Quarterly Market Report

Second Quarter 2024

Vogel Consulting

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SECOND QUARTER HIGHLIGHTS

RESULTS WERE MIXED IN FINANCIAL MARKETS, ECONOMIC DATA, AND CENTRAL BANK POLICY DECISIONS

FINANCIAL MARKETS

- Artificial intelligence (AI) related stocks had sizeable price gains driven by robust earnings growth and positive earnings outlooks. Stocks in other sectors lagged. Therefore, large-capitalization (cap) and growth stock indices outperformed smaller-cap and value indices in U.S. and foreign markets.
- Government bond yields moved up and down during the quarter but ended higher as sticky inflation data shifted interest rate forecasts to fewer cuts in 2024.
- The U.S. dollar strengthened as better than expected economic data pointed to high for longer interest rates.

OVERVIEW OF THE ECONOMY

- Earnings reports for the first quarter were better than expected with the majority of companies beating analysts' forecasts, helped by solid sales growth.
- Certain economic activity in the U.S. has been slowing. Consumer spending, exports, housing starts, and factory orders weakened. While the labor market has remained strong with the three-month moving average of new jobs added staying above 240,000 and wage growth still above the inflation rate, some data has started to point to cooling such as the number of job openings declining back to near pre-pandemic levels and the number of continuing unemployment claims growing.
- Inflation has proven to be sticky due to sharp increases in prices for services, but some goods prices are down.
- Surveys continue to show weak manufacturing activity around the world, although with some improvement, while services activity remains in expansion.

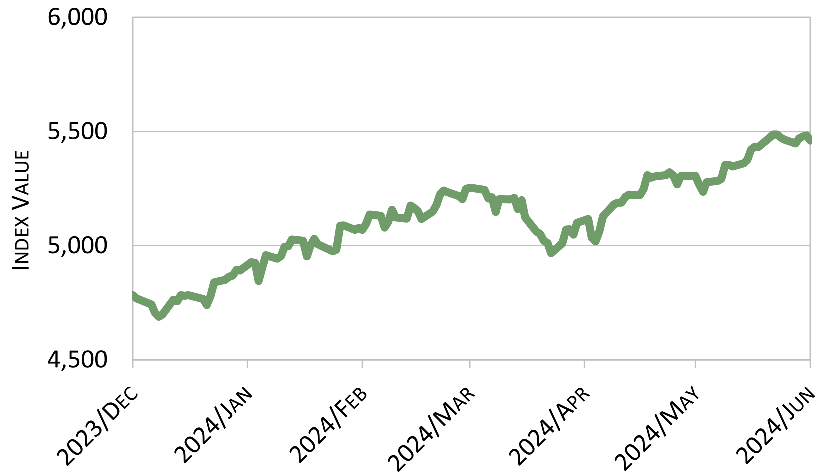
NOTABLE EVENTS

- The Federal Reserve Open Market Committee (Fed) kept the fed funds rate steady but raised its projection for the rate at year-end. Other central banks began to cut rates, including the European Central Bank (ECB).

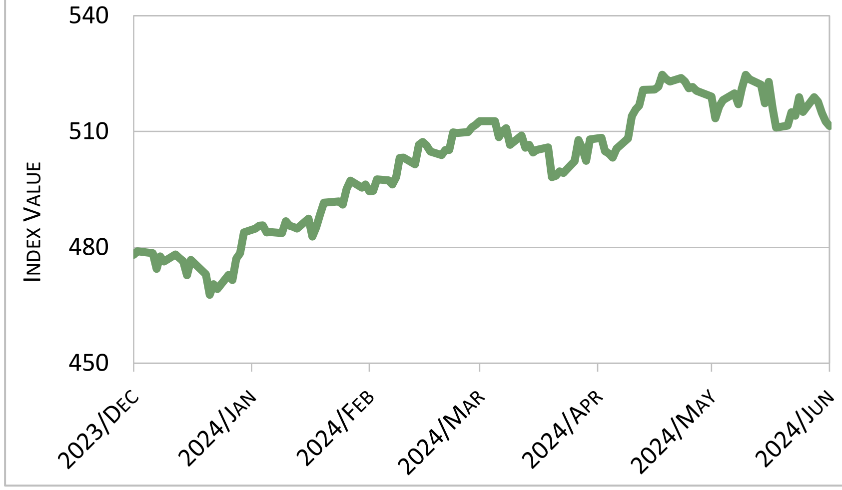
Second Quarter Highlights

Equities sold off in April but rebounded with U.S. and European indices hitting record highs

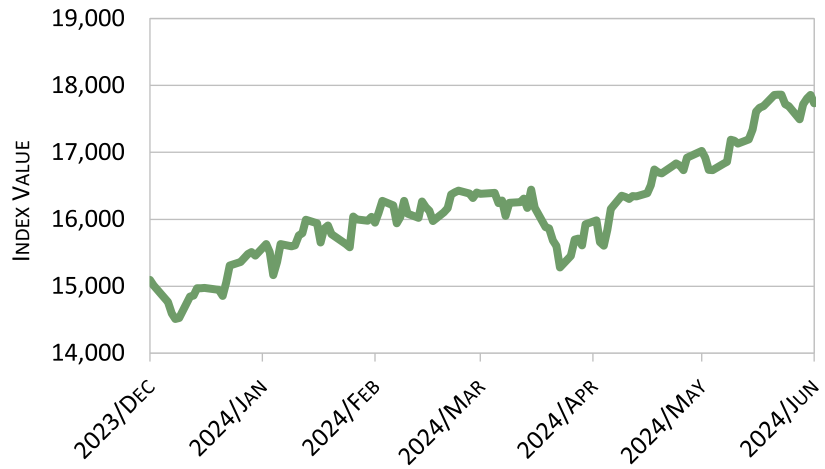
S&P 500 Index[1]



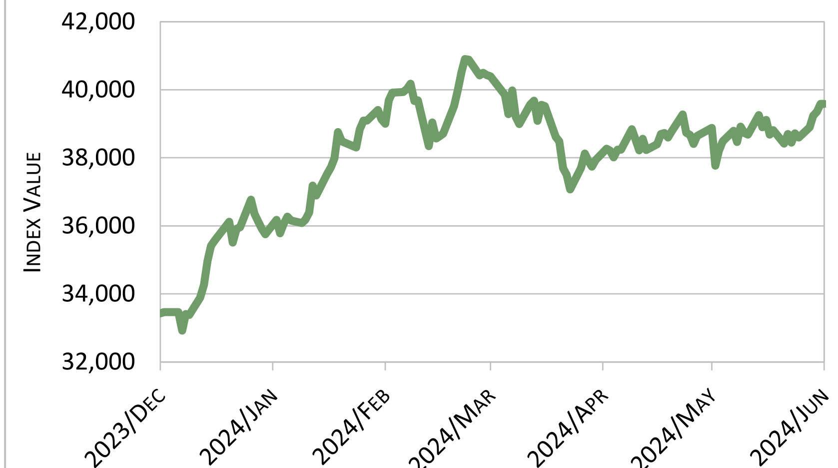
STOXX 600 Index[1]



Nasdaq Index[1]



Nikkei 225 Index[1]



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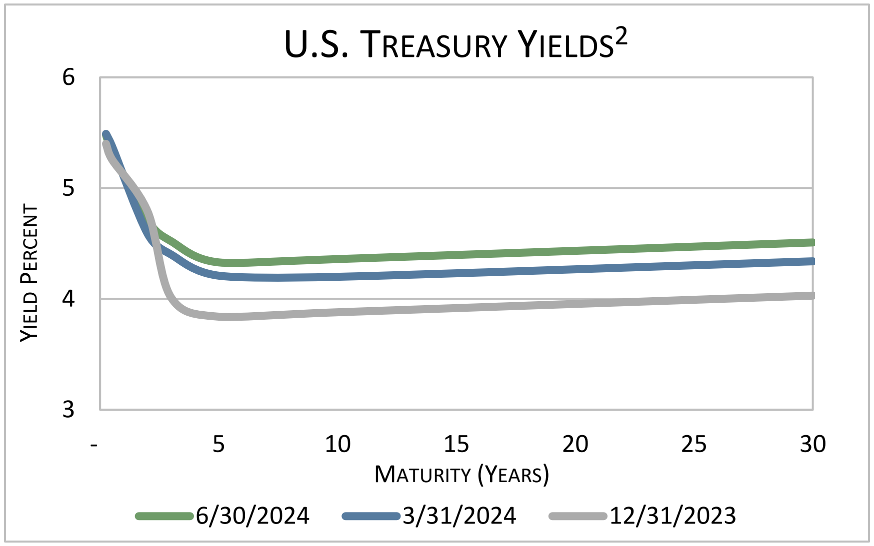
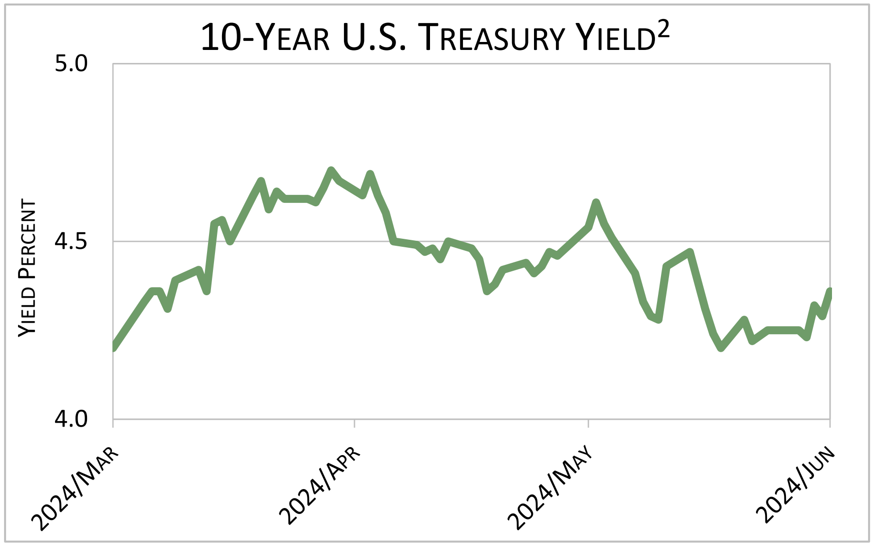
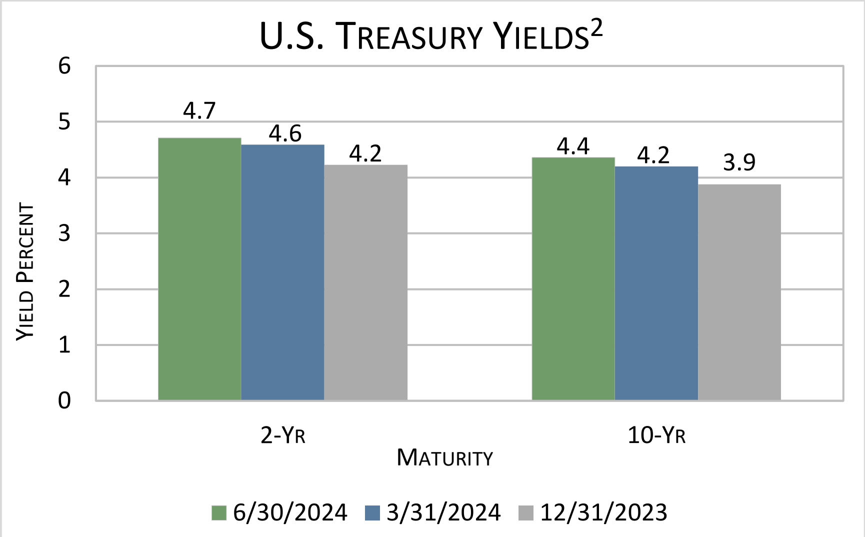
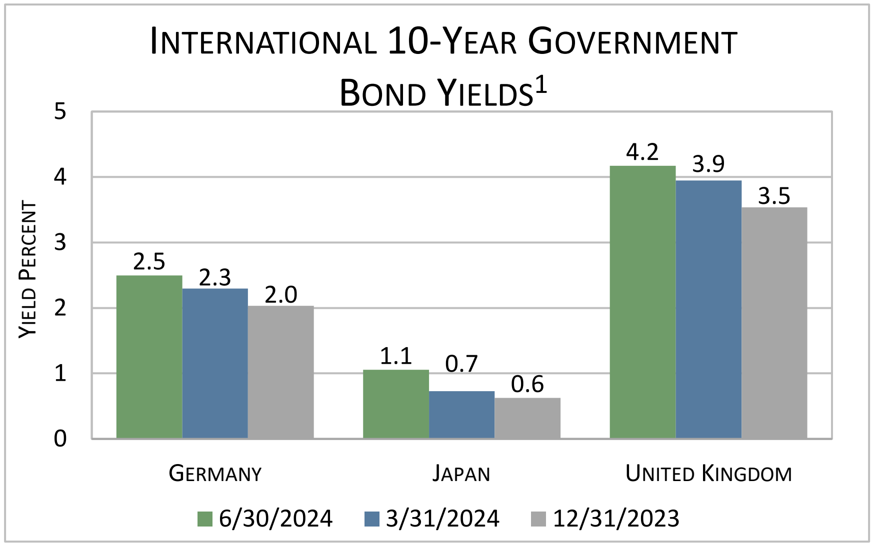
Second Quarter Highlights

