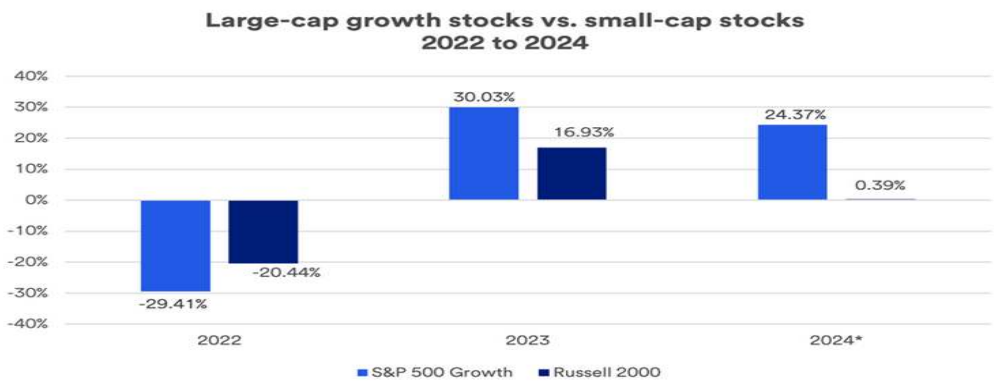
Investment Report Q2 2024

In Q2024, emerging market equities outperformed developed markets because to strength in several Asian markets. The artificial intelligence (AI) theme's stocks kept up their good performance. While most major central banks held still, the European Central Bank lowered interest rates due to persistent inflation. Early in the second quarter, the S&P 500 saw its first real taste of volatility. However, expectations of Federal Reserve interest rate cuts, robust economic growth, and ongoing strong financial performance from AI-related tech companies ultimately drove the S&P 500 to new all-time highs, and the index ended the quarter strongly up. The S&P 500 reached a record high as the markets magnificently recovered from April's losses, driven by rising expectations for rate cuts, declining Treasury yields, and steady profits growth from AI-related tech businesses.

The current landscape of interest rates can signify different things to different types of businesses. The impact of the initial increase in interest rates in 2022 was greatest on already expensive stocks, such as growth-oriented technology companies that thrived in an environment of low interest rates. The impact changed in 2023 as interest rates seemed to be heading toward cycle peaks. Higher rates are more detrimental to businesses that must take out loans to fund their expansion. These are typically tiny businesses with limited cash on hand. Compared to larger organizations, which often have more cash on hand and issue longer-term loans, many smaller businesses are more concerned about the cost of funding at increasing interest rates. The markets seemed to realize this. Consequently, large-cap growth companies outperformed small stocks in 2023 and began 2024 in an even better position, having underperformed small stocks in 2022.



Even though the S&P 500 reached all-time highs in the second quarter, April was a very bad month for markets due to concerns about potential rate hikes or no rate reduction in 2024. The Consumer Price Index (CPI) for March increased 3.5% year over year, exceeding projections, which sparked these worries. A number of months' worth of CPI falls were reversed by that hotter-than-expected estimate, which also sparked concerns that inflation would be "sticky" and postpone the anticipated Fed rate cuts. Then, worries about higher rates were exacerbated by remarks made by Fed, that rate increases might occur again if inflation began to accelerate. The hot CPI report effectively delayed rate cut expectations from June to September, which led to a strong increase in the 10-year Treasury yield, which started the quarter at 4.20% and reached a high of 4.72%. The S&P 500 saw pressure from those higher yields in April, resulting in a 4.08% decline and its worst month since September. But the Fed essentially allayed worries in May about prospective rate increases and sparked a rally that ultimately saw the S&P 500 reach all-time highs.

Later in the month of May, the CPI report for April showed an increase in prices of 3.4% year over year, which was marginally less than the 3.5% increase in March. This indication of disinflation, or the slowdown in inflation, raised hopes even more for rate reduction in 2024. Furthermore, employment figures declined in May, with the April jobs report falling short of forecasts but remaining at stable levels. The practical outcome of the labour market data softening, the Fed's supportive remarks, and the return of disinflation led to higher expectations for September rate cuts, a decline in the 10-year Treasury yield below 4.50%, and a 4.96% increase in the S&P 500 in May.

