
**JUNE: NARROW EQUITY LEADERSHIP**
*MID-YEAR PERFORMANCE REVIEW*

**Figure 1: 6/30/2024 Returns** (source: Bloomberg)
*Conditional formatting: green (high) to red (low) for each time period*

| Bonds | ETF | Month | QTR | YTD | 1YR | vs. 52-wk High | vs. 52-wk Low |
|---|---|---|---|---|---|---|---|
| US Aggregate Fixed Income | AGG | 0.9% | 0.0% | -0.7% | 2.6% | -3.4% | 5.1% |
| Investment Grade Corp Bonds | LQD | 0.6% | -0.5% | -1.4% | 3.5% | -4.7% | 8.1% |
| U.S. Treasury Bonds | GOVT | 1.0% | -0.1% | -0.8% | 1.5% | -3.3% | 3.7% |
| U.S. 20+ YR Treasuries | TLT | 1.8% | -2.0% | -5.6% | -7.4% | -12.8% | 9.2% |
| Muni Bonds | MUB | 1.0% | -0.2% | -0.5% | 2.7% | -2.6% | 5.2% |
| US High Yield | HYG | 0.5% | 0.7% | 2.3% | 9.2% | -1.7% | 7.1% |
| Non-US Corp Bonds | IBND | -0.5% | -0.7% | -3.0% | 3.7% | -5.3% | 7.5% |
| Emerging Markets Bond LC | EMLC | -1.4% | -1.4% | -3.8% | -1.0% | -9.4% | 2.3% |
| **Global Equity** | | | | | | | |
| ACWI Global Equity | ACWI | 2.0% | 2.9% | 11.4% | 19.3% | -0.9% | 27.1% |
| ACWI Global Equity ex US | ACWX | -0.4% | 1.0% | 5.6% | 11.1% | -3.7% | 18.4% |
| International Developed | EFA | -1.8% | -0.2% | 5.8% | 11.3% | -4.6% | 19.3% |
| Emerging Markets | EEM | 2.6% | 4.4% | 6.7% | 10.5% | -2.7% | 17.4% |
| **Global Equity by Region** | | | | | | | |
| United States | VTI | 3.1% | 3.3% | 13.6% | 23.3% | -1.2% | 32.0% |
| Europe | IEUR | -3.1% | 0.5% | 5.6% | 11.6% | -5.6% | 21.4% |
| Asia ex-Japan | AAXJ | 3.0% | 6.6% | 8.5% | 10.6% | -2.1% | 18.4% |
| China | MCHI | -3.3% | 6.6% | 4.0% | -2.9% | -15.1% | 19.2% |
| Japan | BBJP | -0.6% | -3.6% | 7.4% | 12.9% | -5.3% | 17.5% |
| Latin America | ILF | -6.1% | -10.6% | -12.5% | -3.6% | -16.7% | 4.9% |
| **US Equity** | | | | | | | |
| US S&P 500 | IVV | 3.6% | 4.4% | 15.3% | 24.6% | -1.2% | 32.9% |
| NASDAQ 100 QQQ | QQQ | 6.5% | 8.1% | 17.3% | 30.6% | -1.7% | 39.9% |
| US Large Growth | IWF | 6.6% | 8.3% | 20.5% | 33.3% | -1.3% | 42.9% |
| US Large Value | IWD | -1.1% | -2.2% | 6.5% | 12.9% | -3.4% | 21.0% |
| US Eqwt S&P 500 | RSP | -0.5% | -2.6% | 5.0% | 11.6% | -4.0% | 22.3% |
| US Mid Cap | IJH | -1.7% | -3.4% | 6.1% | 13.5% | -5.0% | 25.2% |
| US Small Cap | VTWO | -1.1% | -3.3% | 1.7% | 10.1% | -5.3% | 24.1% |

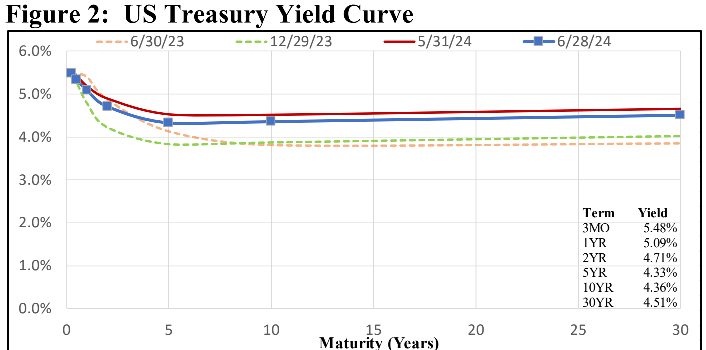
Global stocks and bonds posted mixed results in June as strong technology sector returns pushed large US equity indices to new highs and interest rates moved marginally lower. Performance highlights for the month and second quarter (Q2) are summarized below. Year-to-date (YTD) returns are discussed on page 2.