Bond yields were volatile as rate cut forecasts shifted and ended the quarter slightly higher









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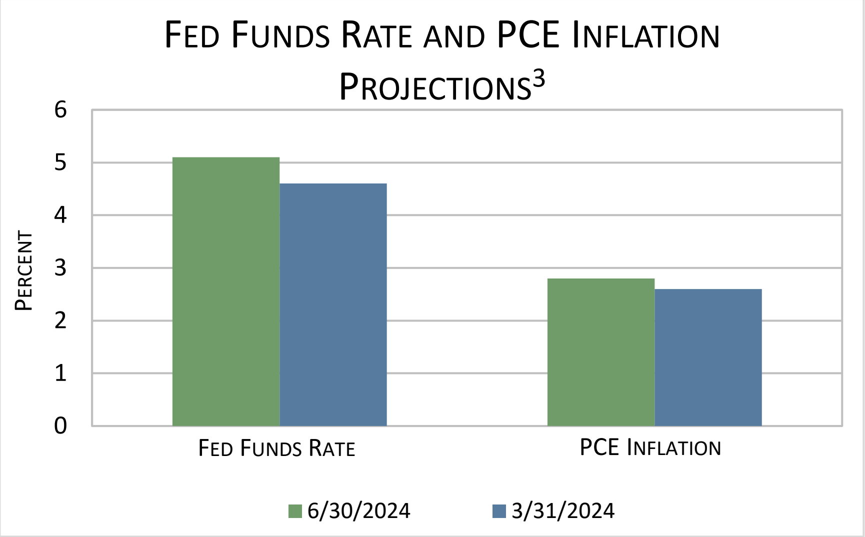
Second Quarter Highlights

Fed sticks with high for longer interest rate but other central banks have started to cut rates

Citing progress on lowering inflation, several central banks started to ease monetary policy by cutting interest rates. However, most central banks, including the U.S. Fed, stated that future rate cuts will be data dependent and not follow a set schedule. Fed chair Powell has stated multiple times that the Fed needs to see further improvement in inflation and especially signs of a weaker labor market before cutting rates. Therefore, the Fed raised its projection for the fed funds rate at year-end, pointing to high for longer rates.



Select Central Bank Actions

Bank	Action
U.S. Fed	Left rate unchanged. Now sees only one cut in 2024.
Bank of Canada	First rate cut in four years in June.
European Central Bank	First rate cut in five years in June.
Riksbank in Sweden	First rate cut in eight years in May.

Policy Rate of Select Central Banks

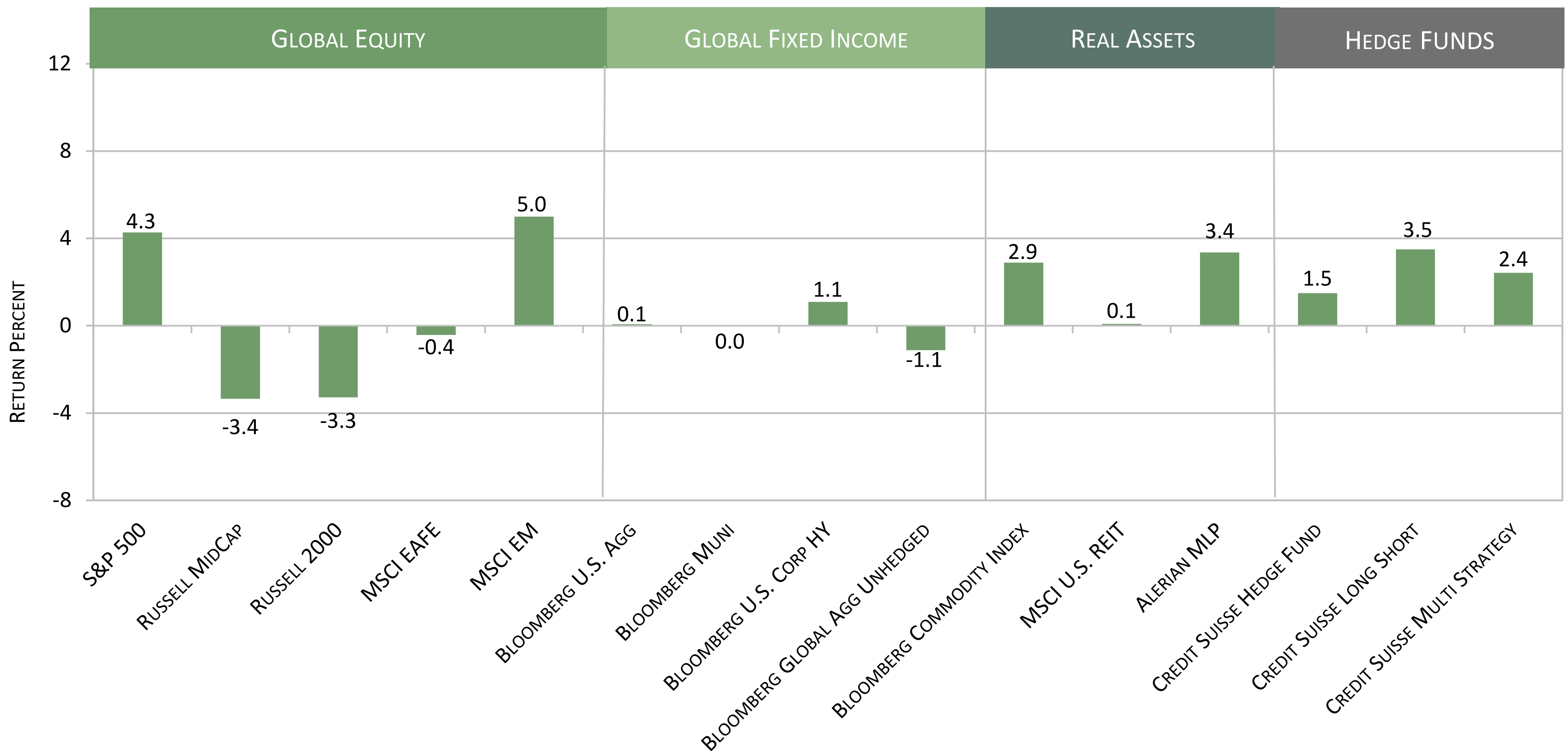
Bank	6/30/24	12/31/23
U.S. Fed	5.25% - 5.50%	5.25% – 5.50%
Bank of Canada	4.75%	5.00%
Bank of England	5.25%	5.25%
Bank of Japan	0% - 0.1%	-0.1%
Bank of Mexico	11.00%	11.25%
European Central Bank	3.75%	4.00%

Second Quarter Highlights

Asset class returns were mixed for the quarter

Emerging markets, U.S. large-cap stocks, and MLPs topped the performance charts due mostly to the frenzy surrounding artificial intelligence while worries about the impact of higher for longer interest rates hurt smaller company stocks. Rising metals prices boosted the commodity index. U.S. bond returns were modest since yields were volatile as rate cut forecasts shifted.