June saw the upward momentum persist due to more encouraging inflation data, more dovish remarks from the Fed, and robust AI-related company profits. First, the May CPI fell to 3.3% year over year (the lowest figure since February) when it was reported in mid-June. The core CPI, which does not include energy and food costs, fell to its lowest point since April 2021, providing more evidence of the continuous deflation. Subsequently, the Fed confirmed to the markets at the June FOMC meeting that two rate cuts in 2024 are fully feasible, which boosted market expectations for a rate drop in September. In the meantime, economic statistics indicated that activity was still moderating. Additionally, the 10-year Treasury yield dropped to about 4.20%, a multi-month low, as a result of slowing growth and declining inflation. Last but not least, enthusiasm for AI remained high in June due to impressive AI-driven earnings from Broadcom (AVGO) and Oracle (ORCL), as well as news that Apple (AAPL) would be incorporating AI technology into future iPhones. Tech stocks also saw a spike in value due to rising rate cut expectations and declining Treasury yields, which helped push the S&P 500 to all-time highs above 5,500.

Source: U.S. Bank Asset Management Group. Chart depicts daily changing values of the Standard & Poor's 500 Index, an unmanaged index of stocks. It is not possible to invest directly in the index. Past performance is no guarantee of future results. Updated through June 17, 2024.

Second Quarter Performance Review

The robust return in the S&P 500 during the second quarter belied the more uneven performance across multiple markets, as the Nasdaq and S&P 500 once again saw gains fuelled by AI-driven tech-stock euphoria, while other key indices underperformed. With technology making up the majority of the sector weighting on the S&P 500, the Nasdaq was by far the best-performing major index in the second quarter. Both indexes posted positive gains. However, less tech-oriented indices performed worse; the Russell 2000, which is focused on small caps, and the Dow Jones Industrial Average both had negative quarterly returns. Large caps performed better than small caps in Q2 according to market capitalization, just as they did in the first quarter of 2024. Small caps were initially hurt by rising Treasury yields in April, and the Russell 2000 was under pressure from worries about economic growth in the latter part of the second quarter.

In the second quarter, growth significantly surpassed value as growth funds with a strong tech focus profited from the ongoing hype around artificial intelligence. Value funds saw a little negative quarterly return as the performance of non-tech sectors more closely mirrored mounting concerns about economic growth. Value funds are weighted more toward financials and industrials.

Sector-wise, results were significantly mixed, with only four of the 11 S&P 500 sectors posting gains by the end of the second quarter. The communications services and AI-related technology industries saw the best results in the second quarter. Better-than-expected earnings from NVDA, ORCL, AVGO, TSM, MSFT, AMZN, and other companies helped them post good returns, and the enthusiasm surrounding AI continued to drive up the S&P 500 and the broader tech sector. With investors becoming increasingly concerned about future economic growth and falling Treasury yields making higher dividend sectors like utilities more appealing to income investors, utilities also posted a somewhat positive quarterly return. The energy, materials, and industrials sectors ended the quarter with slightly negative returns, making them the sector laggards. Given that those industries, along with small-cap equities, are more susceptible to shifts in both U.S. and worldwide development, their drops represented increased concerns about future economic growth.

US Equity Indexes	Q2 Return	YTD
S&P 500	4.28%	15.29%
DJ Industrial Average	-1.27%	4.79%
NASDAQ 100	8.05%	17.47%
S&P MidCap 400	-3.45%	6.17%
Russell 2000	-3.28%	1.73%

Source: YCharts

Globally, emerging markets beat the S&P 500 in Q2 due to hopes for a resurgence of Chinese economic development and a decline in global bond yields towards the end of the quarter that increased the allure of investing in emerging economies. In contrast, foreign established markets showed a somewhat negative quarterly return, trailing both developing markets and the S&P 500. Foreign developed stocks faced headwinds later in the quarter due to political concerns in France and Germany, as well as uncertainties over the quantity and timing of rate cuts by the European Central Bank and the Bank of England.

