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With a backdrop of rising recession concerns, lingering inflation, and political uncertainty, equity markets and the global economy continued to deliver strong performance in Q2. After a brief retreat in April, the US stock market bounced back to record another positive quarter in Q2 (S&P 500 up 4.3%) and reached new all-time highs toward the end of June. Through the first 6 months of the year, the S&P 500 gained 15.3%, a level that exceeded all Wall Street analyst price targets set at the beginning of the year. The key question on investors' minds is how the market can continue to deliver strong results despite negative sentiment regarding the concerns cited above. The answer lies in the data – economic growth continues to be positive, corporate earnings remain strong, unemployment is hovering around 4% (near historic lows), and inflation continues to gradually decline (reaching 3% at the end of Q2). Additionally, the enormous infrastructure build-out to support artificial intelligence has boosted growth prospects for the mega cap technology companies that dominate the S&P 500 Index.

Market returns did narrow in Q2, with AI beneficiaries delivering the majority of gains for the broader market. In Q2, the tech-heavy NASDAQ returned 8.5% while the value-oriented Dow Jones Industrial Average delivered negative returns (-1.3%). So far in 2024, the Magnificent 7 stocks (Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia, and Tesla), many of which are viewed as AI leaders, have accounted for 60% of the S&P 500's return. Narrow market leadership has exacerbated concentration of the S&P 500 index, as the top 10 stocks now account for 37% of the index, a record high. The rest of the market, dubbed the S&P 493, did deliver a collective return of 5% through the first half of the year, in line with historical average returns for the stock market. While these absolute returns are healthy, these stocks underperformed the market indices due to the outsized impact of the Magnificent 7.

Some market strategists and investors fear that the concentration in performance leaves the market vulnerable to a correction, while others, such as Morningstar's John Rekenthaler, point to historical data that is more sanguine. Rekenthaler published research recently that found similar levels of market concentration in the late 1950s and early 1960's, which were strong periods for the equity market, and he found that many prior bear markets have not been associated with market concentration.

The broader economy continues to show resilience as inflationary pressures ease. While Q2 GDP has yet to be released, the Atlanta Fed's GDPNow data projects GDP growth of 2.7% in Q2. The labor market continues to deliver solid, albeit slowing, job growth and unemployment has remained low, at 4.1% in June. U.S. inflation eased significantly in June, as the consumer price index, a measure of goods and services costs, fell from the prior

Second Quarter Market Watch

	Date	1 Quarter Ago		1 Year Ago	
	6/30/2024	3/31/2024	% chg	6/30/2023	% chg
DJIA	39,118.86	39,807.37	-1.3%	34,407.60	16.0%
S&P 500	5,460.48	5,254.35	4.3%	4,450.38	24.6%
NASDAQ Composite	17,732.60	16,379.46	8.5%	13,787.92	29.6%
Russell 2000	5,089.03	5,280.03	-3.3%	4,693.98	10.1%

	Date	1 Quarter Ago		1 Year Ago	
	6/30/2024	3/31/2024	% chg	6/30/2023	% chg
Japan Nikkei 225	39,583.08	40,369.44	-7.7%	33,189.04	24.4%
MSCI EM (Emerging Markets)	1,086.25	1,040.39	5.4%	989.48	13.0%
MSCI EAFE	2,314.63	2,346.84	-0.1%	2,131.72	12.1%
MSCI AC World	802.01	783.17	3.1%	682.84	19.9%
FTSE 100	8,916.48	8,594.29	3.8%	7,905.25	22.4%
SSE Composite Index	2,967.40	3,041.17	-2.9%	3,202.06	-8.1%

US Equity Sector

	Q2	1-yr ret.
Consumer Discretionary	0.6%	8.6%
Consumer Staples	1.4%	7.5%
Energy	-2.4%	14.3%
Financials	-2.0%	19.2%
Health Care	-1.0%	11.7%
Industrials	-2.9%	13.1%
Information Tech	13.8%	36.7%
Materials	-4.5%	7.8%
Communication Services	9.4%	40.4%
Utilities	4.7%	6.6%

US Equity Style

	Q2	1-yr ret.
Russell 1000 Value	-2.2%	10.8%
Russell 1000 Growth	8.3%	28.7%
Russell 2000 Value	-3.6%	4.5%
Russell 2000 Growth	-2.9%	4.8%

Commodity Prices

	Mar 2024	1 Qtr Ago	1 Yr. Ago
Gold	2,339.60	2,238.40	1,929.40
Crude Oil	81.54	83.17	70.64
UD Dollar Index	105.55	104.27	102.59
Commodity Index	100.99	99.49	101.48

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month, reducing the year-over-year inflation to 3%. Core prices, which exclude the volatile food and energy components, increased 0.1%, the slowest since January 2021. In particular, the recent CPI report showed that housing costs are finally slowing after prolonged period of run-up since the pandemic. Housing inflation accounts for one-third of the CPI, has kept overall prices high.

