Market and Portfolio Commentary

Equities

The equity markets continued to enjoy broad-based strength through the second quarter of the year as investors have remained optimistic on the strength of the US economy and the nearing of global central banks starting to cut interest rates. However, the underlying performance across the US markets was mixed across sectors and styles with large technology companies contributing to most of the strong performance. This showed up in the indices as the technology-heavy S&P 500 Index advanced 15.3% this year while the more industrial Dow Jones Industrial Average only gained 4.8%. The International stocks also remained positive on the year with the MSCI EAFE Index, which tracks a basket of developed markets stocks was up by 5.8% at the quarter end. There are many international markets like Japan and India that are benefiting as many companies are looking for alternatives to China. The Real Estate sector has continued to lag with the DJ US Select REIT Index down 2.5% this year.

While the equity market has been driven mostly by mega-cap stocks (i.e.. Microsoft and Nvidia), we believe that this momentum will start to spill over to the sectors and industries that have lagged so far year-to-date. This is why we continue to focus on the benefits of being broadly diversified between different parts of the market and not overly concentrated in any one sector. It's also why we recommend continuing our "on target" weightings to equities. We have already seen this "sector rotation" begin to take shape in the first few weeks of July. As we head into the second half of the year, earnings growth will be a key metric to see if companies can continue to exceed expectations on earning's growth.

Fixed Income/Interest Rates

While the equity markets have thrived, the bond market still grapples with policy uncertainty and remains range bound for the most part. We've seen bond prices and yields trading in a close range this year as investors react to the latest economic data. The yield on the benchmark 10-year US Treasury note ended the quarter at 4.4% compared to 3.9% to start the year. For reference, the Bloomberg US Aggregate Bond Index is down 0.78% on the year while the Bloomberg Municipal Bond Five-Year Maturity Index is down roughly the same at 0.79%. It's important to remember that that while we are getting meaningfully higher yields than in the past few years, we have seen the prices of our bonds decrease over that same period negating much of the overall return. In looking forward, the fixed income markets are pricing in a roughly 70% chance of two Federal Reserve rate cuts this year and a 30% chance of one rate cut this year. Additionally, we anticipate the markets shifting to rate-cutting prospects for 2025 in the months ahead. It's for this reason that we continue to suggest the use of laddered bond strategies for fixed income investments in additional to our short-term funds and preferred stock funds.

Presidential Election

The 2024 presidential election is sure to have everyone's attention for the next 4 months. Historically, the months leading up to these elections have been volatile with investors attempting to price in both risks and opportunities. The outcome of the presidential and congressional elections is sure to have meaningful implications on taxes (corporate and personal), trade, and immigration to name just a few policy areas. The winner(s) will also have to address a glaring Federal government deficit that will need to be addressed relatively soon. This may be the dominant theme heading into 2025. We will be sharing some additional commentary on the upcoming election in the next few weeks but in summary the market has historically been rewarding to investors regardless of which party holds power. We are obviously watching the election developments closely, but do not see significant market shocks emanating from November. As we have said before, market volatility in the short-term usually passes as investor attention shifts back to core issues such as corporate earnings, interest rates, and employment.

Outlook

As we head into the second half of 2024, the US economy has proven to be far more resilient than anyone had expected, with an integral factor being the relatively solid labor market, consumer spending and continued decelerating inflation. It is appearing as though the U.S. economy will continue to produce modest growth and avoid an outright recession during the second half of this year. It will be important to watch the economic numbers in the second half of this year to see if this continued strength can continue into 2025 and beyond. In the markets and economy, the dominate theme has been artificial intelligence (AI). We agree that this is a historical technological shift with far reaching implications in the years ahead. However, history has shown that even the most promising booms have their setbacks. We have seen enthusiasm for other technological breakthroughs before and although the prospects can be bright, they can also be highly risky. We balance our investment portfolios to include both high growth-focused investments with value and income-focused investments to attempt to strike a balance between growth for the years ahead and income for today. As we've said in the past, ignoring outside noise such as politics, and continuing to maintain a diversified investment portfolio remains a prudent approach in almost all market environments. We will keep you updated on these and other future developments that could impact your portfolio.

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