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A View From the Bevy – 2Q24

Market Review

After a rocky start to the quarter, stocks recovered and ended the first half of 2024 with many market indices near all-time highs. The NASDAQ, again led by Artificial Intelligence (AI)-related stocks, ended the first half up 18.1%, while the S&P 500 rose 15.3%; the Dow Jones Industrial Average lagged, falling during the second quarter and ending the first half of the year up 4.8%.

April was tough on the markets, as inflation reports came in higher-than-expected while Gross Domestic Product (GDP) growth came in weaker-than-expected, fueling fears of stagflation. Yields rose, and stocks came under pressure. There was even some fear among investors that the U.S. Federal Reserve (Fed) might raise short-term interest rates instead of lowering them.

April's malaise quickly turned around in May, however. Fed Chairman Powell began the month by reassuring markets that it was unlikely that the next policy move would be a hike. A strong start to what turned out to be a great quarter for corporate earnings eased market fears as well, as did some cooling inflation numbers. The rally continued into quarter-end.

Stock Market Indices	2nd Quarter 2024	Year-to-Date
S&P 500	4.28%	15.29%
S&P 500 (Equal-Weight)	-2.63%	5.08%
Dow Jones Industrial Average (DJIA)	-1.27%	4.79%
NASDAQ Composite	8.26%	18.13%
Bloomberg US Agg Bond	0.07%	-0.71%
Russell 2000	-3.28%	1.73%
MSCI World	2.63%	11.75%
MSCI World ex U.S.	-.60%	4.96%
MSCI Emerging Markets	5.00%	7.49%

Source: AJO. Data supplied by FactSet Research Systems.

As shown in the chart, the broader U.S. indices continue to lead the world, although nice gains were seen around the globe. Large cap stocks led the way, with the technology and communications sectors performing the best; both sectors are up more than 20% year-to-date. Small cap stocks, represented by the Russell 2000 Index, continued to trail. Real estate was the only sector with negative performance for the first half of the year, but Consumer Discretionary and Materials also lagged. A second quarter rally in gold helped push commodities higher as well.

Market Outlook

Stocks enter the second half of the year with positive momentum, but also with some concerns, as economic and market expectations have continued to diverge. While inflation does seem to be moderating, there have been mixed signals on the strength of the labor markets and other areas of the economy, which is making it harder to predict when the Fed will begin to cut short-term interest rates. This uncertainty could lead to some increased market volatility.

While it is still possible that the Fed will cut rates once or twice this year, that outlook is complicated by the November elections, as the Fed does not want to be seen as being political in any way and have any hand in influencing the outcome of the election. Other Central Banks have already begun to cut interest rates, but the Fed has so far not joined them.

We are also keeping an eye on elections, as the prospect of rising tariffs and trade friction could once again boost inflation and weigh on exports. Mexico, the U.S.'s largest trading partner, and the European Parliament just held elections, and the U.K. and France are holding elections soon.

The second quarter rally in stocks was also very concentrated, which is worrisome. It was led by a small number of stocks, mostly related to AI. Nvidia Corporation, for example, was up more than 150% during the first half of the year. Expected – and healthy - consolidation in these stocks could have broader market implications and rattle investors in the short-run. We will be watching carefully to hopefully see a broader market rally moving forward – one which also includes small cap stocks.

We do believe that positive fixed income returns for the remainder of the year seem likely. This is not only because of slowing inflation, but also because higher coupon rates – the current income paid on bonds – are at high levels. Higher coupon rates can offset price declines, as total return is a combination of income plus or minus price changes.

Let's also not forget that July and August tend to be low volume months as many market participants go on vacation. Low volume tends to lead to greater volatility on both the up and down sides.

Stocks have historically risen between the last interest rate hike and the first cut in rates. This time has not been different. But it has been a long time since we have seen a normal bull market correction, and we would view any declines as a buying opportunity.

Have a great quarter and as always please free to reach out at any time if you have questions.

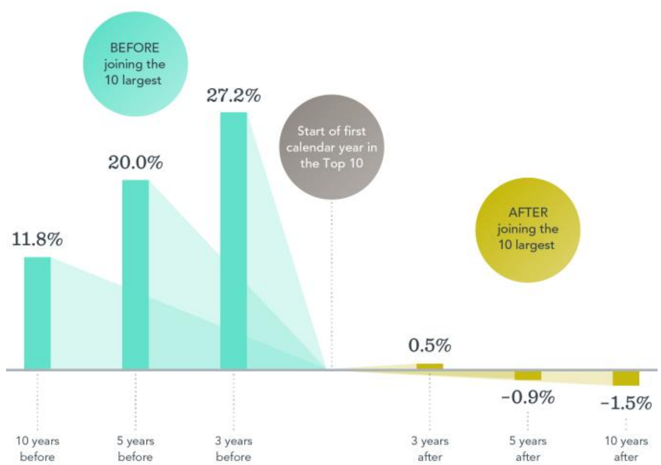
Of Interest: Three Common Investing Mistakes

This quarter we would like to focus on three common investing mistakes that can reduce returns and increase anxiety, and that can be avoided by letting us help you develop an investment plan focused on meeting your individual goals and objectives, and by sticking with it.

1. **Trying to Time the Market:** While you may be tempted to cash out of the stock market to avoid an anticipated downturn, trying to forecast the market's direction to time when to buy and sell is a guessing game. Missing only a brief period of strong market performance can drastically affect your lifetime wealth.

For example, consider a hypothetical investment in the Russell 3000 Index, a broad U.S. stock market benchmark. Over the entire 25-year period ending December 31, 2023, a $100,000 investment in 1999 turned into $600,449. But what if you pulled your cash out at the wrong time? Missing the best week, month, three months, or six months would have significantly reduced the growth of your investment to $500,382, $500,150, $400,546, and $400,185, respectively.

Rather than trying to predict when stocks will rise and fall, you can hold a diversified portfolio, and by staying invested, be better positioned to capture returns whenever and wherever they occur.



Source: Dimensional Fund Advisors.

2. **Focusing on the Headlines:** Investors may become enamored with popular stocks based on recent performance or media attention - and overconcentrate their portfolio holdings in these companies. One example is the rise of the large U.S. technology companies known as the Magnificent 7 (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla). But as the chart above shows, many fast-growing stocks have stopped outperforming after becoming one of the 10 largest stocks in the U.S. On average, companies that outperformed the market on the way up failed to outperform in subsequent years.

The lesson? Rather than loading up on a small handful of stocks that are currently dominating the market, it is better to diversify across industries and global markets to help reduce overall risk and position yourself to potentially capture the returns of future top-performing companies.

3. **<u>Chasing Past Performance:</u>** You might be inclined to select investments based on past returns, expecting top-ranked stocks and funds to continue delivering the best performance. But can they maintain that outperformance? Research shows that most funds ranked in the top 25% based on five-year returns did not remain in the top 25% in the next five years. In fact, only about one in five equity funds stayed in the top-performing group, and only about one in three fixed income funds did. (Ten year-period from 2013 – 2023) The lesson? A fund's past performance offers limited insight into its future returns.

Avoiding these common mistakes, having a personalized investment plan, and sticking with that plan through good and bad markets can increase the odds that you can reach your long-term investment goals.