The milder than expected inflation readings may clear the path for the Federal Reserve to cut interest rates later this year. In early July, Fed Chair Jerome Powell laid the groundwork to cut rates by suggesting the labor market is slowing and further weakness would not be desirable for the economy. Currently, the market is not expecting an interest rate cut in July, but has priced in 2 rate cuts before year-end, in September and December.

After the conclusion of Q2, the market underwent a seismic shift in performance after the release of June's inflation report (which was released in mid-July). The benign inflation reading, which boosted the odds for interest rate cuts from the Federal Reserve, led to a historic rally in small-cap stocks. The Russell 2000 has gained +8.9% so far in July, and outperformed the NASDAQ by a record margin over the last two weeks. According to Apollo, 51% of the debt issued by small cap companies is floating rate debt, vs. 25% for S&P 500 companies, which explains why small cap stocks stand to benefit more from falling interest rates. Small cap stocks have also been viewed as a potential beneficiary of a Trump victory in the November election.

For the rotation of market leadership to persist, corporate earnings and outlook from individual companies will need to reinforce the view. The second quarter earnings season has started, the focus has already shifted to corporate profits. Wall Street projects median earnings growth of 9% in Q2 for the S&P 500. Russell 2000 companies, meanwhile, are expected to report an 18% increase in Q2 earnings, snapping a five-quarter streak of declines.

As of July 19th, 14% of the companies in the S&P 500 reported earnings, and 80% of these companies beat analyst estimates. The reception from the market, however, has been mixed. Big banks including JPMorgan, Citi and Wells Fargo had a tepid start and issued mixed outlook on net interest margin and credit loss reserves. There are also signs of weakness related to select pockets of consumer spending, such as airlines, as well as food and beverage companies. Some executives noted that the more financially stretched consumer is giving more priority to essentials over discretionary items. The leading AI companies (Amazon, Google, Meta, Nvidia) are projected to deliver earnings growth of 56%, while the remaining 496 stocks in the S&P are expected to grow earnings by 6%.

US Treasury Bond Yields

	Jun '24	Dec '23	1 Yr. Ago
90 Day	5.36	5.35	5.31
2 Year	4.72	4.25	4.87
5 Year	4.34	3.85	4.13
10 Year	4.37	3.88	3.81
30 Year	4.54	4.03	3.85

Interest Rates

	Mar 2024	Dec 2023	1 Yr. Ago
Prime Rate	8.50	8.50	8.25
Federal Funds Rates	5.33	5.33	5.07
30 Year Fixed Mortgage Rate	6.86	6.61	6.71

Exchange Rates

	Mar '24	Dec'23	1 Year Ago
Euro per U.S. Dollar	0.933	0.905	0.917
British Pounds per U.S. Dollar	0.791	0.784	0.787
China Renminbi per U.S. Dollar	7.266	7.092	7.264
Indian Rupee per U.S. Dollar	83.388	83.214	82.036
Japanese Yen per U.S. Dollar	160.860	140.980	144.535

Economic Data

	Jun '24	Dec '23	Jun '23
Unemployment Rate	4.10	3.70	3.60
Inflation Rate (12-month CPI)	3.0	3.4	3.0

In the private markets, deal activity, exits, and fundraising are down from 2021 peak levels, but are showing signs of troughing. "Down rounds" in the venture capital space are increasing back to historical averages from artificially low levels, and valuations are becoming more attractive. In this capital scarce environment, business quality and efficiency are improving for the best companies, as profitability and cash flow are now a priority over the "growth at all costs" mindset that characterized the COVID bubble. Artificial intelligence is a catalyst for renewed vibrancy in the investment landscape, but manager selection and company selection remain paramount to separate winners from fads.

Looking ahead, the market will be focused on the resiliency of the global economy and corporate earnings, as well as the sustainability of the market broadening that we have witnessed so far in July. A potential broadening of market returns would create a healthier market that extends the bull market. However, after a strong start to 2024, the heightened uncertainty in the economic and geopolitical backdrop adds complications in the financial markets. We remain vigilant of the risks on the horizon and have positioned portfolios to hold sufficient liquidity to ride through periods of volatility, and have rebalanced where appropriate. When making any new investments, we continued to seek quality companies at reasonable prices, and take a highly selective approach when partnering with third-party managers.

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