Q2

Economic & Market Review

Second Quarter 2024

Gould Asset Management®

Economic Review

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Gould Asset Management

US Growth Slows to Start the Year

US GDP grew at a 1.4% annualized rate in the first quarter, its slowest pace in nearly two years, as the effects of higher interest rates and prices made their way through the economy.

The labor market showed signs of moderating in June. Unemployment ticked up to 4.1% and annual wage growth cooled to its slowest pace in three years.

Consumer spending, which accounts for more than two-thirds of US GDP, rose a modest 0.2% in May and 0.1% in April. While prices are rising much more slowly than two years ago, today's levels reflect the late pandemic spike, leaving prices well above their pre-Covid levels and putting a damper on spending.

New and existing home sales fell in May amid record-high prices and elevated mortgage rates. However, an increasing housing supply could offer some relief to potential buyers this summer.

The US manufacturing sector contracted for a third straight month in June in the face of continued higher interest rates and softening demand. Factory input prices dropped to a six-month low, suggesting inflation may continue to cool.

The Fed's Pause Continues

In June, the Federal Reserve maintained its federal funds target range between 5.25% and 5.50% for the seventh straight meeting, underscoring the Fed's commitment to managing inflation while monitoring economic growth.

Despite some improvement on the inflation front, **Fed officials now forecast only a single 0.25% rate cut this year.** Market participants are a bit more optimistic, expecting two cuts later this year. Entering 2024, the Fed expected to cut its federal funds rate four times this year, but stubborn inflation dashed those plans.

New Fed projections were little changed from March but did show a slight increase in core inflation this year from 2.6% to 2.8%. Fed Chair Jerome Powell said the new forecast represents a conservative approach, but some analysts think it overstates likely inflation, citing the softer-than-expected inflation report released during the Fed's June meeting.

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Policy ECB Cuts Rates First, Japan Continues to Struggle

The Eurozone economy picked up steam in the first quarter, with GDP expanding 0.3%, its most substantial growth since the third quarter of 2022. Strong net trade—where exports rose more than imports—was the most significant contributor, while increased household spending also bolstered growth. Germany's GDP expanded by 0.2%, rebounding from its short-lived recession. France and Italy's economies grew by 0.2% and 0.3%, respectively.

The European Central Bank (ECB) took the lead on rate cuts, dropping its key interest rate by 0.25% in June, the first cut since 2019. With this decision, ECB president Lagarde reinforced the central bank's willingness to act independently of the US Fed in navigating the eurozone's economic recovery.

Japan's economy contracted 0.5% in the first quarter as private consumption, which accounts for more than half of the economy, declined for the fourth consecutive quarter. Japan's economy faces challenges ahead, as inflation fueled by a weakening yen combines with sluggish wages that continue to sap demand.

The Bank of Japan (BOJ) maintained its key interest rate at a range of 0.0% to 0.1% in their latest meeting. The BOJ also announced they would begin reducing government bond purchases, a signal of more monetary tightening in hopes of stabilizing the yen and curbing inflation.

Emerging Economies Start the Year Strong

China's economy grew 5.3% year-over-year in the first quarter, supported by robust fiscal and monetary stimulus. Despite the solid first quarter, weak consumer demand, slowing factory output, and protracted weakness in the property sector weighed on momentum entering the second half of the year.

India's economy grew 7.8% year-over-year in the first quarter, helped by a strong manufacturing sector. Prime Minister Narendra Modi was recently reelected to a third term, but his ruling party lost its majority, which could make it harder to continue the substantial fiscal stimulus measures of recent years.

Brazil's economy grew 2.5% year-over-year in the first quarter, rebounding from a sluggish end to last year. A solid labor market helped spur strong consumer spending despite the historic flooding that devastated southern Brazil in May.