International Equity Indexes	Q2 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	-0.06%	5.75%
MSCI EM TR USD (Emerging Markets)	5.40%	7.68%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	1.32%	6.04%

Source: YCharts

Emerging Markets

In Q2, emerging market (EM) stocks outperformed their developed counterparts. Concerns regarding the timeframe of US interest rate cuts were allayed by softer US macroeconomic data, and EM returns were further bolstered by a recovery in China. Turkey outperformed the rest of the world in Q2, partly due to expectations that traditional economic policy would persist. In addition, Taiwan reported a double-digit return in US dollars on ongoing investor enthusiasm for technology firms, especially those with an AI connection. Another country that did well was South Africa, where investors were pleased with the outcome of the general elections, which saw the African National Congress Party, Democratic Alliance, and many minor parties create a coalition known as the "Government of National Unity." In India, the narrative was similar, with political factors contributing to the quarter's gains in the equity market. Hungary, the Czech Republic, and Poland—all developing European markets—performed strongly, while China outperformed the rest of EM as well after a couple months of underperformance in April and May. It was helpful to be optimistic about the government's support for the housing industry and President Xi's reform rhetoric. Korea and a few energy-related nations like Kuwait, the United Arab Emirates, Colombia, and Saudi Arabia were among the underperforming markets. In US dollars, Mexico and Brazil reported the most losses. While floods in Rio Grande do Sul, a state in southern Brazil, caused concerns about fiscal spending, inflation, and economic growth, central banks cautioned both markets about the anticipated path of further interest rate cuts.

Overview

Total returns (net) % – to end June 2024

	3 months			12 months		
Equities	USD	EUR	GBP	USD	EUR	GBP
MSCI World	2.6	3.4	2.6	20.2	22.4	20.9
MSCI World Value	-1.2	-0.4	-1.3	13.9	15.9	14.5
MSCI World Growth	6.3	7.2	6.3	26.4	28.6	27.1
MSCI World Smaller Companies	-2.8	-2.0	-2.8	9.1	11.1	9.8
MSCI Emerging Markets	5.0	5.8	4.9	12.5	14.6	13.2
MSCI AC Asia ex Japan	7.2	8.0	7.1	12.9	14.9	13.5
S&P500	4.3	5.1	4.2	24.6	26.8	25.3
MSCI EMU	-2.5	-1.7	-2.6	9.6	11.6	10.3
FTSE Europe ex UK	0.3	1.1	0.3	12.8	14.8	13.4
FTSE All-Share	3.8	4.6	3.7	12.3	14.4	13.0
TOPIX*	-4.3	-3.6	-4.4	12.8	14.9	13.5

Commodities

Due to the increased geopolitical concerns during the quarter and mentioned optimism regarding China's economic growth, commodities saw a minor increase in value during the second quarter. As geopolitical threats increased after the tit-for-tat strikes between Israel and Iran and as the likelihood of a direct battle between Israel and Hezbollah increased, gold saw a strong rally. As a result of worries about future global growth and demand as well as indications that the OPEC+ output restraint was weakening, oil saw a slight decline. The S&P GSCI Index achieved a modest gain in the second quarter. Industrial metals and precious metals were the strongest components of the index, while agriculture was the weakest component. Within industrial metals, the price of zinc rose sharply in the quarter and in precious metals, the price of silver achieved strong gains. The energy component achieved a modest gain over the quarter, with a robust price gain for natural gas. Within agriculture, a significant price gain for coffee failed to offset weaker prices for cotton, corn, cocoa, and sugar.

Commodity Indexes	Q2 Return	YTD
S&P GSCI (Broad-Based Commodities)	0.65%	11.08%
S&P GSCI Crude Oil	-2.07%	13.68%
GLD Gold Price	4.47%	12.60%

Source: YCharts/Koyfin.com

Bonds

Turning now to the fixed income markets, the major benchmark for bonds, the Bloomberg Barclays US Aggregate Bond Index, saw a marginally positive return for the second quarter due to a rally in bonds overall and growing anticipation for a September Fed rate decrease. For the fixed income markets, in the second quarter, shorter duration bonds beat longer duration ones. In contrast, longer-dated bonds had no movement throughout the quarter in spite of the resurgence of disinflation and the slowdown of US economic expansion. Regarding the corporate bond market, investment-grade debt with a higher rating had just a minor decrease in the second quarter, while lower-quality, higher-yielding "junk" bonds saw a modest increase. In spite of some depressing economic reports, bond investors continued to be optimistic about corporate profitability, as evidenced by the performance gap, which encouraged them to take on more risk in exchange for a greater return.

US Bond Indexes	Q2 Return	YTD
BBgBarc US Agg Bond	0.07%	-0.71%
BBgBarc US T-Bill 1-3 Mon	1.34%	2.68%
ICE US T-Bond 7-10 Year	-0.05%	-1.40%
BBgBarc US MBS (Mortgage-backed)	0.07%	-0.98%
BBgBarc Municipal	-0.02%	-0.40%
BBgBarc US Corporate Invest Grade	-0.09%	-0.49%
BBgBarc US Corporate High Yield	1.09%	2.58%

Source: YCharts

Global bond markets had a rough start to the quarter as investors revaluated whether to decrease interest rates due to fresh worries about US inflation. Subsequently, the advent of more favourable labour market conditions and positive inflation news propelled the market climate. Idiosyncratic weakness was caused by political risk in some emerging markets. Furthermore, localized weakness was sparked by the announcement of early French parliamentary elections, whereas the idea of UK elections was met with less controversy. In comparison to government bonds, investment grade (IG) corporate bond markets in the US and Europe had good absolute and relative returns. IG bonds are bonds with a higher credit rating and lower risk. Due to the credit spreads widening during the quarter, a comparatively higher income was produced.

Despite the weakening in French bank names at the conclusion of the quarter, which was a result of uncertainty around the results of the legislative elections, financials outperformed on a sector basis. The markets for high yield (HY) bonds—bonds with a lower credit grade and greater risk—saw another successful quarter, outperforming both government bonds and IG corporates. During the quarter, securitized mortgage-backed securities and covered bonds had moderate overall returns. Over the quarter, there were divergences in the global government bond markets. After a steep initial sell-off in US Treasuries, rates peaked at the end of April and then declined (yields are inversely correlated with prices). The news of an early legislative election caused French spreads to widen significantly in relation to Germany within the eurozone, suggesting that investors view French debt as riskier. The upward momentum in the equity market is not likely to help convertible bonds. With a USD hedge, the FTSE Global Focus convertibles index ended Q2 down -0.5%. The universe of convertibles was not exposed to the major equity performance determinants. The primary market saw a particularly active issuance, with one issue grabbing national attention for having the greatest issue volume ever. The number of fresh issues issued in the second quarter exceeded the $27 billion issued in the first.

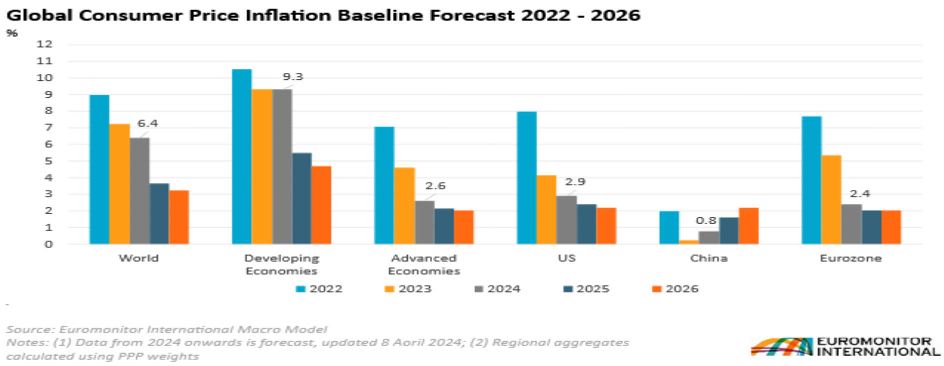
	3 months			12 months		
Government bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	0.1	0.9	0.0	1.7	3.5	2.2
JPM GBI UK All Mats	-0.9	-0.2	-1.0	4.2	6.0	4.8
JPM GBI Japan All Mats**	-8.6	-7.9	-8.7	-15.0	-13.5	-14.5
JPM GBI Germany All Traded	-1.5	-0.7	-1.5	-0.1	1.7	0.5
Corporate bonds						
BofA ML Global Broad Market Corporate	-0.1	0.7	-0.1	4.9	6.8	5.5
BofA ML US Corporate Master	0.1	0.9	0.0	5.0	6.9	5.6
BofA ML EMU Corporate ex T1 (5–10Y)	-1.1	-0.3	-1.1	5.4	7.3	6.0
BofA ML £ Non-Gilts	0.0	0.7	-0.1	9.0	11.0	9.7
Non-investment grade bonds						
BofA ML Global High Yield	1.2	2.0	1.2	10.6	12.6	11.2
BofA ML Euro High Yield	0.8	1.6	0.8	9.4	11.4	10.0