Market Returns: Second Quarter 2024[4]



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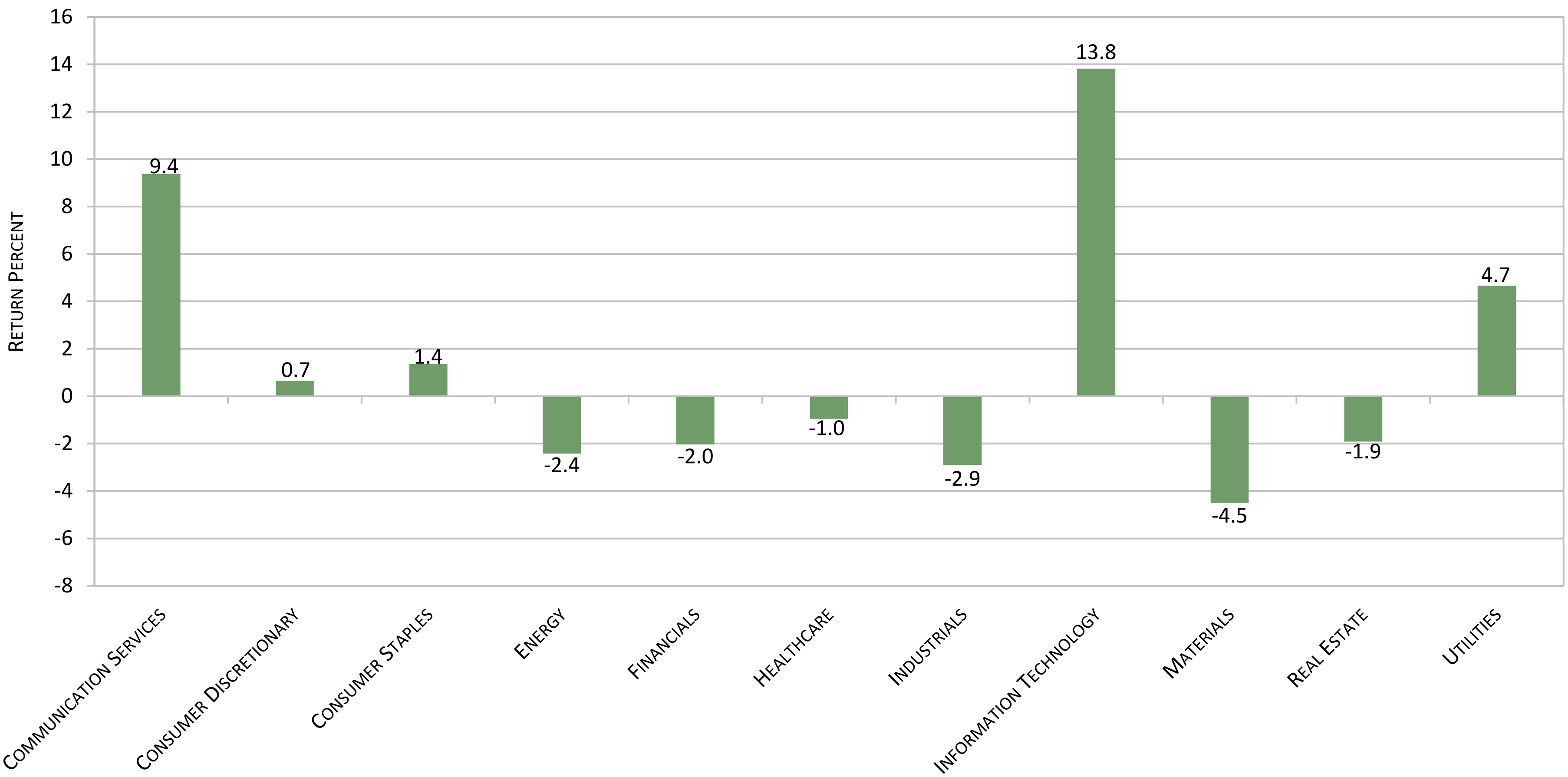
Second Quarter Highlights

Equity sectors with the most exposure to AI outperformed by a wide margin

Interest rate sensitive stocks lagged in the high for longer interest rate environment and cyclical sector stocks were out of favor since investors focused on the growth potential in AI related stocks concentrated in the communications, technology, and energy sectors.

S&P 500 Sector Returns: Second Quarter 2024[4]



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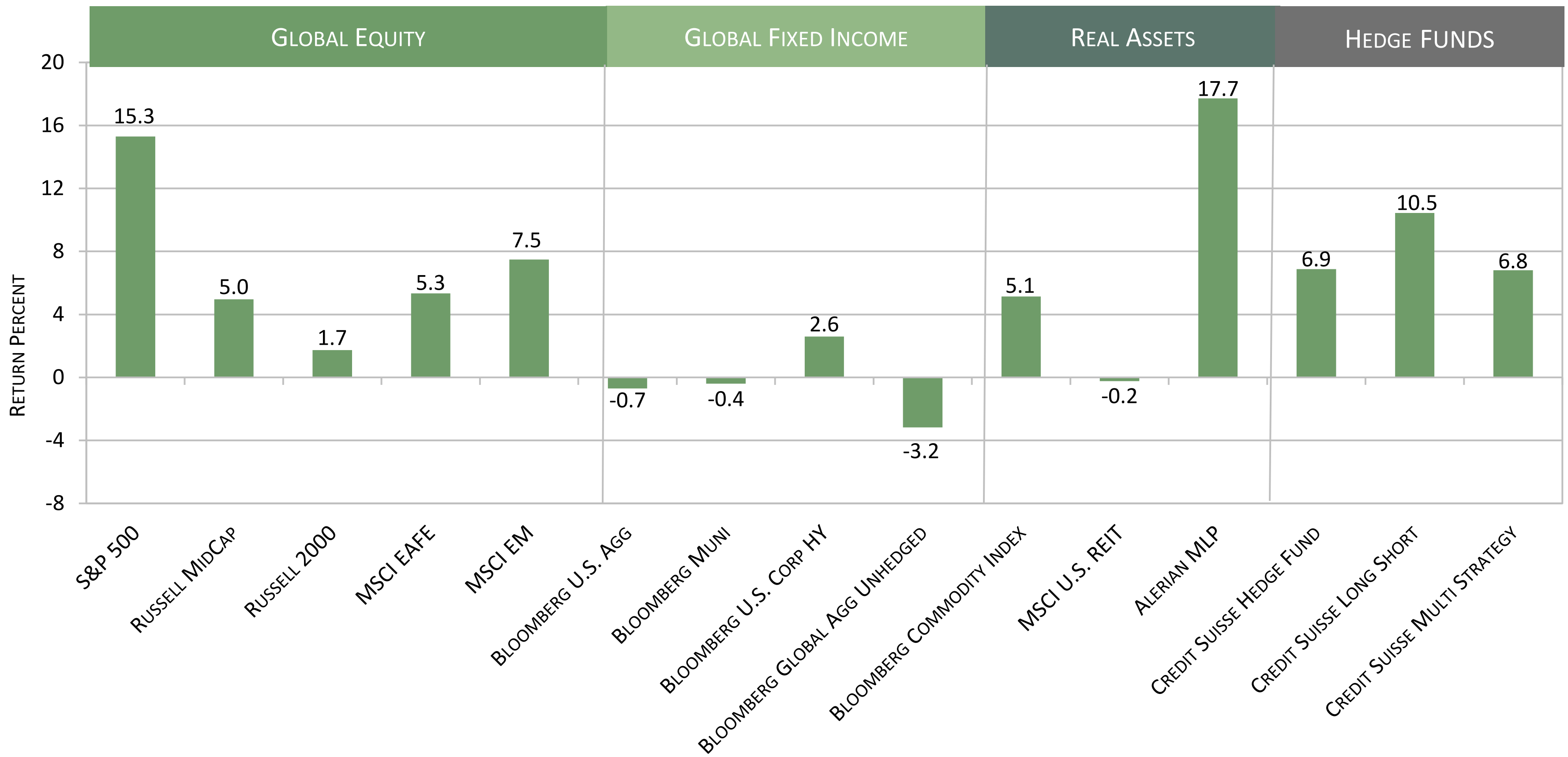
Second Quarter Highlights

Global equity returns were positive for the first half of 2024 but bonds lagged as rates rose

Good corporate earnings, surprisingly strong economic data, and AI optimism drove equity markets to record levels, but that strong data shifted rate cut expectations which pressured most bond sectors along with real estate. Rising oil and precious metals prices boosted the commodities index.

Market Returns: First Half 2024[4]



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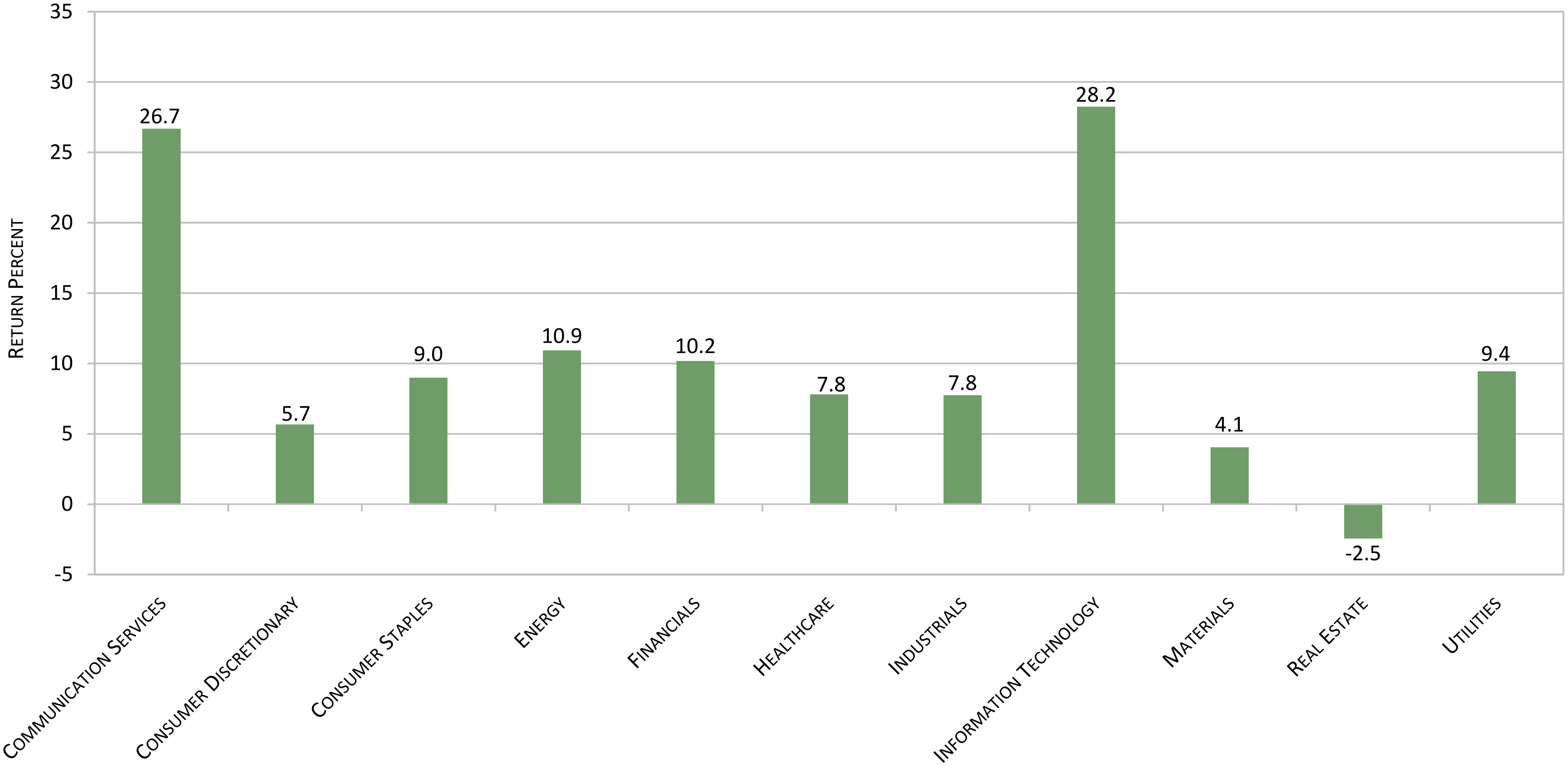
Second Quarter Highlights

Most equity sectors posted robust returns for the first half of 2024

Certain sectors dominated by AI related companies added to first quarter gains to post strong double-digit returns. However, sectors more exposed to the impact of high for longer interest rates retreated modestly from the sizeable returns generated in the first quarter.

