

2Q 2024 Market Summary

Familiar themes drove market returns during the second quarter of 2024. Enthusiasm for artificial intelligence (AI) masked challenges for other equities, while bond investors continued to calibrate expectations for inflation and interest rates.

Over the past two years, investors have rewarded companies at the forefront of AI technology with soaring market values. The 10 largest companies in the S&P 500 now make up over 35% of the index's value, the highest level of concentration ever for the index. Due to their size, these 10 companies have an outsized impact on the S&P 500 Index. In the first half of 2024 for example, the 10 largest companies in the index accounted for 73% of its returns.

The market cap weighted S&P 500 returned 15.3% so far this year, but an equal weighted version of the same index returned only 5.1%. Value stocks, small- and mid-sized companies, and non-US stocks have all posted only modest returns, thus have considerably lagged technology stocks and the S&P 500 through the first half of the year.

The market also remained focused on inflation trends and possible action by the Federal Reserve. Inflation, as measured by the Core PCE, excluding food and energy, fell slightly in May to a 2.6% annual run-rate, however market expectations for a Fed Funds rate cut continue to drop as the Federal Reserve also signaled expectations for a higher-for-longer inflation outlook.

Rather than trying to predict the near or long-term direction of interest rates, we think investors should instead focus on how higher-yielding bonds can now help meet long-term goals around diversification, income generation and capital preservation.

Aside from these economic trends, upcoming elections in the US and recent elections in the United Kingdom and France will likely keep politics top of mind in the near term. Here in the US, both Republican and Democrat administrations have historically experienced both up and down markets, most often for reasons unrelated to politics. We encourage our clients to avoid playing politics with their portfolio. Rather than positioning portfolios based on the unpredictable impact of an election, we believe that a disciplined long-term approach focused on fundamentals and valuation should help achieve your financial goals.

Equities

The S&P 500 Index returned 4.3% in the quarter, led by growth-oriented technology stocks. Utilities also performed well, in part due to expectations for increased power demand from AI datacenters. Energy and materials stocks declined in the quarter, as did industrials, financials and real estate. To further highlight the divergence between technology and the rest of the market, the Russell 1000 Growth Index returned 8.3%, while the Russell 1000 Value Index fell 2.2%. Small- and mid-cap stocks fell 3.3% and 3.4%, respectively. Outside of the US, the MSCI EAFE Index fell 0.4%, while the MSCI Emerging Markets Index provided a 5.0% positive return.

Fixed Income

Interest rates nudged up slightly during the quarter, but the higher levels of income that most bonds are currently generating helped to offset price declines. As a result, the Bloomberg US Aggregate Bond Index was essentially flat for the quarter (up 0.07%). Shorter-term bonds fared better, and the Bloomberg U.S. Government/Credit 1-3 Year Index returned just under 1%. While investment grade corporate bonds saw a modest decline, high yield bonds (below investment grade) returned 1.1%, reflecting a relatively healthy economic environment.

Commodities

The Bloomberg Commodity Index returned 2.9% during the quarter. Gold prices posted a positive 5.2%, while oil prices were flat for the quarter.

Important Information:

The Bloomberg Commodity Index is a broadly diversified commodity price index distributed by Bloomberg Index Services Limited.

The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

The Bloomberg US Government/Credit 1-3 Year Index is an unmanaged index considered representative of performance of short-term US corporate bonds and US government bonds with maturities from one to three years.

The Bloomberg US High Yield Corporate Bond Index is a rules-based, market-value-weighted index engineered to measure publicly issued non-investment grade USD fixed-rate, taxable and corporate bonds.

The Core Personal Consumption Price Index measures the changes in the price of goods and services purchased by consumers for the purpose of consumption, excluding food and energy.

The LBMA Gold Price Index is the global benchmark for unallocated gold and silver delivered in London.

The Morningstar US Semiconductor Index measures the performance of companies that operate in the semiconductors industry in the US. This Index does not incorporate Environmental, Social, or Governance (ESG) criteria.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.

The MSCI Emerging Markets Index is an index designed to measure equity market performance in global emerging markets.

The Russell 1000 Growth Index is a broadly diversified index predominantly made up of growth stocks of large US companies.

The Russell 1000 Value Index is a broadly diversified index predominantly made up of value stocks of large US companies.

The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. The index is maintained by FTSE Russell, a subsidiary of the London Stock Exchange Group.

The Russell Midcap Index is a market capitalization-weighted index comprised of 800 publicly traded U.S. companies with market caps of between \$2 and \$10 billion.

The Standard & Poor's 500 Index, often abbreviated as S&P 500, is an American stock exchange market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices.

The S&P 500 Energy Index comprises those companies included in the S&P 500 that are classified as members of the GICS energy sector.

The S&P 500 Momentum Index is designed to measure the performance of securities in the S&P 500 universe that exhibit persistence in their relative performance.

The West Texas Intermediate (WTI) oil, also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.

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