MARKET INSIGHT

Second Quarter 2024

NEWS & VIEWS FROM LPL RESEARCH

The economic forecasts set forth in the presentation may not develop as predicted. Please note: all return figures are as of June 30, 2024 unless otherwise stated. This information is not intended as authoritative guidance or tax or legal advice. You should consult with your attorney or tax advisor for guidance on your specific situation.

LPL Research

Second Quarter 2024

MARKET INSIGHT QUARTERLY

Q2 2024 at a Glance

Sector	Q2 2024
Gross Domestic Product*	2.0%
S&P 500 Index	4.3%
Bloomberg U.S. Aggregate Bond Index	0.1%
Bloomberg Commodity Index	2.9%

Source: LPL Research, Bloomberg, FactSet, 06/30/2024

* Bloomberg consensus as of 06/30/2024

Figures for S&P 500 Index, Bloomberg Barclays Aggregate Bond Index, and Bloomberg Commodities Index are total returns from 03/31/2024 - 06/30/2024 (Q2)

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment.

Past performance is not indicative of future results.

Equity Indexes End Mixed as Big Tech Powered Markets amid Disinflation and Economic Cooling

The S&P 500 posted a solid gain of 4.3% in the second quarter (including dividends), bringing first half returns to 15.3% for the index. The tech-heavy Nasdaq Composite added 8.4% over the last three months, while the Dow Jones Industrial Average lagged, ending the quarter down 1.3%. The Russell 3000 index, a popular gauge for total stock market performance, gained 3.2% for the quarter.

Inflation continued to ease in the second quarter amid additional signs of a gradual economic slowdown. The Federal Reserve's (Fed) preferred inflation measure, core Personal Consumption Expenditures (PCE), stood at an annual rate of 2.6% in May, the smallest gain for this metric since March 2021. The soft-landing narrative continued to gain traction, leaving markets expecting the Fed to begin cutting rates in September.

Corporate earnings were resilient through May, continuing to support high stock valuations. First-quarter earnings for S&P 500 constituents rose a better-than-expected 7%, largely on the back of big tech and artificial intelligence (AI) names which broadly delivered excellent earnings growth. Analysts are forecasting double-digit earnings growth for 2024, despite expecting less contribution from big tech in the second half.

Amid improving inflation, steady economic growth, and stellar earnings growth, the geopolitical landscape remained challenging. Political uncertainty in France caused global markets to wobble ahead of parliamentary elections, while risks related to a potential escalation of the conflict in the Middle East or Ukraine continue to linger.

Large Cap Stocks Continue to Dominate

Large caps continued to outperform their small cap peers, as the Russell 2000 small cap index shed 3.3% over the last three months compared to the Russell 1000 large cap index adding 3.6% over the same period. Small cap energy and consumer discretionary stocks dragged on the Russell 2000, although most sectors of the Russell 2000 ended the quarter lower. Only communication services, consumer staples, and utilities were able to gain ground. Higher rates also are generally less favorable for small cap equities; however, improving economic conditions historically have helped the asset class. Looking at the first half of 2024, both asset classes are positive on the year, but large caps have dominated, outperforming by more than 12 percentage points based on Russell indexes. Large caps have benefited from the outsized influence of mega-cap technology stocks that have benefited from significant AI investment.

Growth Outperformed Value on Artificial Intelligence Stock Strength

Growth stocks gained ground in the second quarter as value shares struggled, as the Russell 1000 Growth Index advanced 8.3% while the Russell 1000 Value Index declined 2.2%. The S&P 500 continued to set fresh records, as a string of new highs in June brought the 2024 total to 31. However, concerns over narrow market breadth were widespread, as the growth-oriented Magnificent Seven remained the primary contributor to S&P 500 gains. The quarter saw a notable outperformance, nearly seven points, by the traditional market-cap weighted S&P 500 compared to the equal-weight index which shed 2.6%.

The tech sector stumbled briefly in the latter half of June on concerns of overbought conditions, valuation concerns, and likely seasonal influences, but still finished the quarter atop the sector rankings with a 13.8% return. At the sector level, additional outperformers for the quarter included communication services, also a growth-oriented sector, which gained 9.4%. Meanwhile, besides utilities, all value sectors lagged.

U.S. Led Developed Markets, Although Emerging Markets Outperformed

U.S. equities outperformed their international brethren as the MSCI EAFE Index ended virtually flat on a total return basis, compared with the S&P 500's 4.3% return. Emerging markets (EM) had a solid quarter, outperforming their developed country counterparts and the S&P 500, as the MSCI EM Index produced a 5.3% return.