S&P 500 Sector Returns: First Half 2024[4]



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Outlook

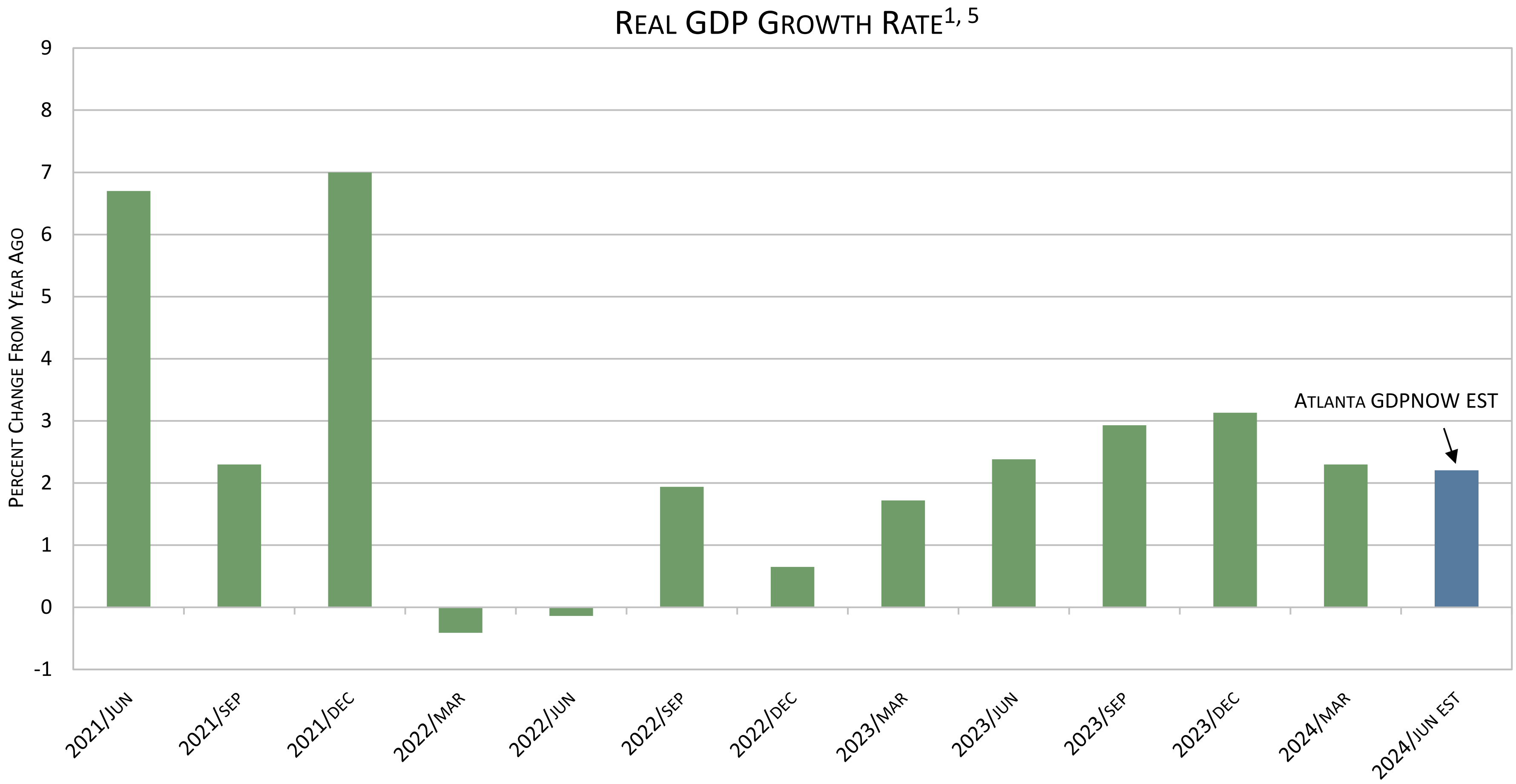
Inflation and timing of interest rate cuts continue to be a main focus for investors

- The resilient labor market is still an inflationary force even though there has been some cooling in the number of new jobs added and wage growth. Therefore, inflation could be sticky. Sticky inflation could mean high for longer interest rates that could dampen economic activity and increase costs, and therefore pressure corporate earnings. The impact of sticky inflation and high interest rates is showing in certain economic data, such as lackluster retail sales, declining manufacturing activity, and housing activity down to the lowest levels since the pandemic shutdowns. However, service activity remains robust and wage growth above the inflation rate is likely to support consumer spending. AI spending is driving earnings growth for companies in various industry sectors.
- The outlook in Europe and the United Kingdom is mixed with inflation coming down sharply but economic activity on the weak side, particularly in manufacturing. Those conditions could lead to more interest rate cuts than in the U.S.
- China's economy continues to be constrained by the debt problems in the property sector that are also dampening consumer sentiment. The impact of prior government stimulus is fading. China's manufacturing sector is picking up gradually but growth in the services sector is lackluster.
- Markets are likely to continue to be in an environment of each data release creating short-term volatility until there are more signs of benefits from declining rates of inflation and more clarity on the path of interest rate cuts. The third quarter is likely to have bouts of additional volatility due to election uncertainty. However, consensus analyst forecasts continue to point to solid earnings growth in each industry sector. That earnings growth will likely be necessary to broaden market gains beyond a small number of large-cap AI related stocks.

Outlook

Positive, but moderate, economic growth expected this year

Economic activity measured by the real gross domestic product growth (GDP) rate has slowed from 2023 due to some weakness in manufacturing and construction. However, a resilient labor market, including wage growth rates above the inflation rate, is supporting service activity, a main driver of GDP growth. The latest Fed projection is for 2.1% GDP growth for 2024 and 2.0% growth in 2025.



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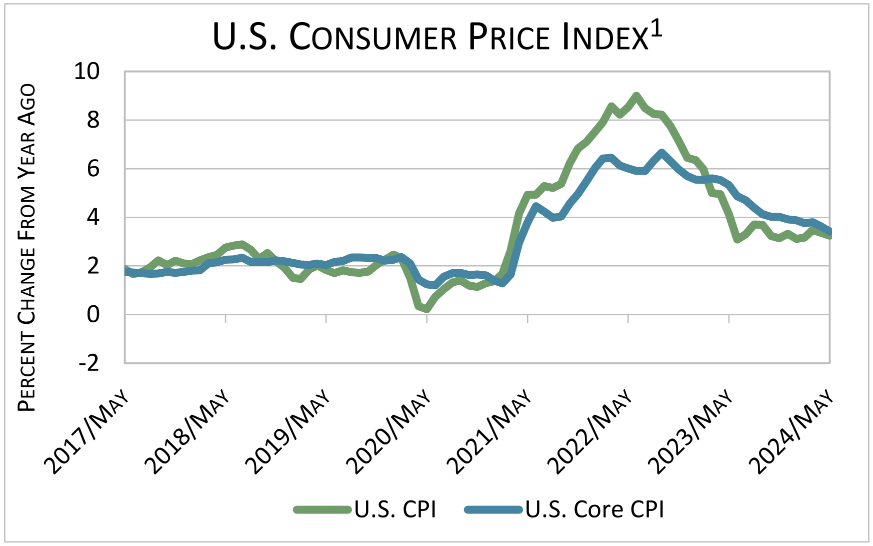
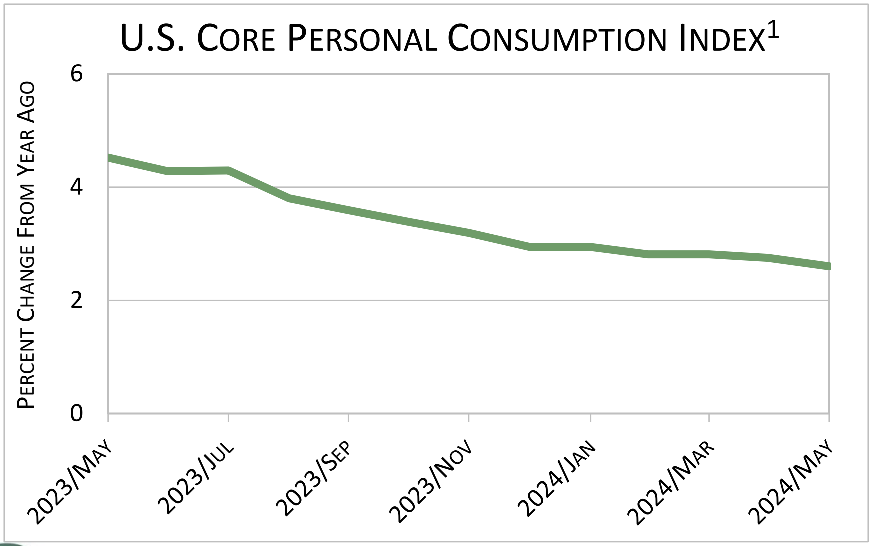
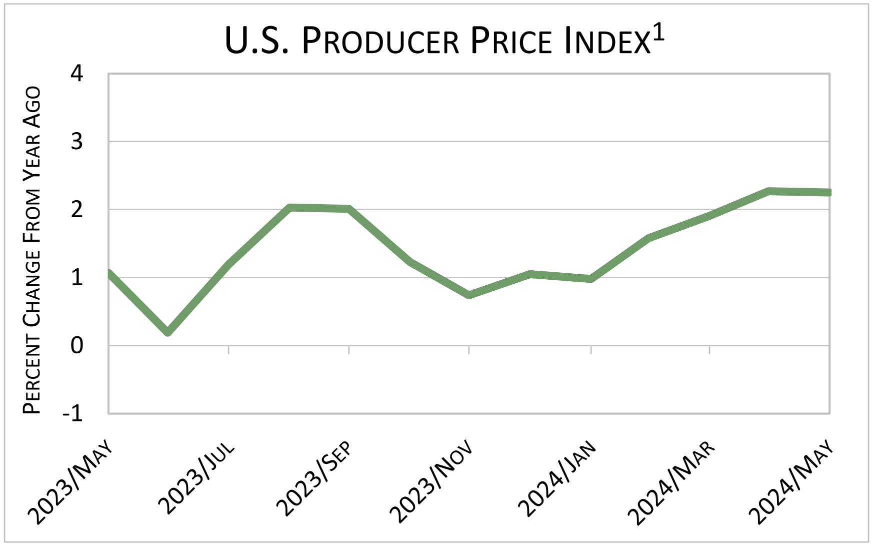
Outlook

The rate of inflation is slowly cooling but remains above the Fed's target level

Progress in bringing inflation down continues but at a slow pace as certain components such as insurance, shelter, and labor costs continue to grow at high rates. The Fed raised its projection for the personal consumption expenditures price index growth rate to 2.6% at year-end and 2.3% at the end of 2025. Other economists also expect inflation to remain above the Fed's 2% target into 2025. Sticky inflation will likely limit the number of Fed interest rates cuts which could pressure consumer and business budgets and spending.