Source: LSEG DataStream. Local currency returns in Q2 2024: 1.7%, **-2.9%.

Past performance is not a guide to future performance and may not be repeated.

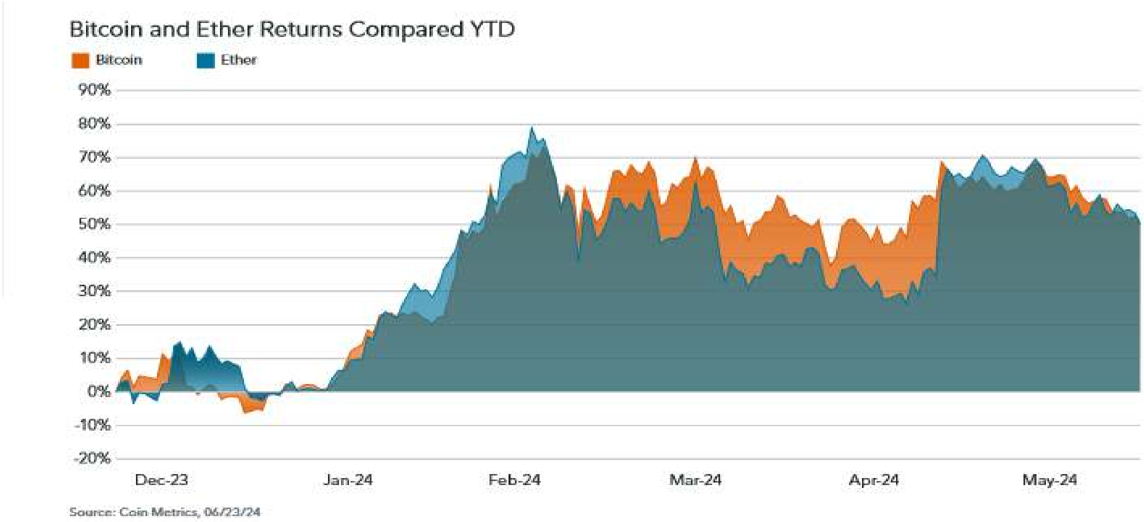
Inflation

In 2024, global inflation will continue to decline as supply improves and demand is further restrained by tight monetary policy. Global consumer price inflation is predicted to moderate to 6.4% in 2024 before experiencing a significant decline to 3.7% in 2025, according to Euromonitor International's Q2 2024 baseline projections. With Argentina excluded, where a sharp acceleration of hyperinflation is predicted in 2024, worldwide inflation would be 3.0% in 2025 and 4.5% in 2024. The worldwide disinflation process is anticipated to be slower in 2024 than it was in the previous year, albeit with a difficult journey towards the central banks' goal levels, due to the persistent and resurgent headwinds. The US experienced a rise in inflation in the first quarter of 2024 as a result of a continued tight labour market and strong consumer demand, especially for services. The cost of food, energy, and other imported commodities is under pressure in some emerging and developing nations due to the strength of the US dollar. April 2024 saw fresh increasing pressure on oil prices worldwide as geopolitical tensions surrounding the Israel-Hamas conflict intensify.



