

FORTITUDE FOCUS

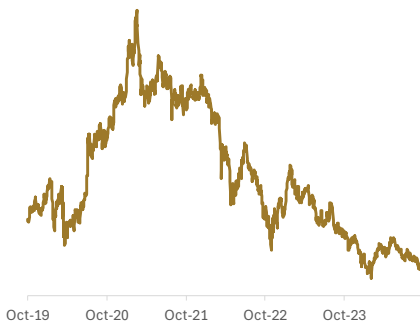


Investment Department

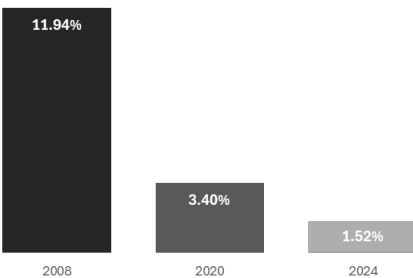
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THE STORY

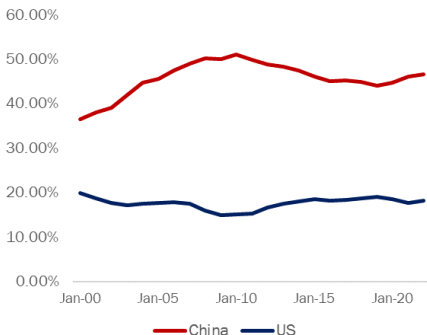
China's Stock Market¹



Historical Stimulus (% of GDP)²



Gross Domestic Savings (% GDP)³



CHINA URGES SAVERS TO TAKE MORE RISKS:

After several years of painful declines, China's stock market is showing signs of life again. Following a larger-than-expected monetary stimulus plan, Chinese investors flocked to equities pushing the **CSI index up over 24%**¹ in September alone – it's largest one month return in the last 15 years.

However, while investors cheer, many headwinds remain. Economists generally agree that while these monetary efforts may help grease the financial wheels, greater fiscal support will likely be required to address China's deflationary pressures.

To oversimplify a bit, the heart of China's problems is that savings rates remain high while savers remain risk-averse. The result is lower spending and less productive investment.

For example, this flight to safety has driven a strong rally in Chinese government bonds even despite the central bank's unusual efforts to temper demand by effectively shorting their own securities.

This is why recent government efforts are focused on encouraging capital owners to take on more risk and invest in other parts of the economy beyond real estate and risk-free debt. Case and point, this package includes a \$114B funding program to buy Chinese stocks.

As China's real economy continues to digest an oversupplied, debt-ridden property sector as well as related demographic challenges, it's government may turn to its savers to power the recovery.

After all, high savings rates can empower future growth but only when channeled to productive investment and credit expansion.



UPCOMING EVENTS

Monthly Jobs Report – 10/4

FOMC Minutes – 10/9

Q3 GDP Estimates – 10/30

“A small hole not mended in time will become a big hole much more difficult to mend.”

- Chinese Proverb

¹Sources: Computed internally using Morningstar Direct data

²Sources: Estimated internally from historical public releases by Reuters, Wall Street Journal & EU research briefings.

³Sources: World Bank Group data between 2000-2022.



WHAT HAPPENED?

Federal Reserve Cuts Rates By 50 BPS To Start The Easing Cycle: The FOMC chose to lower its key overnight borrowing rate by 0.50% in an aggressive start to its easing campaign amid signs that inflation was moderating, and the labor market was weakening ([CNBC](#)).

UK Shuts Down Its Last Coal-Fired Power Plant: After powering the UK for 57 years, the final remaining coal plant stopped producing power. The closure marks the end of Britain's 142-year history of coal power use and is being hailed as a major achievement by climate activists ([Guardian](#)).

Draghi Presents Rescue Plan For EU Economy: In a landmark report on the continent's economic decline, the former ECB president called for substantial investments to improve the bloc's feeble growth trajectory. "Without action, we will have to compromise either our welfare, our environment, or our freedom." ([Politico](#)).

Hurricane Helene Could Cost \$34B: Estimates suggest property damage could be \$15-26B plus \$5-8B lost to economic slowdown. Given the eroded state of private insurance, some say the government may have to subsidize the effort ([CNBC](#)).



EQUITIES ROSE

US equity markets rose in September with the S&P 500 up **2.1%**. Global ex-US equity markets also rallied with the MSCI World ex-US Index up **1.3%**.

	MONTH*	YTD*
US Large	2.1%	22.1%
US Mid	1.2%	13.5%
US Small	0.9%	9.3%
Global ex-US	1.3%	12.8%
Int'l Dev	0.9%	13.0%
Emerging	6.7%	16.9%



FIXED INCOME CLIMBED

Fixed income markets continued to rally in September following the Fed's 50 BPS rate cut. This aggressive start to the easing cycle helped push the Bloomberg Agg Index up over **1.3%** in the period.

	MONTH*	YTD*
Ultra-Short	0.4%	4.1%
Short	0.8%	4.2%
Core	1.3%	4.4%
Long	1.9%	2.0%
High Yield	1.6%	8.0%
US TIPS	1.5%	5.1%
Intl Bonds	1.7%	3.6%
EM Bonds	1.6%	7.5%



ALTERNATIVES GAINED

Alternatives continued to produce stable, high yield income for the portfolio competing with the rise in other risk-on asset classes.

	MONTH*	YTD*
Gold	5.7%	27.2%
Merger Arbitrage	0.7%	5.3%
Infrastructure	4.1%	21.1%
Direct Lending	0.8%	9.6%
Hedge Funds*	1.0%	7.7%
Managed Futures	1.7%	-2.2%

Due to reporting lags, some data represents the latest return as of the month prior to this period.

*Sources: Each asset class is represented by a corresponding index or fund as of each report's month-end date. The associated indexes can be found below. This has been provided for informational purposes only, and reflects the current opinion of the author, which is subject to change without notice, as are statements of financial trends, which are based on current conditions.



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Reference Above	Benchmark Index	Reference Above	Benchmark Index
US Large	S&P 500 Index	Hedge Funds	Eurekahedge Hedge Fund NR Index
US Mid	S&P 400 Index	Managed Futures	Credit Suisse Mgd Futures Liquid TR
US Small	S&P 600 Index	Ultra-Short	Bloomberg US Treasury Flt Rate Index
Global ex-USA	MSCI World ex-USA All Cap NR Index	Short	ICE US Treasury 1-3Y Bond Index
Intl Dev	MSCI EAFE NR USD Index	Core	Bloomberg Aggregate Bond Index
Emerging	MSCI EM NR US Index	Long-Term	ICE US Treasury +20Y Bond Index
Gold	S&P GSCI Gold TR	High Yield	Bloomberg US Corporate HY Index
Merger Arbitrage	IQ Hedge Merger Arb TR USD Index	US TIPS	ICE US Treasury Inflation Linked Index
Infrastr (Infrastructure)	MSCI ACWI Infrastructure NR Index	Intl Bonds	Bloomberg Global Agg ex-USD Index
Direct Lending	Cliffwater Corporate Lending I	EM Bonds	Morningstar EM BD GR Index