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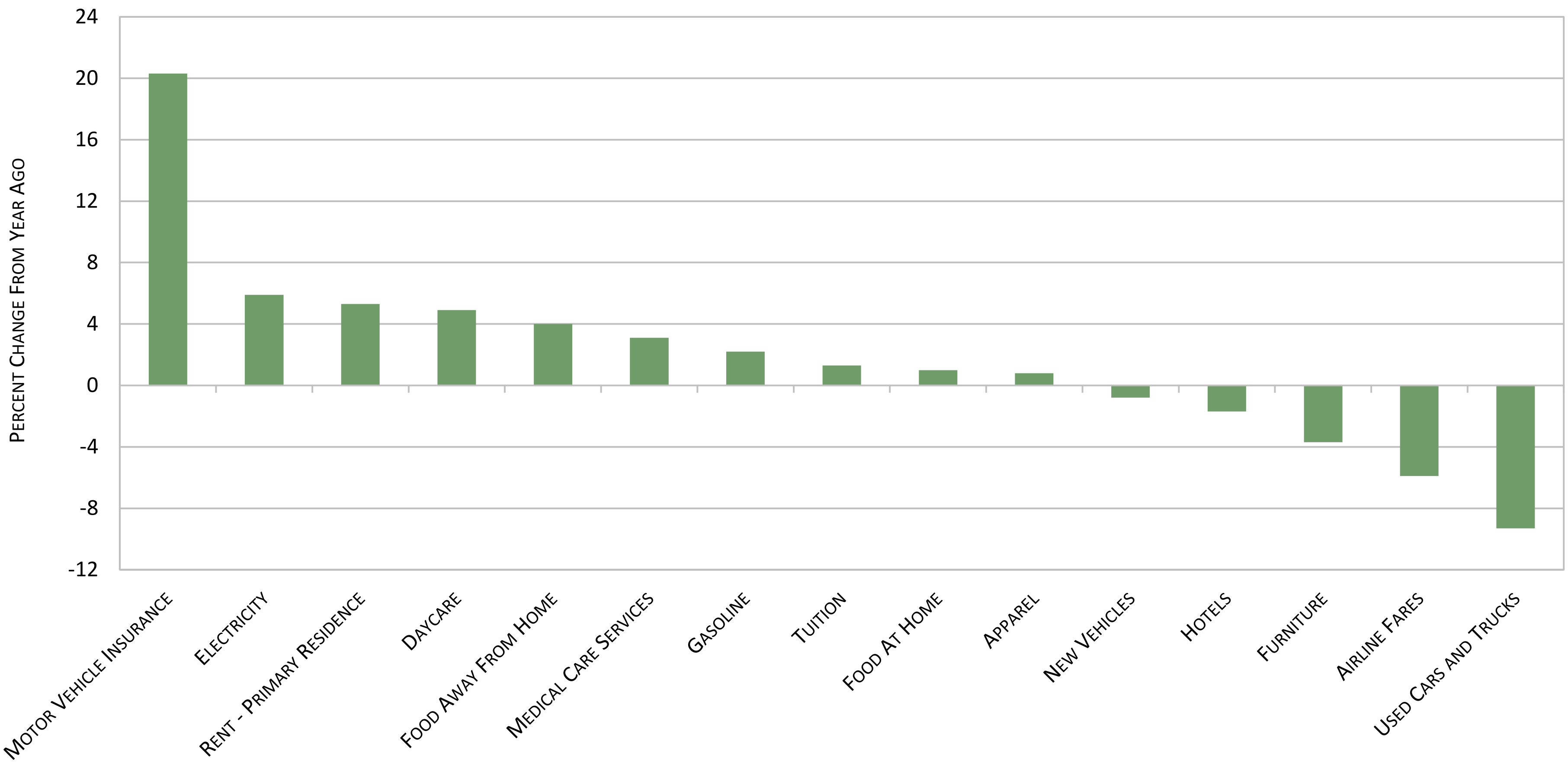
Outlook

Some Covid era inflation drivers have eased but key items are still driving CPI higher

Previously, airfare, vehicles, and furniture had sharp price increases due to Covid impacts which helped drive inflation to the highest in decades. Prices in those categories are now falling helping bring CPI growth rates down. However, items consumers likely can't put off buying like rent, daycare, electricity, and car insurance are still up sharply keeping CPI over the Fed's target and delaying interest rate cuts.

Consumer Price Index (CPI) By Expenditure Category[6]



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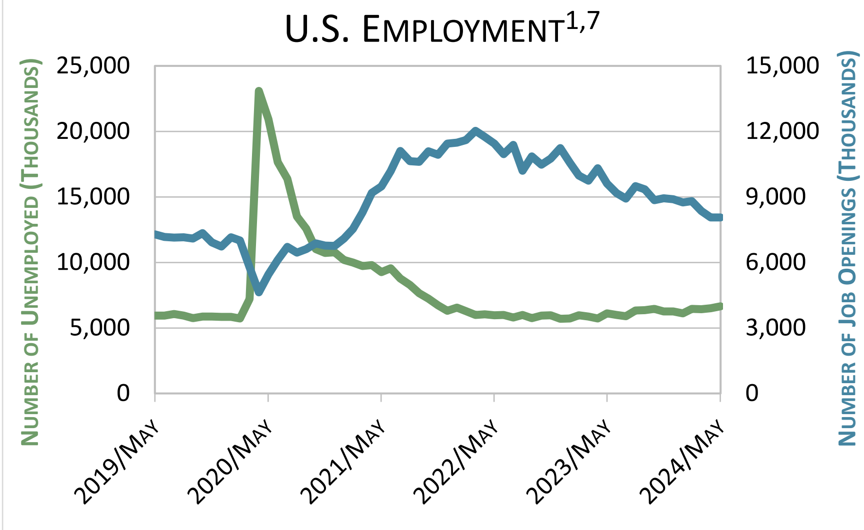
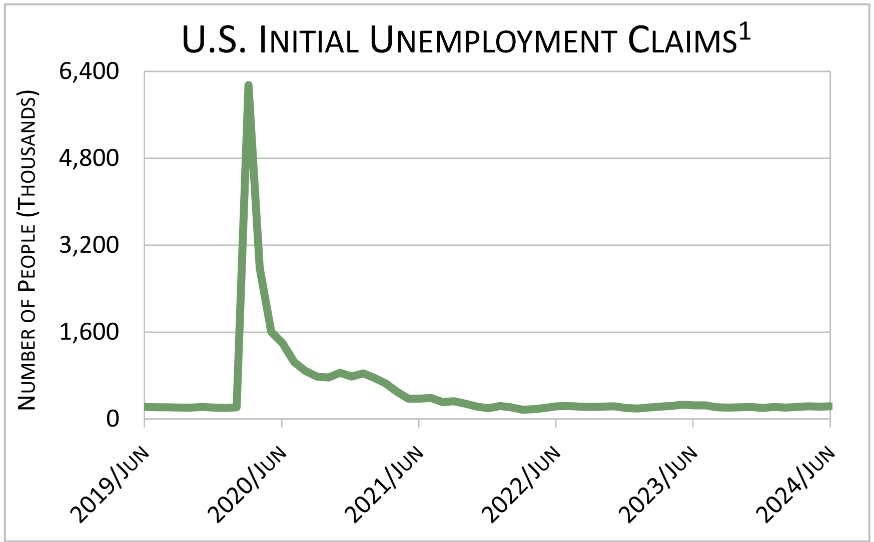
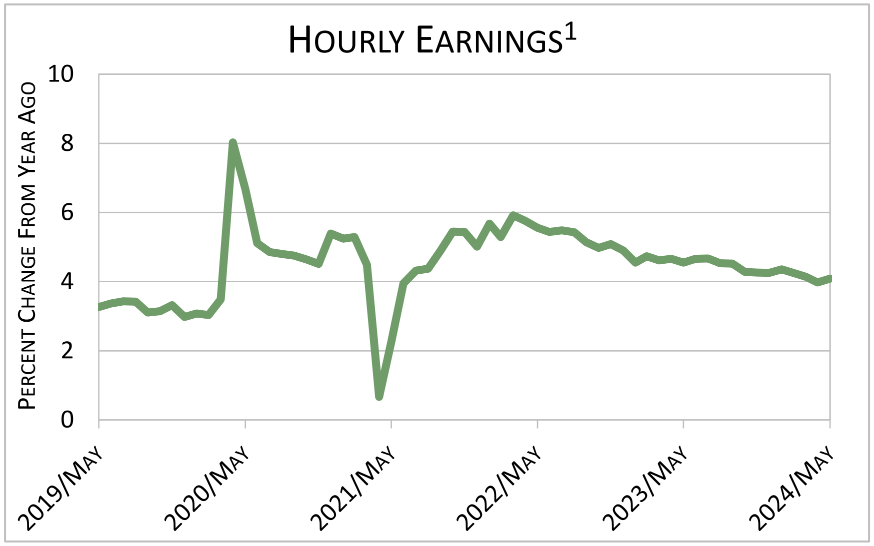
Outlook

The labor market is a key to a Fed rate decision

The labor market is still supportive of economic growth and a source of inflationary pressure since new unemployment claims remain low, job openings remain high, and wage growth is above pre-pandemic levels. There have been modest signs of slowing in the most recent data, such as the four-week average of continuing claims hitting the highest level since 2021 indicating it is taking longer to find a job. However, the Fed is looking for more evidence that a slowing trend has developed before cutting interest rates.