- Bonds: The US Aggregate index (AGG) rose 0.9% this month (0.0% Q2) as yields declined. Long-term Treasuries (TLT) are highly sensitive to changing interest rates, rising 1.8% (-2.0% Q2). Corporate bonds (LQD) gained 0.6% (-0.5% Q2), and high yield (HYG) rose 0.5% (+0.7% Q2). Non-US bonds posted losses for the month and quarter as the US dollar gained.
- Global equity (ACWI): +2.0% in June (+2.9% Q2).
- US Equity: The broad market (VTI) rose 3.1% (+3.3% Q2). The S&P 500 (IVV) gained 3.6% (+4.4% Q2), but returns were concentrated in the largest stocks; the equal-weighted version of that index (RSP) was down 0.5% (-2.6% Q2). Small (VTWO) and mid cap stocks (IJH) were down for the month and quarter and have under-performed significantly in the past several years. Large growth stocks (QQQ and IWF) continue to account for an outsized proportion of market gains, while value stocks (IWD) languish. Returns continue to be led by the technology sector (XLK), which gained 7.8% (+8.8% Q2).
- Non-US Equity: Developed markets (EFA) lost 1.8% in June (-0.2% Q2), with election-related weakness across Europe (IEUR -3.1%, +0.5% Q2). Emerging market stocks (EEM) rose 2.6% (+4.4% Q2) as election volatility led to continued gains in India (INDA +5.2%, +8.1% Q2) but significant losses in Mexico (EWW -12.0%, -17.6% Q2). Chinese stocks (MCHI) were weak in June but rose 6.6% in Q2.

## Interest Rates and the Economy

The yield curve (Figure 2) plots the interest rates (vertical axis) for various US Treasury maturities (horizontal axis). Yields declined in June as moderating inflation data revitalized investors' hopes that the Federal Reserve (Fed) will begin cutting interest rates sooner. Headline CPI declined to 3.3% over the past twelve months, while the Fed's favored inflation metric, core Personal Consumption Expenditures (PCE) declined to 2.6%, ever closer to their 2% inflation target. The inverted yield curve (short-term > long-term yields) signals economic slowdown or recession ahead. The benchmark 10-year US Treasury now yields 4.36%.

**Figure 2: US Treasury Yield Curve**

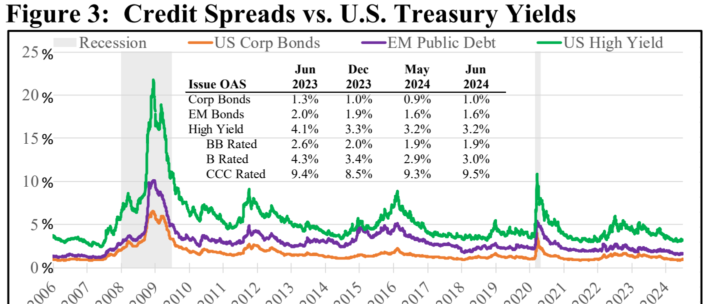


*Source: Board of Governers of the Federal Reserve System via St. Louis Fed (FRED)*

For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between their yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism, while high or widening spreads signal fear. Spreads were stable again in June but remain very low by historical standards.

- Investment grade corporate bond spreads widened to +1.0% this month but are still below 1.3% spreads a year ago.
- High yield (non-investment grade) spreads stabilized at +3.2% but are still down from +4.1% in the last year. Spreads of the riskiest bonds (rated CCC & below) widened to +9.5% and have been relatively stable over the past twelve months.
- Emerging market spreads were stable at +1.6% and have tightened from +2.0% a year ago; investors see low risk in EM debt.

**Figure 3: Credit Spreads vs. U.S. Treasury Yields**

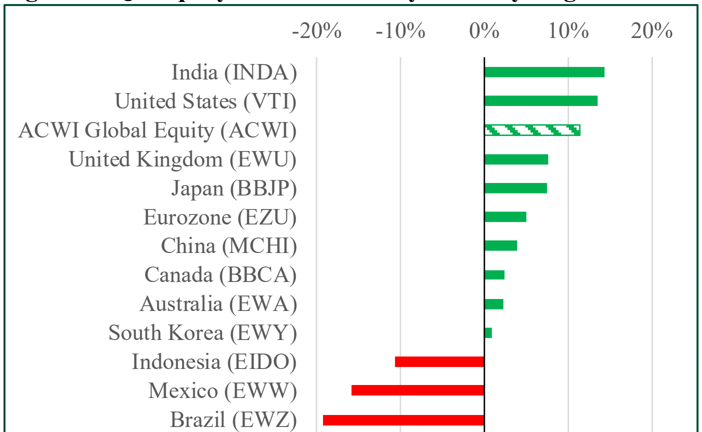


*Source: Ice Data Indices, LLC via St. Louis Fed (FRED)*

## Mid-Year Equity Performance Review

Now that we are halfway through 2024, it is instructive to look back at the year-to-date (YTD) performance of equities in the US and around the world. Strong returns in the US have led global stock indices to consistently notch new all-time highs, but market breadth has been deceptively narrow, and elections around the world have resulted in increased market volatility. Figure 4 plots the YTD equity ETF returns for the largest countries/regions; in aggregate, these economies account for nearly 80% of global economic activity as measured by GDP (Gross Domestic Product).

