ECONOMIC COMMENTARY | Q2 | 2024

Stocks advanced through the 2nd quarter to post strong first-half gains. While the S&P 500 index rose 3.9%, a small group of stocks in the index delivered most of the outperformance. Artificial intelligence (AI) has been the fuel propelling stocks since late 2022, and the second quarter of 2024 was no different. Within the S&P 500, companies related to the theme gained 14.7% in market value this past quarter, whereas the rest lost 1.2%.

In June, Nvidia briefly became the world's most-valuable listed company. These aren't speculative moves like we saw during the dot-com bubble in the late 1990s; massive spending on AI has boosted earnings, which means that AI-related price/earnings ratios have remained relatively stable. The Stoxx Europe 600 did less well, but mostly held on to gains recorded during the first half of the year. As the Federal Reserve looks to cut interest rates later this year, demand for US Treasuries should fall, and in turn the dollar should weaken, helping overseas investment returns improve.

Nvidia is an excellent example of the benefits of investing in market capitalization-based mutual funds. As the size of Nvidia grew, the representation in most of our portfolios also increased. For example, Nvidia represents roughly 12% of the S&P 500 Growth Index. There is an interesting pattern of divergence that showed up this quarter, as six out of 11 sectors – healthcare, real estate, financials, energy, industrials and materials – lost market value. It is also telling that "consumer staples", which include must-buy household products and food brands, have outperformed the more "cyclical "consumer discretionary" firms such as apparel retailers and car makers. This all points to a more cautious economic outlook.

The Barclay's U.S. Aggregate Bond Index finished the first half slightly negative, as price declines tied to an increase in interest rates offset the index's higher yield. High yield bonds fared better than other types.

In periods like the one we experienced in 2024, and much of the last five years, it is easy to question whether diversification is truly our friend. However, we believe diversification is an essential tool for providing appropriate risk-adjusted returns to investors.

We remain bullish on stocks in the long run, as this Fed cycle will, in time, be just a memory. We see strength in the global economy with expectations of continued expansion. While we acknowledge the breadth challenges within the S&P 500, we remain confident in the potential of broader market success, especially if interest rates gradually come down. Bonds will remain an integral part of our strategy to buffer volatility.

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Sources:
1. Wall Street Journal: 2nd Q Split Market, 07.01.2024
2. Barron's: The Dollar's Surprising Strength, 07.08.2024
3. Valmark: TOPS Quarterly Update Q2 2024, 07.16.2024