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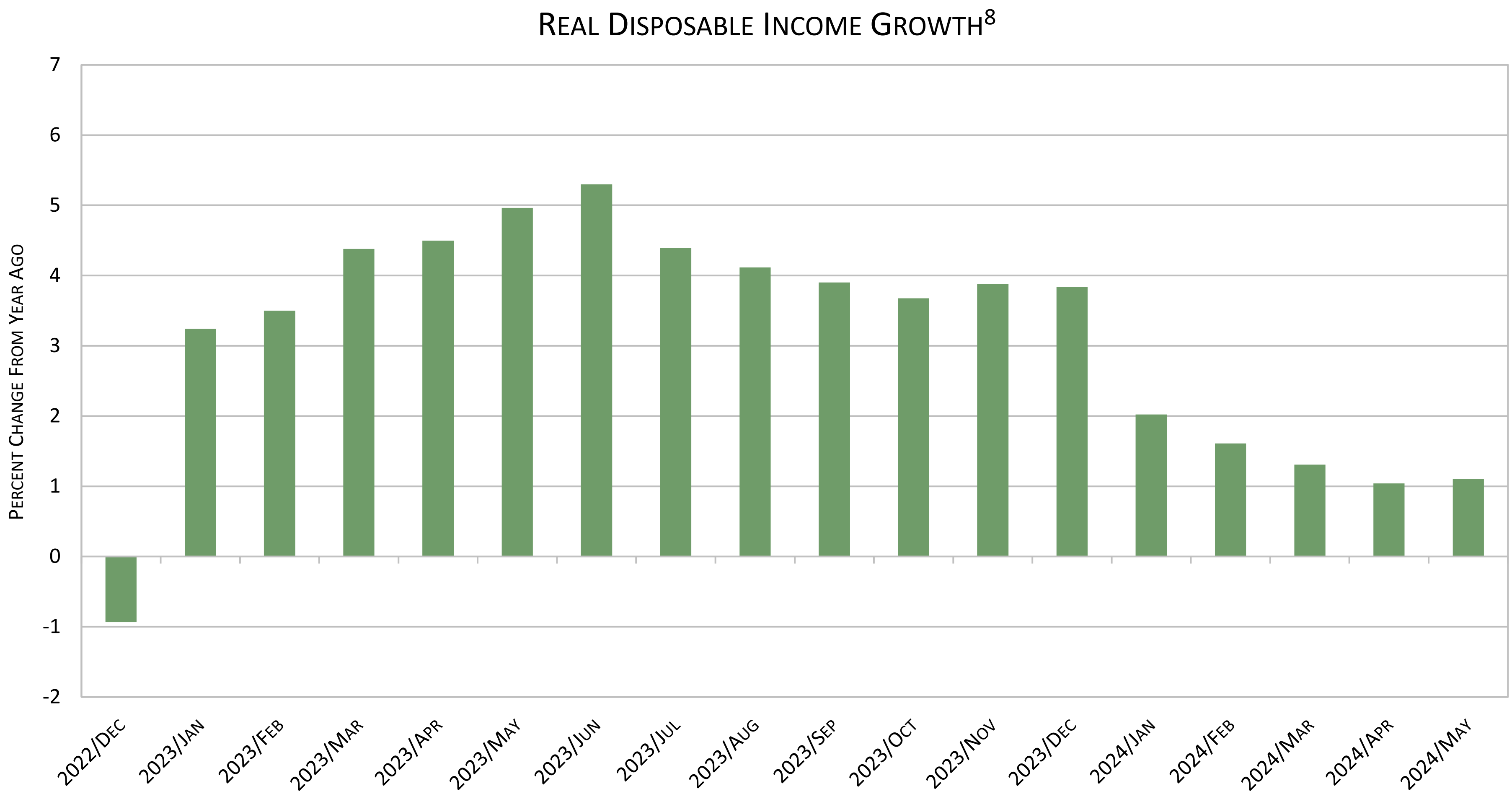
OUTLOOK

GROWTH IN REAL DISPOSABLE INCOME HAS SLOWED WHICH COULD LIMIT CONSUMER SPENDING

Consumer spending accounts for almost 70% of GDP so consumers' ability to spend is an important indicator. The slowing trend in disposable income is one piece of data warning that consumers may be beginning to feel more stretched than last year.



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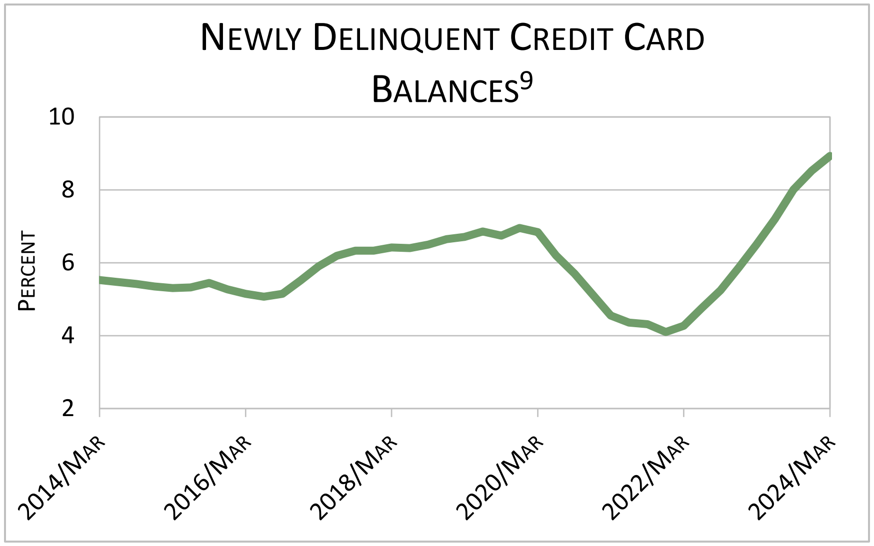
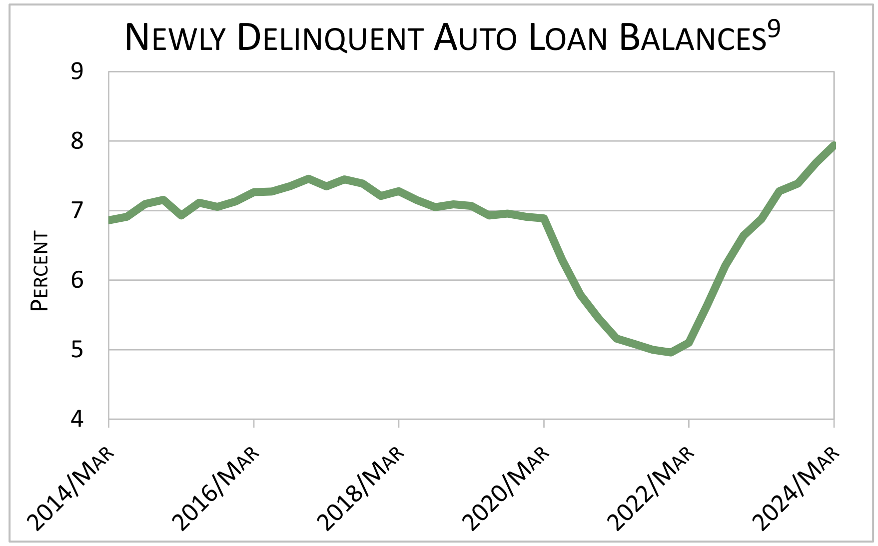
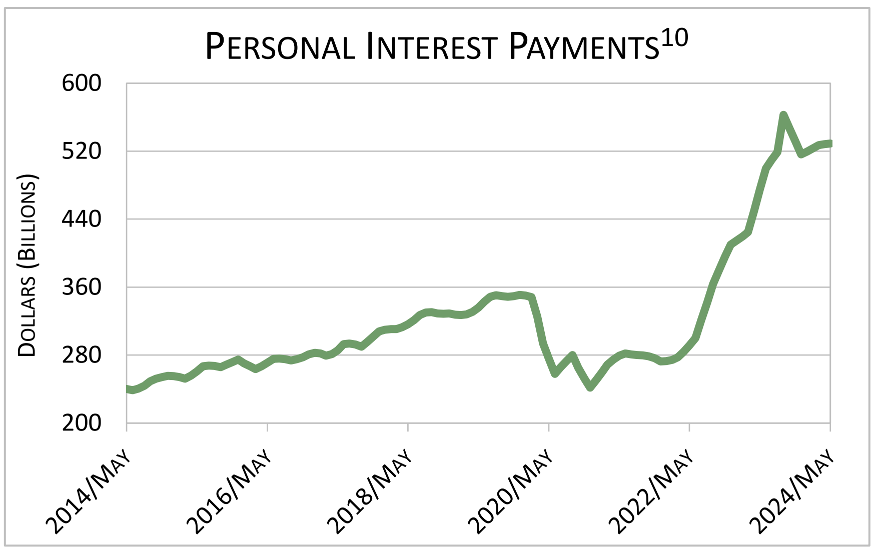
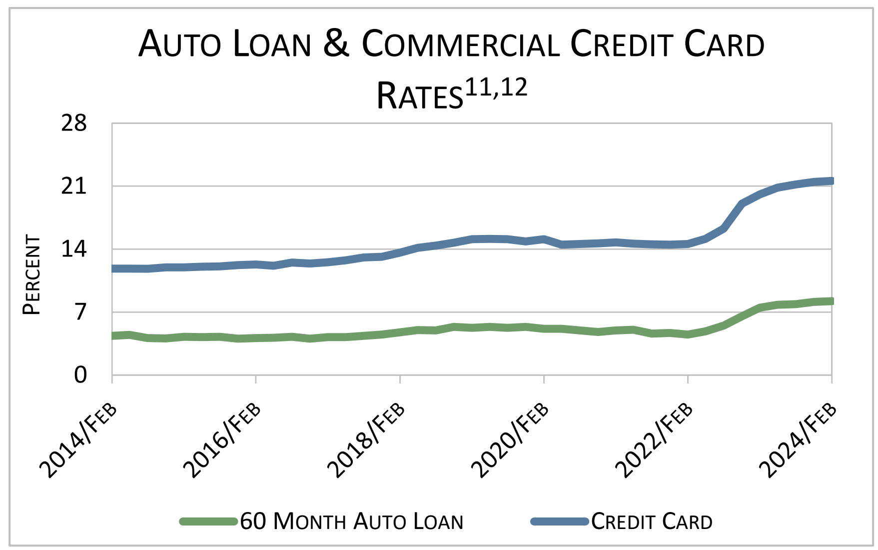
Outlook