**Figure 4: Q2 Equity ETF Returns by Country/Region**

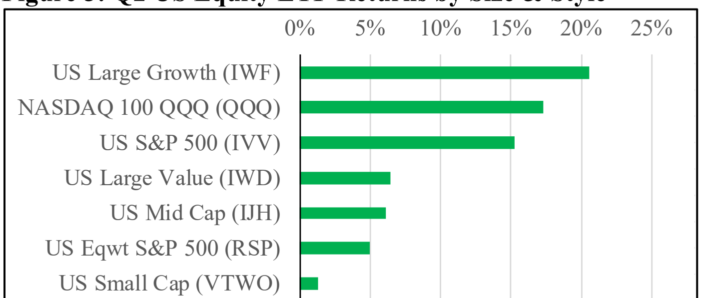



*Source: Bloomberg*

India has had the strongest stock market so far this year, rising more than 14%; Modi's narrower-than-expected election victory this month led to a bout of volatility, but that market quickly recovered to new all-time highs. Conversely, Latin American stocks have fallen 15-20%; the Mexican stock market and currency tumbled after the landslide election results raised fears of more populist (anti-free market) policies and reforms. Equities in Brazil have continued to suffer under a weak currency and government interference in corporate governance. Elections in Europe have also caused a spike in volatility, with Eurozone equities (EZU) giving up most of their YTD gains this month in the wake of a hard right turn in the EU parliamentary vote.

The global stock market (ACWI) is dominated by the US (>60% of the global stock market), and US equities continue to post strong gains. Figure 5 plots the YTD performance of various US market segments (ETFs by size and style. i.e. value/growth).

**Figure 5: Q2 US Equity ETF Returns by Size & Style**

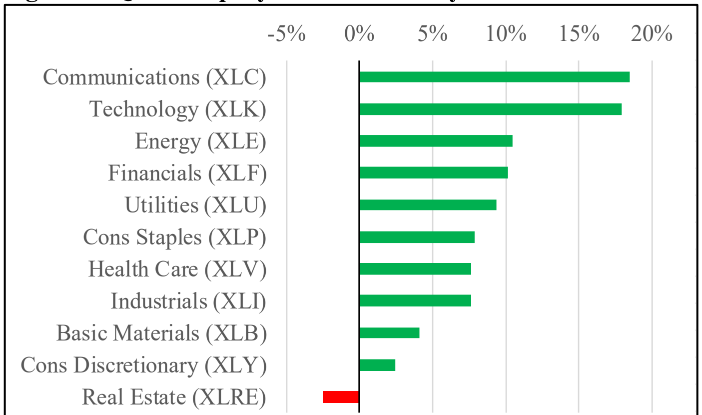



*Source: Bloomberg*

The S&P 500 has gained over 15% so far this year, but those gains have been highly concentrated in the largest growth stocks (IWF) which are up more than 20% in aggregate. Because the S&P 500 is weighted by the size of each company (market capitalization), the index returns are disproportionately driven by the largest stocks. In fact, the average stock in the S&P 500 index is up only 5% this year, as measured by the equal-weighted version of the index (RSP). Returns are even weaker for small stocks (VTWO), which are up under 2% this year as delayed interest rate cuts have dampened enthusiasm for this economically-sensitive segment.

The concentrated nature of US stock returns is further illustrated by disparate returns at the sector level, illustrated in Figure 6. YTD Returns have been powered by communications stocks (XLC, dominated by Alphabet/Google and Meta/Facebook) and technology stocks (XLK, dominated by Nvidia, Microsoft and Apple). Most sectors have posted more moderate gains, but real estate (XLRE) is down amid weakness in commercial REITs.

**Figure 6: Q2 US Equity ETF Returns by Sector**




*Source: Bloomberg*

## Bottom Line

Equity markets continue to be driven higher by a small cohort of large tech-oriented stocks as investors remain focused on inflation and interest rates in the US and around the world. The Fed held interest rates steady in June but indicated that moderating employment and inflation data will likely allow them to cut rates later this year. Meanwhile, the European Central Bank (ECB) cut rates for the first time this cycle, joining Switzerland and Canada which had cut earlier and raising hopes that the US and UK central banks would soon follow suit.

Election uncertainty is a source of market volatility and is not unique to the US. Surprising election results around the world have moved markets in India (up), Mexico (down) and across Europe (down). We expect more volatility amid election uncertainty in the US and beyond. This is one of the key themes that we are following as we enter the second half of the year:

- Soft Landing: Moderating employment and inflation data should allow the Fed to begin cutting interest rates this year; economic growth is forecast to slow but remain positive.
- Declining global recession risks: Inflation has declined in most developed economies, allowing central banks to cut rates; recession risks have moderated, but growth remains muted.
- Narrow stock market breadth: Stock market gains have been powered by strong earnings growth in a few huge tech-oriented companies in the wake of the "AI revolution". Earnings growth must broaden to facilitate further stock market appreciation.
- Election uncertainty: Volatility will likely remain elevated in the US and beyond until election uncertainty is resolved.
- Diversification is critical to offset equity market volatility.

Disclaimer: