includes Income, Conservative, Balanced, Growth, and Aggressive allocation models. Each allocation blends short-term laddered bonds, and equities focused on owning stocks that have increased their dividends for many consecutive years, with a 20% satellite allocation to the dynamic iSectors[®] Post-MPT Growth Allocation. Since inception, each Enhanced Allocation has lower volatility

and drawdown than their corresponding Morningstar Target Risk Index benchmark with a comparable level of return.

[iSectors[®] Global Allocations](#)

- Q3 2024 return
 - Model (represented by the iSectors Global Balanced Allocation): 6.15%.
 - Benchmark (50/50 Global Stock/Bond Index): 6.84%.
- Year-to-date return
 - Model: 9.76%.
 - Benchmark: 10.68%.
- Last 12 months return
 - Model: 18.73%.
 - Benchmark: 21.34%.
- Holdings with positive contribution to returns during the quarter (descending order):
 - Domestic and international quality dividend/value ETFs.
 - Domestic and international large-cap growth ETFs.
 - Domestic and international investment grade corporate bond ETFs.
 - Domestic and international high yield bond ETFs.
 - Treasury and mortgage bond ETFs.
- Over the last quarter, the iSectors[®] Global Equity Allocation outperformed the MSCI All Country World Index due to an underweight to growth exposure that is also employed by the iSectors[®] Domestic Equity Allocation. Both models also outperformed the S&P 500 in the third quarter.
- The iSectors[®] Global Fixed Income Allocation has outperformed the FTSE World Government Bond Index in the last 1-, 3-, 5-, and 10-year periods, primarily due to the model's modest overweight to USD-denominated bonds and lower effective duration (approximately 4.9 for the model vs. 7.5 for the FTSE WGBI).
- Changes made to the Global model this quarter:
 - Global Equity.
 - Increased international exposure without increasing foreign exchange risk. This was done through a currency hedged developed international dividend growth ETF.
 - Increased emerging market exposure while reducing overall exposure to China within the model. This was done by including an ex-China ETF as 50% of our emerging markets sleeve.
 - We also made a concerted effort to reduce the exposure to European and Asian banks within the model.
 - Banks overseas are disproportionately leveraged compared to US banks due to differences in their reserve requirements.
 - This presents a unique challenge because many developed international equity indices are more heavily invested in the financial sector than broad US indices.

Contents are not complete without disclosures.

- Increasing our exposure to emerging markets was one way to tamp down the exposure to developed international bank holdings. The emerging countries' economies are more commodities-driven than services-driven.
- We also added a free-cash flow-focused developed international ETF that explicitly excludes the financial sector.
- Global Fixed Income
 - Increased international exposure to more closely match the model's benchmark.
 - Added a dedicated emerging market corporate bond ETF.
 - Historically this model has had very little EM debt exposure.
 - USD-denominated EM corporate bonds have exhibited better risk-adjusted returns than developed international corporate bonds. This also reduces foreign exchange risk (FX).
 - Conviction on EM equities translated to a more favorable view of EM debt than we have had in the past.
 - Increased exposure to securitized credit with a CLO ETF.
 - Best risk-adjusted returns of any holding currently in the model.
 - High yields with an investment grade rating and low sensitivity to interest rates.

iSectors[®] Liquid Alternatives Allocation

- Q3 2024 return
 - Model: 4.49%.
 - Benchmark (HFRX Global Hedge Fund Index): 2.12%.
- Year-to-date return
 - Model: 10.04%.
 - Benchmark: 5.08%.
- Last 12 months return
 - Model: 15.35%.
 - Benchmark: 6.86%.
- Holdings with positive contribution to returns during the quarter (descending order):
 - Gold and silver bullion ETFs.
 - Quasi-private equity ETFs (micro-caps, new IPOs, and infrastructure).
 - Real estate ETF.
- Holdings with negative contribution to returns during the quarter (most negative to least negative):
 - Long/short commodity mutual fund.
 - Managed futures ETF.

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- Over the last two years, the iSectors[®] Investment Committee has made a concerted effort to re-emphasize the focus of this model more squarely on hedge fund strategies and real asset exposure, with a smaller allocation to quasi-private equity strategies to provide a return stream that more closely resembles true alternative investments. This has manifested in outperformance vs. the model's hedge fund benchmark in each of the last two years and over the last three, five, and ten years on an annualized basis.
- The iSectors[®] Liquid Alternatives Allocation provides access to a broad array of alternative and hedge fund-like exposures while providing tax efficiency (no K1s) and daily liquidity without any high performance-based fees or the need to be an accredited investor.

[iSectors[®] Endowment Allocation](#)

- Q3 2024 return
 - Model: 6.08%.
 - Benchmark (60/40 Stock/Bond Index): 5.61%.
- Year-to-date return
 - Model: 11.80%.
 - Benchmark: 14.80%.
- Last 12 months return
 - Model: 18.61%.
 - Benchmark: 25.98%.
- Holdings with positive contribution to returns during the quarter (descending order):
 - Pipeline and MLP ETFs.
 - Domestic and international dividend equity ETFs.
 - Hedged equity ETF.
 - High yield bond ETFs.
- The iSectors[®] Endowment Allocation prioritizes current income over the protection of principal and invests across multiple asset classes including, equity, fixed income, and alternatives. The high-income focus of the model is what has held it back from outperforming its benchmark in recent periods, as value and income-oriented products have been out of favor.

All model returns presented net of iSectors' strategist fee. Index comparisons are provided for information purposes. You cannot invest directly in an index, only in index funds that charge fees.



iSectors[®], LLC 3rd Quarter 2024 Summary Commentary

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