Market Review: Stocks

Second Quarter 2024

Large-Caps Lead the Way in Q2 as Markets Continue Upward

US mega-cap tech stocks and emerging markets led the charge in the second quarter despite moderating economic growth, interest rate uncertainty, and geopolitical tensions. Investor optimism for artificial intelligence (AI) remains high, with strength in the large-cap technology sector pulling broad-based indexes higher. Meanwhile, international developed markets and mid and small cap stocks lagged.

US large cap stocks, as represented by the S&P 500 index, **advanced 4.3% in Q2, with tech and especially AI-related stocks leading the charge.** Investors also grew more optimistic about Fed rate cuts later this year, providing some added tailwind amid easing inflation. Year-to-date, US large cap stocks have risen 15.3% and are up nearly 25% over the past 12 months.

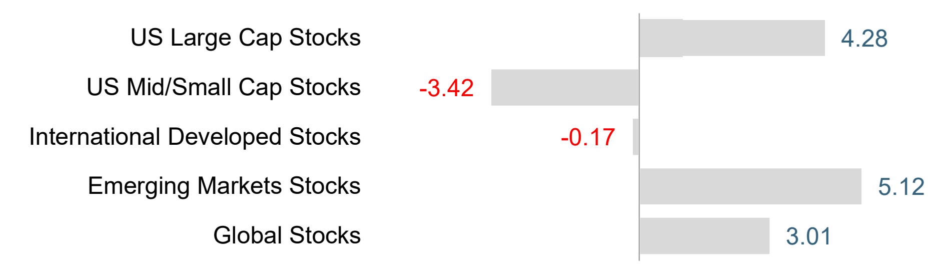
In addition to the Technology sector (up 8.8% in Q2), **Communication Services** (up 5.4%) **also performed well on the quarter, as did Utilities** (up 4.6%). Year-to-date, Tech has been the clear leader (up 18.0% in 2024), followed by Financials (up 10.2%), though the latter pared gains in Q2.

US mid and small cap stocks lagged large caps by a wide margin in Q2, with the Wilshire 4500 stock index falling 3.4%, putting year-to-date gains at a modest 3.9%. Investors are concerned that any potential economic slowdown might weigh heaviest on smaller companies, and AI-related gains have mostly bypassed smaller capitalization stocks.

International developed and emerging markets returns diverged in Q2, with the MSCI EAFE (developed markets) stock index falling 0.2% (up 5.8% year-to-date), while the MSCI Emerging Markets index rose 5.1% (up 7.7% year-to-date). A rebound in Chinese stock prices fueled emerging markets, while signs of economic slowing weighed on international developed stocks.

Market volatility rose briefly in April, with the VIX volatility index reaching a high of 19, **but quickly subsided** in May and June, finishing the quarter near 12.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Large Cap Stocks	15.29	24.56	10.01	15.05
US Mid/Small Cap Stocks	3.86	15.03	-0.44	10.14
International Developed Stocks	5.75	12.09	3.43	6.98
Emerging Markets Stocks	7.68	12.97	-4.68	3.49
Global Stocks	11.58	19.92	5.94	11.28

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Large Cap (S&P 500 Index), US Mid/Small Cap (Wilshire 4500 Completion Index), International Developed (MSCI Europe Australasia Far East Index), Emerging Markets (MSCI Emerging Markets Index), and Global Stocks (MSCI All Country World Index). Growth of $1,000 chart market segmentations as follows: US Stocks (Wilshire 5000 Index) and Foreign Stocks (All Country World Index ex US).

Market Review: Bonds

Second Quarter 2024

Modest Moves in Bonds in Q2 as Yields Rise and Fed Holds Firm

US government bond yields rose modestly in the second quarter amid continued (albeit slower) economic growth and a Federal Reserve that's being very careful not to reduce rates prematurely. Interest rate cuts are still expected later this year, but expectations on timing and degree seem to change weekly.

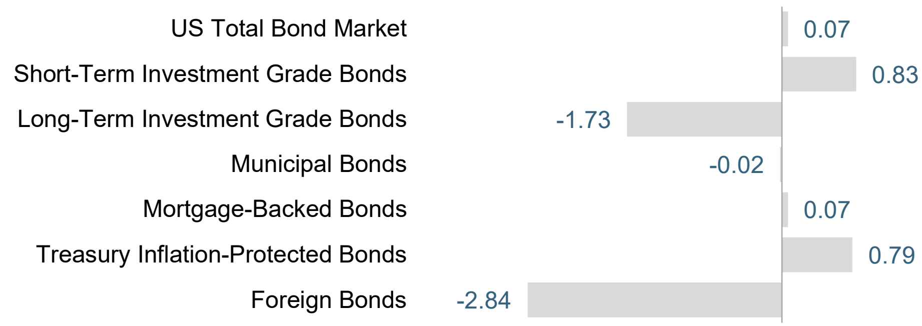
The yield curve remains inverted (meaning short-term interest rates are above long-term) and has been for nearly two years, the longest such period in US history. The inversion has lessened this year, as long rates have moved up more than short rates. For the quarter, **the US 10-year yield rose from 4.20% to 4.36%, while short-term Treasury yields were relatively unchanged** (5.48% as of quarter end).

Interest income offset US bond price declines in Q2, with the Bloomberg US Aggregate Bond index basically flat (up 0.1%). Year-to-date, returns on US bonds have been lackluster (down 0.7%), as interest rates have moved higher in 2024.

High yield bonds posted the best performance in Q2 (up 1.1%) and lead all bond sectors on the year (up 2.6%). With rising interest rates and an inverted yield curve, short-term government bonds—which are least sensitive to interest rate changes—performed well, rising 0.8% on the quarter. In contrast, long duration government bonds performed worst, declining 1.7% in Q2, putting year-to-date losses at 4.1%.

Municipal bonds performed similarly to US taxable bonds and were flat on the quarter. Year-to-date, munis have declined a modest 0.4%. For high-tax-bracket investors, municipal bond yields remain attractive, as do short-term Treasurys, whose income is not taxed at the state level.

Returns for the Quarter (%)



Period Returns (%) *Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Total Bond Market	-0.71	2.63	-3.02	-0.23
Short-Term Investment Grade Bonds	0.97	4.66	-0.20	1.02
Long-Term Investment Grade Bonds	-4.10	-1.58	-8.51	-2.22
Municipal Bonds	-0.40	3.21	-0.88	1.16
Mortgage-Backed Bonds	-0.98	2.12	-2.92	-0.76
Treasury Inflation-Protected Bonds	0.70	2.71	-1.33	2.07
Foreign Bonds	-6.17	-2.19	-9.40	-5.02

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Market Review: Alternatives

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Gold and Commodities Rise in Q2 as REITs and Energy Face Headwinds

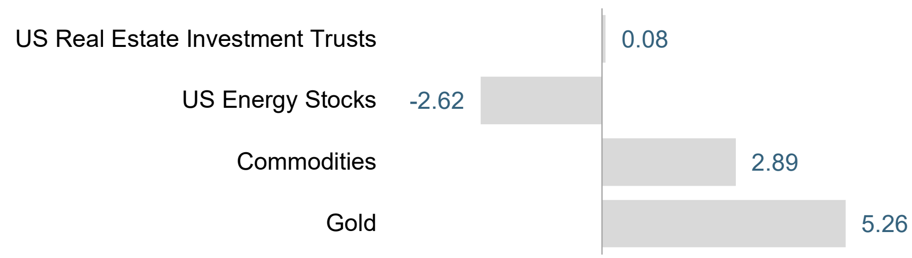
Alternative asset performance was mixed in the second quarter, with gold and commodities moving higher, while REITs and US energy stocks faltered. Aside from REITs, alternative investments have performed well this year, although returns still lag the major US market indexes.

Gold continued to shine (up 5.3% in Q2) and is up 13.0% in 2024. Gold's performance is noteworthy, considering the strong US dollar in 2024 (up 2.5% in Q2 and 4.8% year-to-date) and subsiding inflation. As the world's "reserve currency," the US dollar is a pricing benchmark for gold and other commodities, and competes with gold as a conservative store of value. Heavy central bank demand in countries such as Turkey, China, and India may explain much of gold's continued strength this year.

After a strong Q1, **US energy stocks retreated in the second quarter** (down 2.6%), trimming year-to-date gains to 10.6%. Oil prices fell modestly on the quarter, with the price of Brent Crude oil declining from $83 to $81. The broader commodities sector rose in Q2 (up 2.9%), putting year-to-date gains at 5.1%. Industrial and precious metals were the strongest components, while agriculture trailed.

Real estate investment trusts (REITs) continued to languish, flat on both the quarter (up 0.1%) and year-to-date (down 0.2%). High commercial vacancy rates and an elevated interest rate environment both pose headwinds for the sector.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Real Estate Investment Trusts	-0.24	7.60	0.20	3.89
US Energy Stocks	10.58	16.26	24.10	13.05
Commodities	5.14	5.00	5.65	7.25
Gold	13.02	21.89	9.75	11.09

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Market Summary

Index Returns

Q2 2024	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
	STOCKS				BONDS/DOLLAR	
	4.28%	**-3.42%**	**-0.17%**	**5.12%**	**0.07%**	**2.49%**

Since Jan. 2001	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
Avg. Quarterly Return	2.4%	2.8%	1.6%	2.4%	0.9%	0.4%
Best Quarter	20.5% **Q2 2020**	30.3% **Q2 2020**	25.8% **Q2 2009**	34.8% **Q2 2009**	6.8% **Q4 2023**	7.1% **Q1 2020**
Worst Quarter	-21.9% **Q4 2008**	-27.9% **Q1 2020**	-22.7% **Q1 2020**	-27.6% **Q4 2008**	-5.9% **Q1 2022**	-5.8% **Q2 2009**

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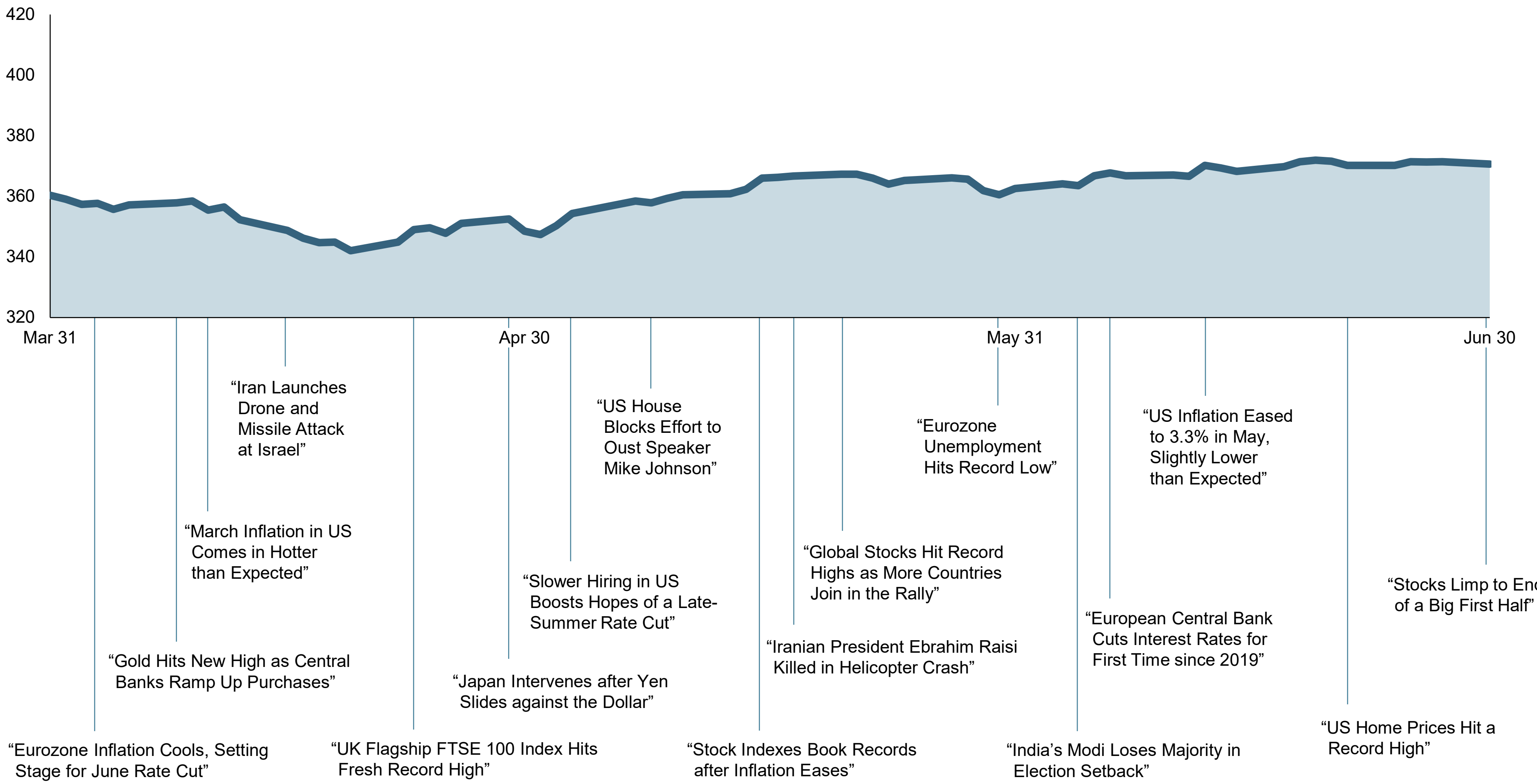
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2024, all rights reserved. Bloomberg data provided by Bloomberg.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2024



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). Index level based at 100 starting January 2001.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

US Economic Growth

Second Quarter 2024

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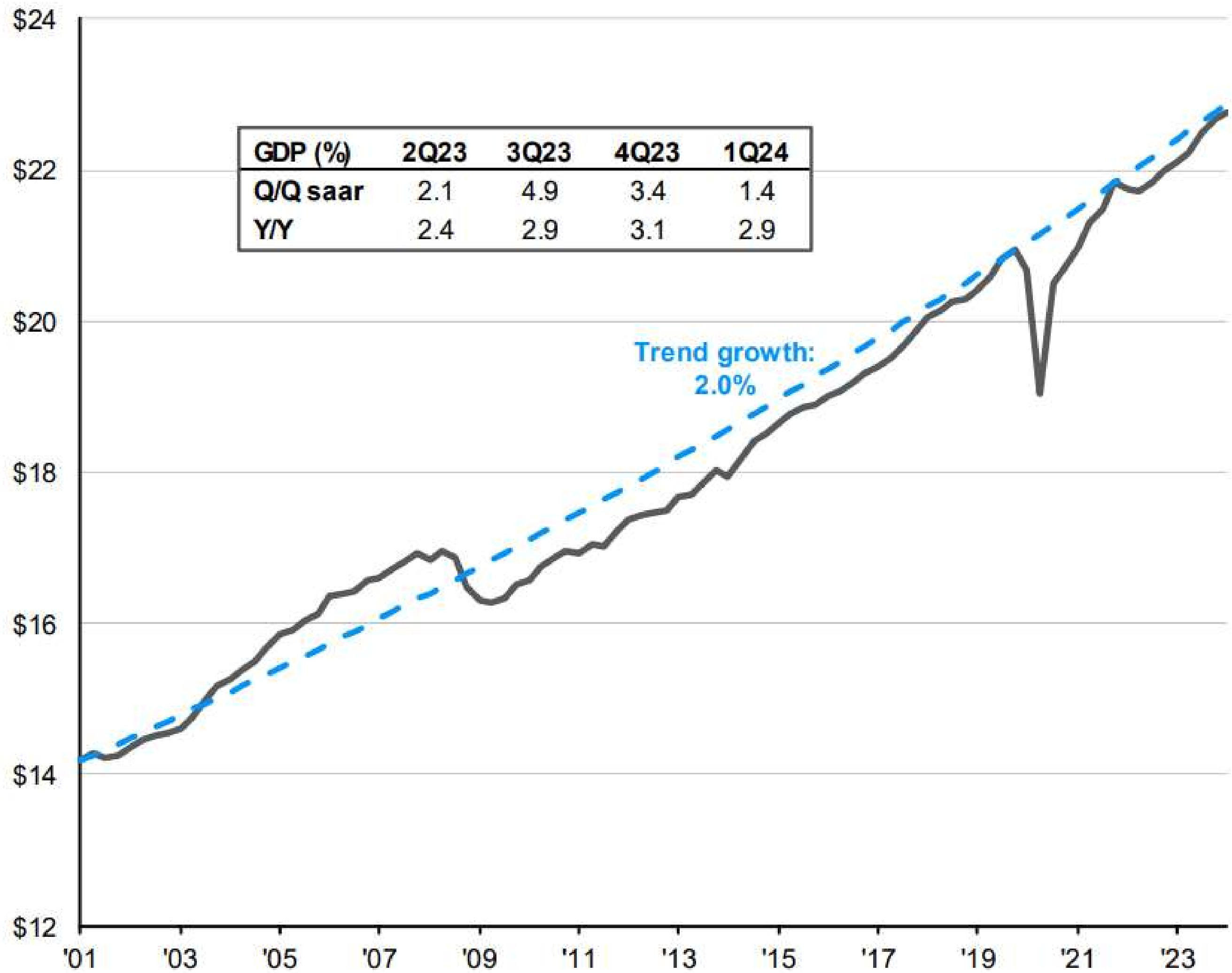
Real GDP

Trillions of chained (2017) dollars, seasonally adjusted at annual rates



GDP (%)	2Q23	3Q23	4Q23	1Q24
Q/Q saar	2.1	4.9	3.4	1.4
Y/Y	2.4	2.9	3.1	2.9

This chart shows US real GDP growth since 2001. It's a remarkable chart.

Note how actual growth tends toward the 2% growth trendline, almost like a magnet. Neither the 2007-2009 Great Financial Crisis nor the Covid pandemic could permanently knock GDP off course. It seems that periods of below average growth rates will later be offset by above average spurts, and vice versa. This suggests that neither fiscal nor monetary stimulus (or restraint) will likely change the economy's long-term path, though in theory they could smooth the ride.

Note also that the chart shows growth net of inflation—so-called "real" growth. This means the total size of the economy has already grown more than 60% this century.

Source: J.P. Morgan Asset Management. Trend growth is measured as the average annual growth rate from business cycle peak of 1Q01 to business cycle peak 4Q19. *Guide to the Markets – US* Data are as of June 30, 2024.

Inflation and Its Components

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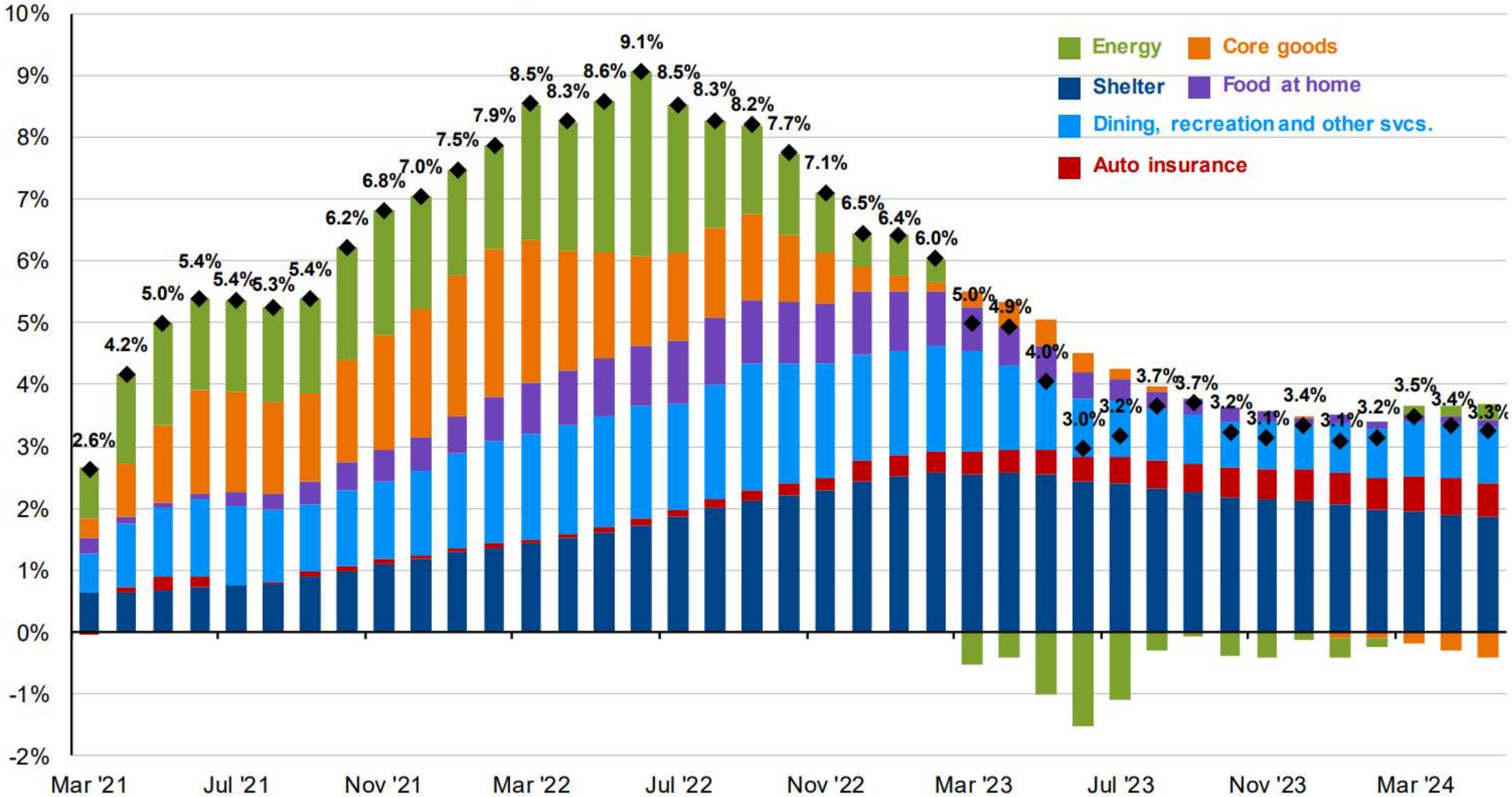
The chart below shows the trailing 12-month US inflation rate over the past three years. Note the steady climb through the latter part of the pandemic, as fiscal and monetary stimulus pushed demand beyond the economy's capacity. When that happens, higher prices bring demand and supply back into balance. Inflation has receded dramatically since mid-2022. Many mistakenly think this means prices have come down, but in fact it simply means that prices are rising more slowly. We are not likely to see 2019 grocery prices again. Note how the inflation rate has plateaued in the 3.0%-3.5% range over the past year, which is above the 2.0% target that prevailed before the pandemic and explains the Fed's reluctance to cut short-term interest rates. Finally, note how the components of inflation have shifted. Rising prices for energy, core goods, and dining (out and at home) pushed inflation to multi-decade highs, and then subsided dramatically. More recently, housing and auto insurance account for most of inflation.

Contributors to headline CPI inflation

Contribution to y/y % change in CPI, non-seasonally adjusted



Source: BLS, FactSet, J.P. Morgan Asset Management. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners' equivalent rent, rent of primary residence and home insurance. *Guide to the Markets – U.S.* Data are as of June 30, 2024.