Market Perspectives
June 2024

U.S. Equity Markets finish first half strong as Magnificent 7 stocks continue to drive performance.

Index	MTD	QTD	YTD	1 Year	2023
S&P 500	3.59	4.28	15.29	24.56	26.29
Dow Jones Industrial Average	1.23	-1.27	4.79	16.02	16.18
Russell 2000	-0.93	-3.28	1.73	10.06	16.93
NASDAQ Composite	6.03	8.47	18.57	29.61	44.64
Europe, Australia, & Far East (EAFE)	-1.59	-0.06	5.75	12.09	18.85
MSCI Emerging Markets	4.01	5.40	7.68	12.97	10.27
Bloomberg Barclays U.S. Aggregate Bond	0.95	0.07	-0.71	2.63	5.53

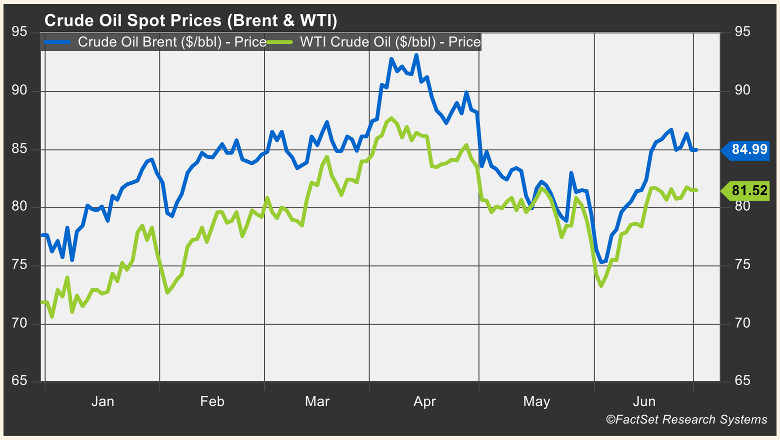
As of 6.30.24; Returns in percent

Market Performance & Equity Concentration

US equities were mostly higher in June as the S&P 500 Index (+3.6%) and the Nasdaq Composite (+6.0%) each logged a second-straight monthly gain, and the fifth gain in the first six months of the year. In contrast, small cap stocks, as measured by the Russell 2000 Index fell 0.9% while the EAFE International stock index declined by 1.6%.

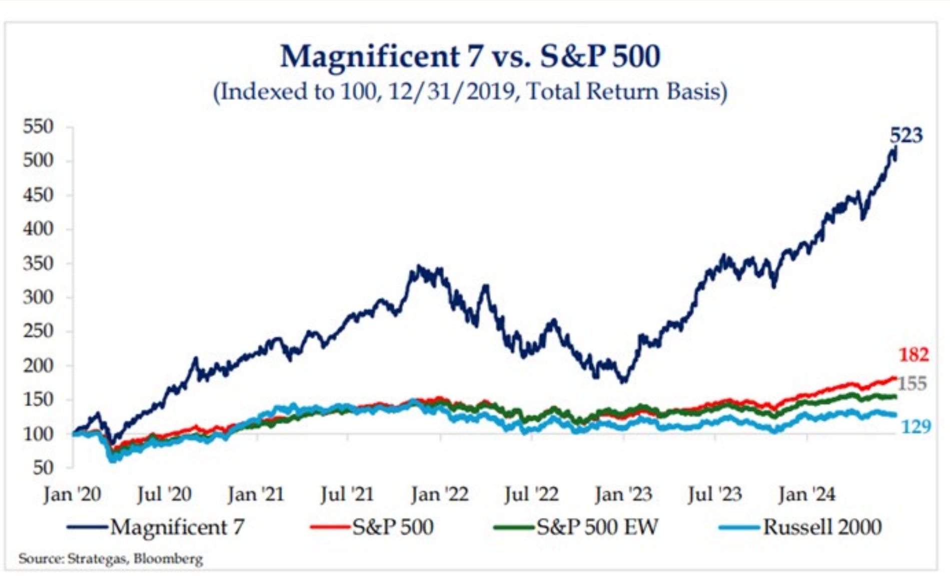
Treasuries rallied across the curve in June with the 2-year yield falling back below 4.75% for the first time since early April. Specifically, the Bloomberg Aggregate Bond Index gained 0.9% as interest rates fell. The decline in rates was a function of a continued cooling of inflation as well as some weak economic data that was reported during the month.

Gold finished down 0.3% for the month, breaking three-straight monthly gains. WTI crude oil was up 5.9% after two-straight monthly declines and is now back above the $80/bbl level.



Source: FactSet; As of 6.30.24

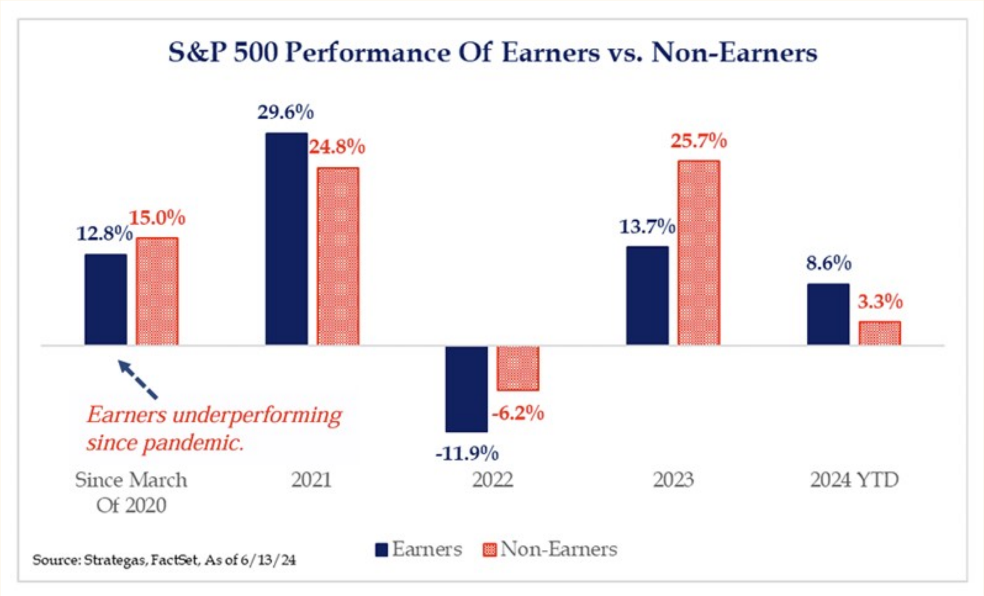
Both the S&P 500 and the Nasdaq posted a very strong first half of 2024, with the former gaining 15.3% and the latter rising 18.6%. However, performance for both indices was heavily concentrated in the largest stocks. In fact, as seen below, the S&P 500 has now been largely driven by the Magnificent 7 stocks for the past year and a half, while the concentration of the index in the top 10 stocks has climbed to 37.5%. In fact, the top 10 stocks accounted for 77.2% of the index's first half 2024 gain, while Nvidia alone accounted for 31.6%. Also, as of month end, three companies each sported market capitalizations greater than $3 trillion. These three companies (Nvidia, Apple, and Microsoft), collectively account for more than 18% of the S&P 500 Index.



Source:Strategas; As of 6.30.24

What Is Driving Stock Prices?

Importantly, stock price performance this year has been driven largely by earnings growth, in contrast to last year when the Federal Reserve interest rate policy was the key driver. The chart below shows that companies earning a profit are outperforming those that do not for the first time since 2021. Despite the expectation for Fed rate cuts falling from 6 at the beginning of the year to only 1 today and the 10-year Treasury yield rising almost 0.5%, the S&P 500 has rallied 15%+, and the key factor is stronger than expected earnings growth. This is a very healthy sign and something that, if it continues, bodes well for the future.

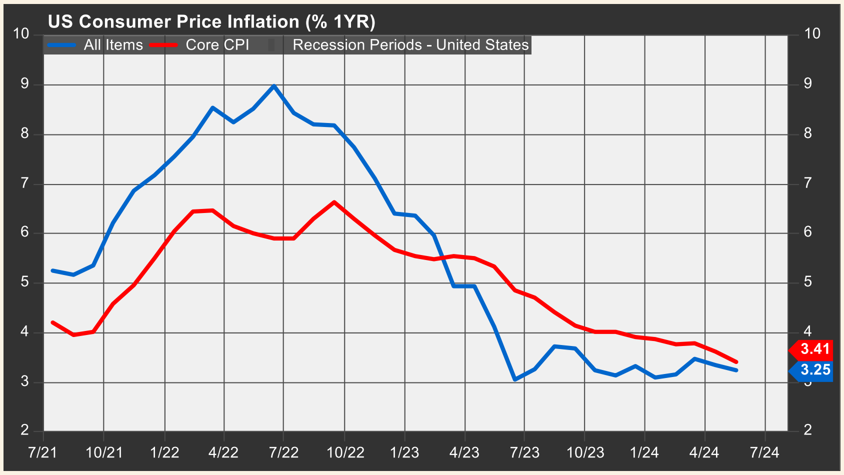


Source: Strategas; As of 6.30.24

Source: FactSet; As of 6.30.24

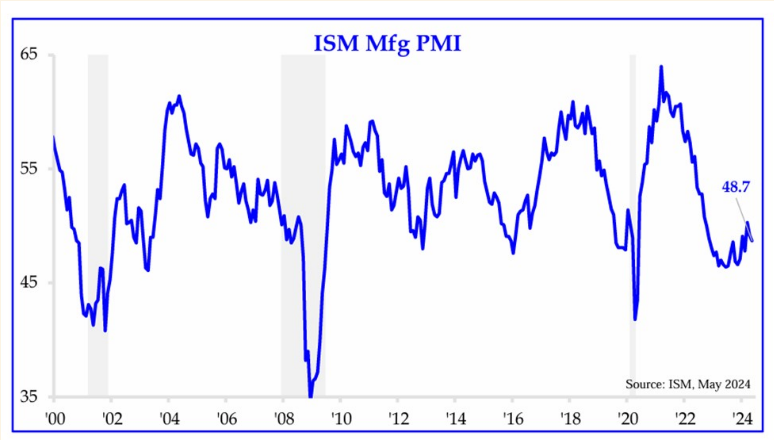
Inflation & Economic Data

A key factor driving sentiment in June was the continued disinflation traction which provides support for the soft-landing narrative. May CPI was cooler than expected, with Core CPI the lowest since August of 2021 (see below) and CPI-ex-housing at 1.9%, the lowest since March of 2021. In addition, May Core PPI also came in unchanged for the month. Finally, the Fed's preferred inflation measure, Core PCE, also supported the slowing inflation narrative as the May number was the lowest since November 2021, with the annualized rate of 2.6% inching closer to the Fed's goal of 2.0%. Economists broadly see price pressures continuing to fall in the second half of the year, highlighting further consumer goods discounting into June and ongoing services disinflation, which has increased the odds of the first Fed rate cut in September.



Source: FactSet; As of 6.30.24

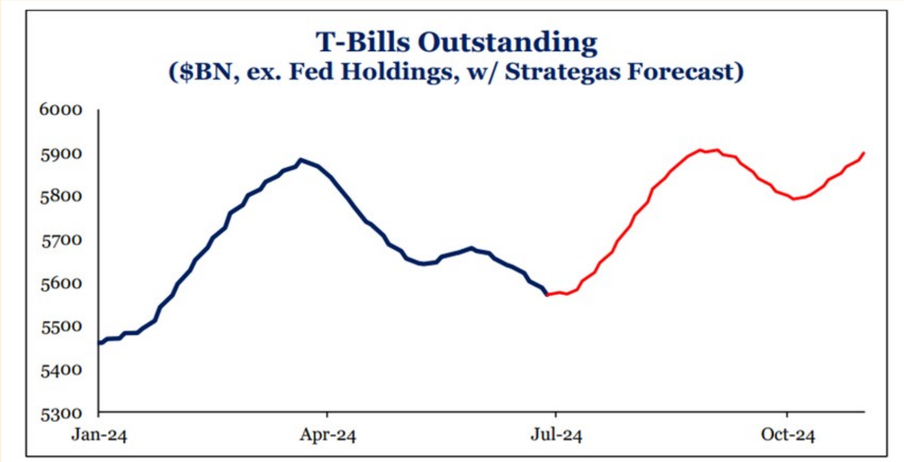
June also saw an increased focus on an economic growth slowdown. Data including a May ISM manufacturing miss (see below – sub 50 indicates an industry in contraction), flat core capital goods orders, new home sales the lowest in six months, and the slowest pace of pending home sales since at least 2001. This month's weak retail sales data and several corporate updates also put the consumer resilience theme under further scrutiny. May retail sales missed estimates, though economists noted spending is cooling in a largely orderly fashion. However, a number of retailers continued to cut prices, noting consumers are increasingly stretched.