Signs of stress in consumer finances continue to rise









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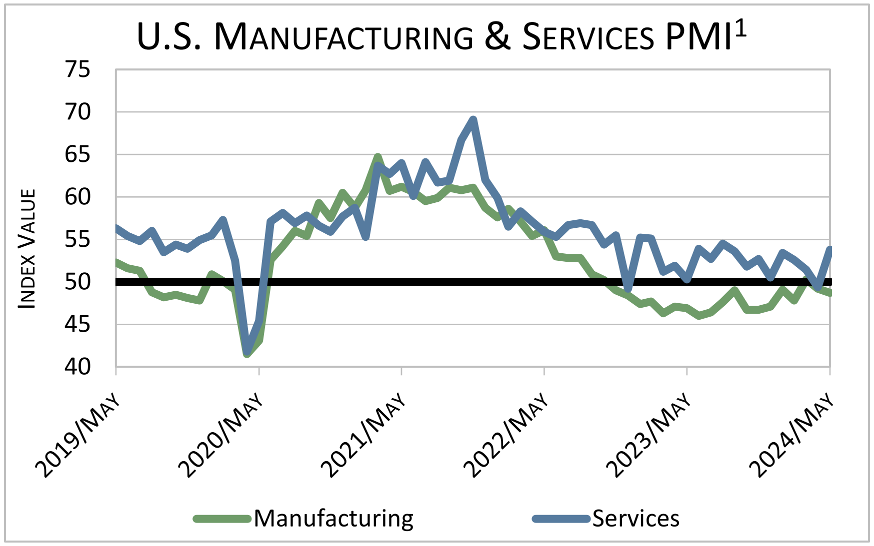
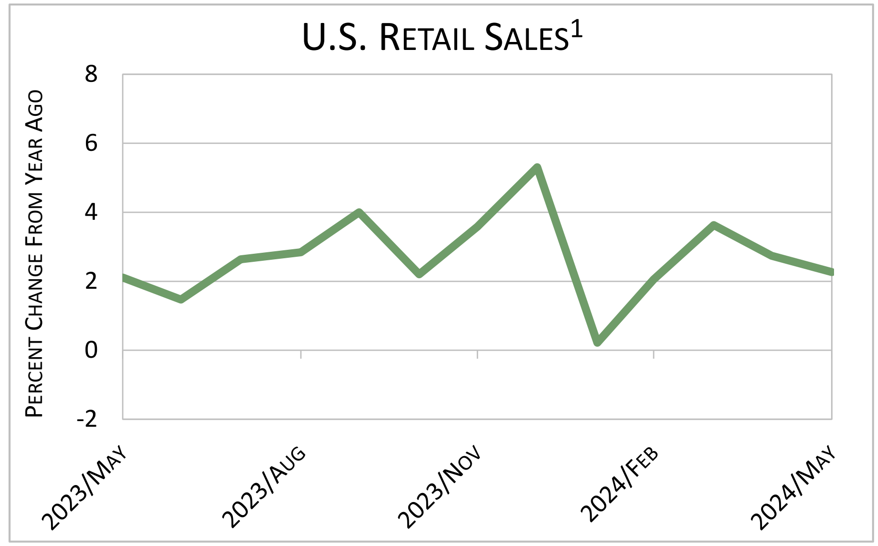
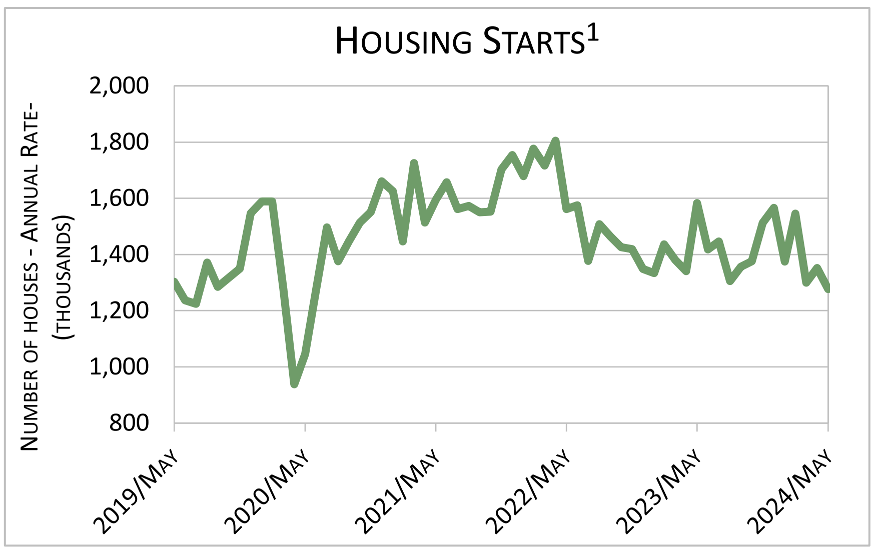
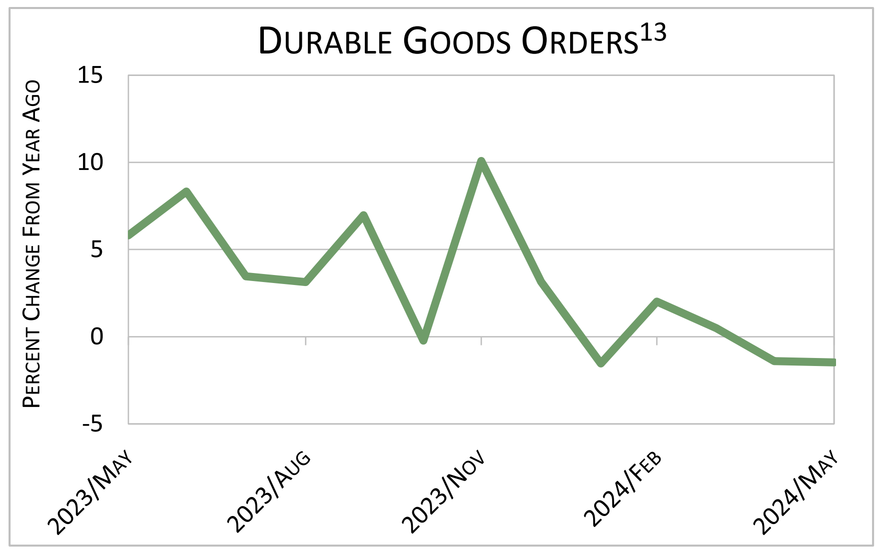
OUTLOOK

SERVICE ACTIVITY IS IN EXPANSION BUT OTHER DATA IS SHOWING THE IMPACT OF RATE HIKES









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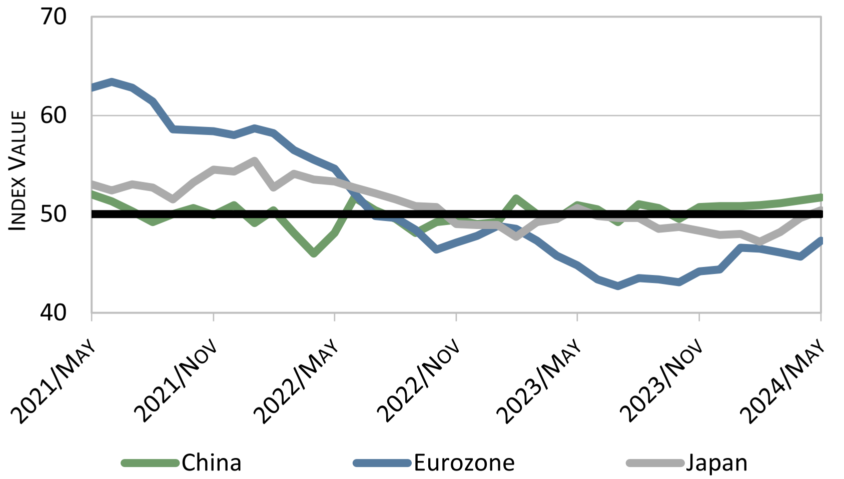
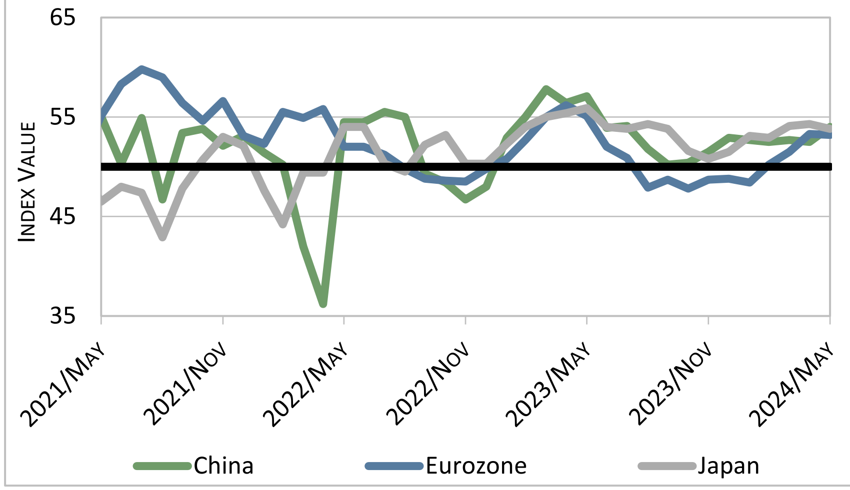
OUTLOOK

ECONOMIC DATA OUTSIDE THE U.S. IS SHOWING SOME IMPROVEMENT

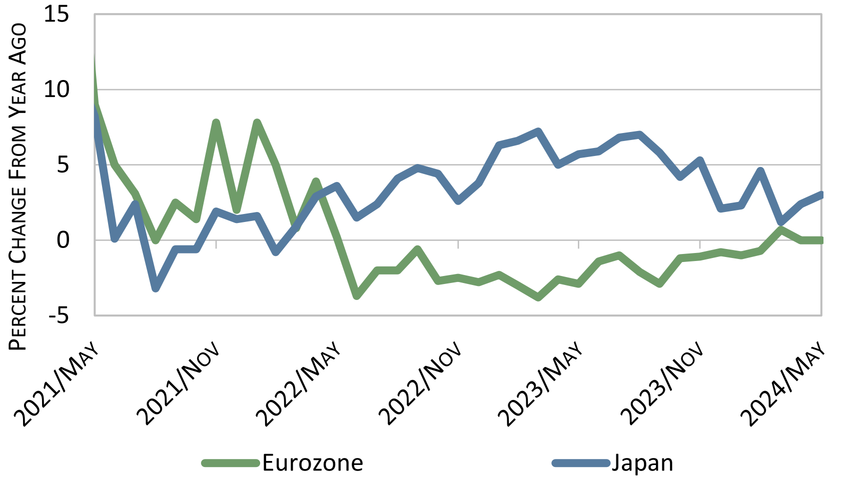
GLOBAL MANUFACUTRING PMI[1]