European markets struggled with political uncertainty in France, despite receiving a much-anticipated 0.25% rate cut from the European Central Bank (ECB). French President Emmanuel Macron's call for a snap election for parliament surprised investors and raised questions about how the country would be governed. The U.K., following elections of its own, was a relative winner among developed international markets.

Japanese markets have been a bright spot in recent quarters, however the Nikkei 225 index slid 1.4% in yen, or more than 7% in U.S. dollars, amid uncertainty around Bank of Japan (BOJ) policy and extreme yen volatility.

Gains in Chinese equities helped drive EM outperformance, as the MSCI China Index, in U.S. dollars, returned 7.2% for the quarter, while Hong Kong's Hang Seng Index advanced more than 7% in both local currency and U.S. dollars. Technology and AI did not just drive markets for Wall Street, as big gains for Taiwan's main indexes were largely influenced by tech. Indian stocks took cues from Wall Street, setting multiple record highs throughout the quarter despite choppy trading, powering the EM Index higher.

Bonds Continued to See Elevated Volatility

Core bonds, as defined by the Bloomberg U.S. Aggregate Index, were relatively flat as the index added just under 0.1% for the quarter as rate cut hopes were pushed out a bit until late in the quarter following mixed economic data. While easing, inflation remains stubborn and labor markets remain healthy. The message from the Fed remains that rate cuts may become appropriate if incoming data reflects a path back to the Fed's 2% inflation target.

Given economic data consistent with a cooling economic environment, solidifying expectations for a soft landing, the most credit sensitive sectors of the bond market, including high-yield corporate bonds and bank loans, outperformed. On the other hand, the most interest rate sensitive sectors such as U.S. Treasuries lagged. The Bloomberg U.S. High Yield index gained 1.1% and the Bloomberg U.S. Treasury Index returned 0.1%.

The Broad Commodities Index Rose, Despite Trouble for Soft Commodities

The Bloomberg Commodities index rose 2.9% over the second quarter, pushing first half gains to 5.1%. West Texas Intermediate (WTI) Crude endured a bumpy ride, but was able to gain 1.2%. During the quarter, crude oil weighed tensions in the Middle East potentially threatening supply, the OPEC+ decision to not further cut production, the start of the summer driving season, and global demand concerns.

Gold prices continued to gain ground, as the yellow metal moved more than 4% higher over the quarter. Disinflation has been somewhat supportive for the gold market, in addition to central bank buying and ongoing ETF demand. Silver outperformed most metals rallying more than 17% over the quarter, bringing the metal's year-to-date gain to 22% despite its first monthly decline in four in June. Industrial metals broadly increased, outperforming precious metals by about two percentage points. Notably, copper continued to rise, posting solid gains over 10%.

On the other hand, soft commodities and grains declined. Corn continued to tumble, weighed down by weather-related supply and demand concerns. Corn weakness spilled over into other soft commodities including wheat and soybeans. Wheat futures erased gains following a large slide in both May and June, ending the quarter down slightly, while soybean futures declined over the same period.

All commodities performance is based on Bloomberg commodity indexes

A LOOK AHEAD

Economy. Despite initial buoyancy, economic data has begun to show signs of deterioration, leading us to anticipate an economic downshift starting in the latter half of 2024. Investors should be prepared for the following:

- Slower consumer spending. Consumers are shifting away from big ticket purchases, likely leading to broader spending slowdowns.
- A softer labor market. Recent data indicates labor demand is weakening. The unemployment rate, though historically low, is expected to rise in the second half.
- A measured slowdown. As consumer spending and labor demand slow, a moderate slowdown may follow.
- Contained inflation. Core services inflation is expected to cool as labor costs decelerate, but the overall impact on consumer prices will take time.
- Shifting Federal Reserve Policy. A higher unemployment rate, weaker growth, and contained inflation will eventually provide the Fed with a path to cut rates before the end of the year.

Stocks. The stock market enjoyed a strong first half, fueled by the anticipation of looser Fed policy and strong corporate earnings growth. Looking ahead to the second half, LPL Research offers the following:

- Earnings Growth Will Be Key. The extent of stock-market gains in the second half could be influenced by corporate profits continuing to exceed expectations.
- Valuations Are a Potential Headwind. Elevated valuations suggest most good news is already priced in and gains could be modest.
- Volatility Expected. The move higher in stocks has been steady. However, market corrections and pullbacks are a normal part of the cycle and should be anticipated, particularly as the U.S. election approaches.
- Be Patient. Consider a wait-and-see approach to add to equity exposure, potentially buying on market dips.

Bonds. Sharp shifts in interest-rate expectations have been a hallmark of the bond market over the last few years, but with volatility comes opportunity. Investors should consider the following:

- Current bond yield levels offer opportunity. Treasury yields are near their highest levels in decades, making fixed income attractive again. Investors can build diversified, high quality bond portfolios offering attractive returns.
- Focus on income. With rate cuts likely, a focus on income generation becomes more important than price appreciation. Consider fixed income over cash.
- Likely limited movement in longer-term yields. An inverted yield curve suggests limited potential for significant declines in long-term bond yields.

SECOND QUARTER DATA

Technology Continues its Torrid Run in 2024 With a Double-Digit Q2 Return

S&P 500 sector performance, ranked by second quarter returns*

Sector	Q2 2024
Technology	**13.8%**
Communication Services	**9.4%**
Utilities	**4.7%**
S&P 500	**4.3%**
Consumer Staples	**1.4%**
Consumer Discretionary	**0.6%**
Healthcare	**(1.0)%**
Real Estate	**(1.9)%**
Financials	**(2.0)%**
Energy	**(2.4)%**
Industrials	**(2.9)%**
Materials	**(4.5)%**

Large Growth Rides Technology Strength to Another Strong Quarter

Domestic and international asset class performance, ranked by second quarter returns*

Asset Class	Q2 2024
Large Growth	**8.3%**
Emerging Markets	**5.1%**
S&P 500	**4.3%**
Russell 3000	**3.2%**
Large Foreign	**(0.2)%**
Large Value	**(2.2)%**
Small Growth	**(2.9)%**
Mid Growth	**(3.2)%**
Mid Value	**(3.4)%**
Small Value	**(3.6)%**

High-Yield Municipals a Surprising Bond Sector Leader

Bond market performance, ranked by second quarter returns*

Sector	Q2 2024
High-Yield Munis	**2.6%**
Bank Loans	**2.0%**
High-Yield Corporates	**1.1%**
TIPS	**0.8%**
EM Debt	**0.7%**
U.S. Treasuries	**0.1%**
MBS	**0.1%**
Bloomberg Barclays U.S. Agg	**0.1%**
Munis	**0.0%**
Investment-Grade Corporates	**0.0%**
Foreign Bonds (Hedged)	**-0.6%**
Preferred Stocks	**-1.6%**
Foreign Bonds (Unhedged)	**-2.8%**

**Sources: LPL Research, FactSet, as of 06/30/2024

All data as of 06/30/2024

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The sectors are represented by the 11 S&P 500 Global Industry Classification Standard (GICS) indexes.

Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. It is not possible to invest directly in an index.

Bond Market Asset Class Indexes: Foreign Bonds (hedged) – Citigroup Non-U.S. World Government Bond Index Hedged for Currency; Preferred Securities – Merrill Lynch Preferred Stock Hybrid Securities Index; Treasury – Bloomberg U.S. Treasury Index; Mortgage-Backed Securities – Bloomberg U.S. MBS Index; Investment-Grade Corporate – Bloomberg U.S. Corporate Bond Index; Municipal – Bloomberg Municipal Bond Index; Municipal High-Yield – Bloomberg Municipal High Yield Index; TIPS – Bloomberg Treasury Inflation-Protected Securities Index; Bank Loans – Bloomberg U.S. High Yield Loan Index; High-Yield – Bloomberg U.S. Corporate High Yield Index; Emerging Market Debt – Bloomberg Emerging Markets USD Aggregate Total Return Index Unhedged; Foreign Bonds (unhedged) – Citigroup Non-U.S. World Government Bond Index (unhedged)

IMPORTANT DISCLOSURES

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

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Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments, and exports less imports that occur within a defined territory.

Yield is the income return on an investment. This refers to the interest or dividends received from a security and are usually expressed annually as a percentage based on the investment's cost its current market value or its face value.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

Small cap is a term used to classify companies with a relatively small market capitalization. The definition of small cap can vary, but it is generally a company with a market capitalization of between $300 million and $2 billion. The prices of small cap stocks are generally more volatile than large cap stocks.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Bloomberg Global Aggregate Index measures the performance of global investment grade debt. The index includes treasury, corporate, and securitized fixed-rate bonds. Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

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