Source: Strategas; As of 6.30.24

Second Half 2024 Market Outlook

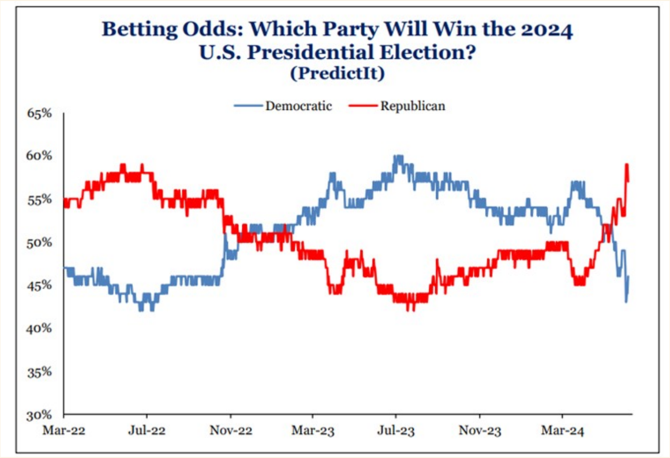
The stock market still has a few tailwinds in place to drive prices higher through the end of the year. These include: 1) markets generally perform well in the months following a presidential election given the certainty associated with knowing who will be in office the coming year, 2) expectation for an economic soft landing given continued deflationary traction and a Fed rate cut cycle likely to begin at some point in the second half, and 3) the likelihood of continued strong corporate earnings growth. And on the good news/bad news front, market liquidity will increase as the projection of a second straight $2 trillion federal deficit this year will force the government to issue additional Treasury debt to cover the gap (see below).

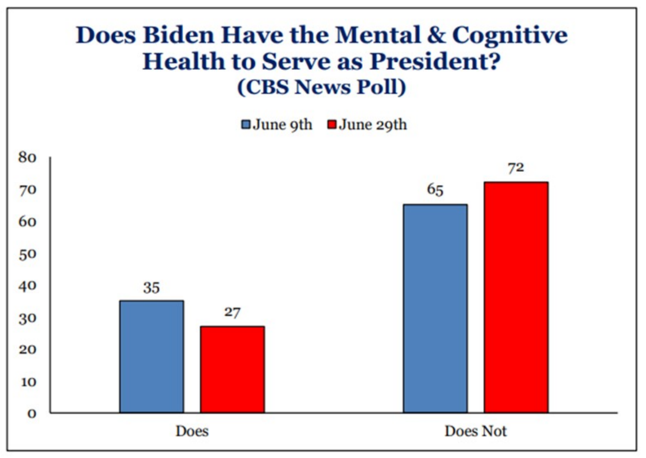


Source: Strategas; As of 6.30.24

Impact of Presidential Election

And lest we forget, the presidential election will likely produce some volatility through November as pundits speculate on who the winner will be. Following the late June debate, Donald Trump is currently in the driver's seat, while much speculation exists that Joe Biden may drop out of the race. However, there's a lot of time left between now and November, so things can change rapidly. In any event, markets will respond, either positively or negatively, to the presumed winner as speculation mounts.





Source: Strategas; As of 6.30.24

Investment Portfolio Implications

Given the concentration of first half equity market performance in a handful of US companies, we believe it is prudent to own a diversified portfolio of equities, including foreign equities and mid/smaller cap companies, in order to benefit from solid global growth and the expected broadening out of equity market performance (which history tells us is likely over the near term). Also, the higher for longer interest rate environment, coupled with our belief that rates are not likely to fall anywhere near the levels seen prior to 2022, have created attractive opportunities in both taxable and municipal bonds not seen in almost 20 years. Finally, we believe investors can benefit from owning Private Alternative investments, including equity, fixed income, and real estate. Over time, such diversification can produce a superior risk adjusted return.

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