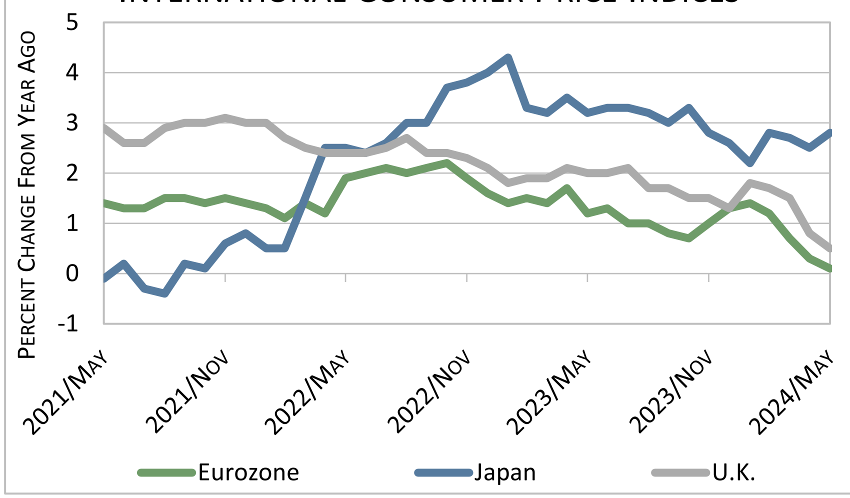
GLOBAL SERVICES PMI[1]



INTERNATIONAL RETAIL SALES[1]



INTERNATIONAL CONSUMER PRICE INDICES[1,14]



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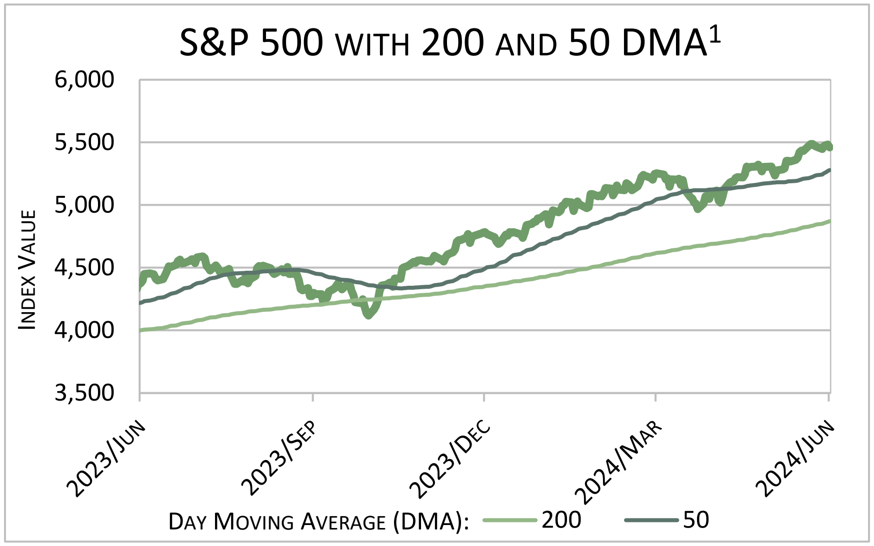
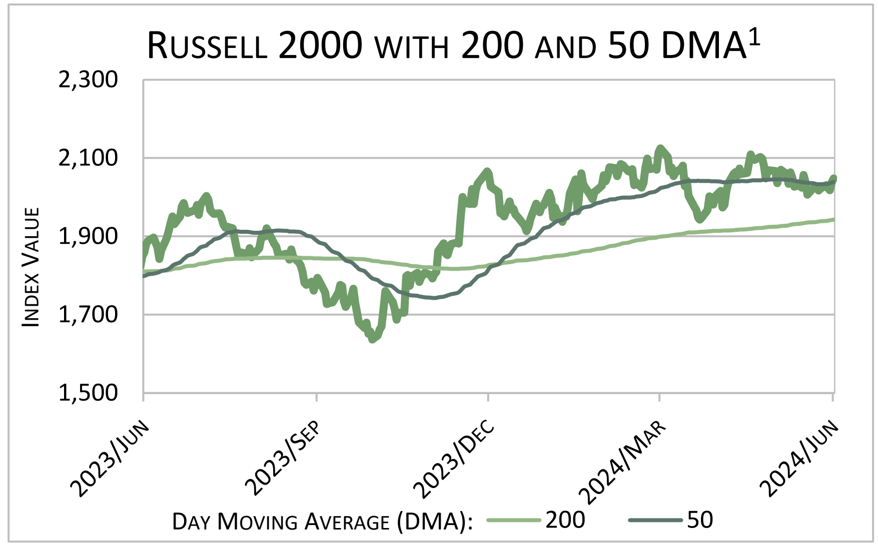
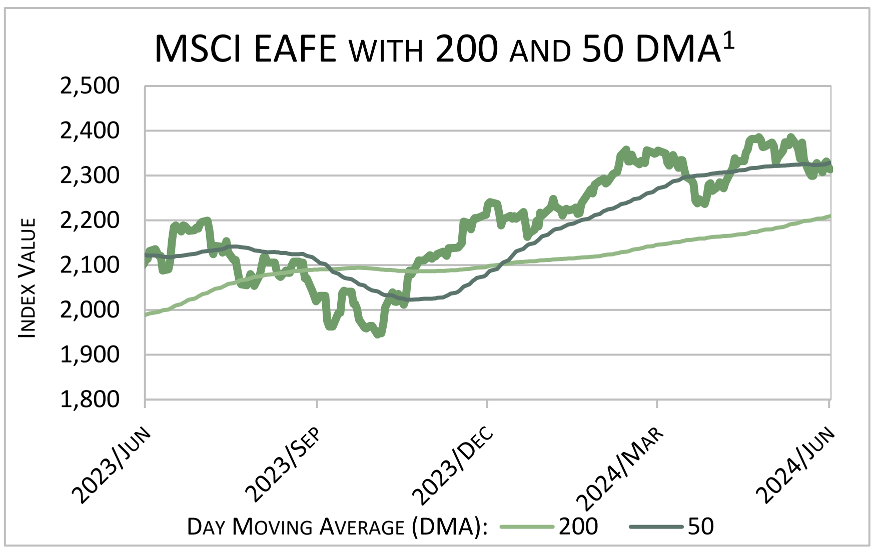
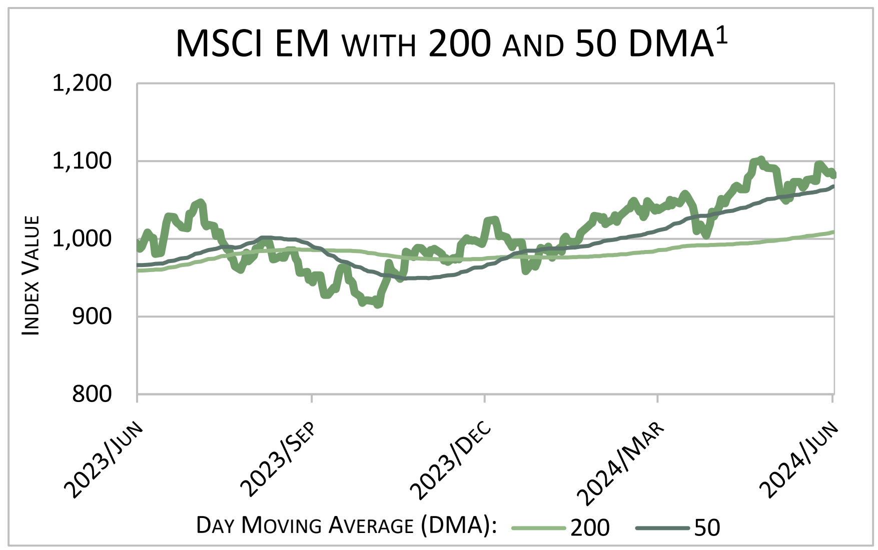
Outlook

Technical indicators are mostly positive but sentiment may be getting over extended









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Vogel Tactical Recommendations

Favor U.S. over foreign equities. Bond yields are attractive. Overweight cash.

Asset Class	Action	Commentary
Domestic Large-Cap Equity	Equal weight	Solid earnings growth and resilient economic activity support the uptrend in equity prices but a risk remains that tight monetary conditions from high for longer interest rates and stretched consumers fuel a slowdown. Valuations high in certain sectors.
Domestic Mid-Cap Equity	Equal weight	Solid earnings growth and resilient economic activity support the uptrend in equity prices but pressure on mid-cap valuations continues due to the risks associated with financing costs and stretched customers from high for longer interest rates.
Domestic Small-Cap Equity	Equal weight	Wider than average valuation gap with large-cap stocks. Signs of slowing growth or delayed rate cuts could mean wider price swings for small-cap than large-caps.
International Developed Equity	Underweight	Inflation is slowing so rate cuts have begun. Valuation discount to U.S. stocks. Concerns remain about weakness in exports and manufacturing. A stronger U.S. dollar could be a headwind to returns to U.S. investors.
International Emerging Market Equity	Underweight	Valuations are attractive and rate cycles have peaked with certain countries cutting rates. However, growth outlooks are mixed by country with technology centric economies set for stronger growth. A weak Chinese economy continues to be a risk. A firmer dollar could lower returns for U.S. investors.
Fixed Income	Equal weight	Yields are the highest in several years so are a source of income and diversification. Could be some price appreciation if the Fed cuts rates.
Hedge Strategies	Underweight	The flexibility to position for various risk scenarios can provide return opportunities, but rapid and sharp market swings can be challenging for some strategies.
Real Assets	Equal Weight	Certain sectors seeing high demand driving prices up. High dividend yields offer inflation protection. The potential for declining interest rates and low valuations make certain real estate assets attractive.
Cash	Overweight	Yields are attractive and likely to remain so given the Fed policy of high for longer interest rates.

DISCLOSURES

Important Disclosures:
This report is being provided to you for your review and consideration and does not constitute a recommendation to purchase, sell or hold any security, and should not be construed as investment advice. Past financial performance is no guarantee of future results.

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Sources: *Number below corresponds to the superscript notation in chart titles and text blocks*

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