Digital Assets

Following a robust start to the year in Q1, the prices of digital assets stabilized in Q2. During the quarter, Ethereum returned -5.8% while Bitcoin returned -12%. To date, both tokens have increased by about 50%. The regulatory clearance and introduction of spot cryptocurrency exchange-traded funds (ETFs) by some of the biggest traditional financial institutions in the US, Hong Kong, and Australia during the first half of 2024 marked a watershed moment for the digital asset sector. There are also new native cryptocurrency funds that exist on the blockchain. There is also a rise in incoming inquiries, which is another indication that institutions are showing renewed interest in the market. On the regulatory front, too, things have changed, and the US now has a clearer route toward building a strong framework. Legitimacy for the industry depends on regulatory guidelines. The launch of Europe's Markets in Crypto-Assets regulation serves as another illustration. Despite recent low returns, both Bitcoin and Ethereum are still 50% higher than they were at the beginning of the year. The number of transactions on Bitcoin is increasing while other monthly measures are declining. This could be because a new speculative protocol called Runes has just been released. Layer 2 platform acceptance on Ethereum has been remarkable, as evidenced by a 20% increase in transactions in Q2—a sign of hope for the network's future.



Performance accros region

UK

UK equities increased, as the FTSE 100 hit new all-time highs. Another factor that improved the performance of small and mid-sized (SMID) businesses was the surge in fresh offers. Expectations of a potential tipping point for domestically focused enterprises after ten years of underperformance bolstered this segment even further. SMIDs lost some of their gains near the end of the quarter on a much shorter time horizon as markets resisted expectations of impending interest rate decreases. Following a brief recession in the latter part of 2023, the UK economy showed signs of recovery in the first quarter of 2024, with GDP growth of 0.7%. More recent data, however, showed that growth had stalled in April and that 140,000 jobs were lost by the economy, pushing the three-month unemployment rate to 4.4%. May saw a return to 2.0% annual consumer price index inflation, which for the first time since July 2021 reached the Bank of England's (BoE) objective.

Asia ex Japan

Equities in Asia excluding Japan had significant increases in the second quarter. In Q2, the MSCI AC Asia ex Japan Index's top-performing markets were Taiwan, India, and Singapore; the bottom-performing markets were Indonesia, the Philippines, and Thailand. China's shares market saw significant increases during the quarter as investors with an eye on Asia carefully made their way back to the Chinese market, buoyed by low-priced Chinese companies and concerns about the high valuations of India and Japan's ongoing currency problems. Taiwan is the best-performing index market for the quarter and the year to date. Shares in Taiwan increased in the second quarter due to investor confidence about stocks that would benefit from the development of artificial intelligence (AI). The second quarter saw strong increase in Indian shares as well, fuelled ongoing favourable perceptions of the nation. With increases in media and financial companies, Indian benchmark indices ended the quarter at all-time highs. While South Korean stocks saw a slight dip in the second quarter due to uncertainty regarding the global economy and the timing of US interest rate cuts, Hong Kong share prices remained essentially steady.

US

Q2024, the information technology and communication services sectors led the gains in US shares. In the midst of some impressive earnings and outlook pronouncements, the ongoing excitement surrounding AI continued to support associated firms. Materials and industrials were weaker sectors. Financially speaking, a number of US banks declared their intention to raise dividends subsequent to successfully completing the Federal Reserve's yearly stress tests. The markets' biggest concern during the quarter was the probable timing and magnitude of interest rate reductions. Early in the quarter, there were concerns that the US economy might be overheating, and the market reacted unfavourably to positive economic statistics. But as the quarter went on, expectations of a gentle landing for the economy increased. There has only been one rate cut this year, according to the most recent "dot plot" that displays Fed policymakers' predictions for rate setting. The personal consumption expenditures index, which measures annual US inflation, decreased somewhat from 2.7% in April to 2.6% in May. The Bureau of Labour Statistics reports that 272,000 new jobs were added in May, indicating the strength of the US labour market.

Eurozone

During the second quarter, shares of the Eurozone fell. The announcement of France's parliamentary elections and the waning prospect of significant interest rate decreases contributed to the market's concern. The information technology industry benefited from the strong performance of companies linked to semiconductors. Declines in the consumer discretionary sector coincided with weakness in the equities of luxury and automobile items. Early in June, the European Central Bank lowered interest rates by 25 basis points. However, stubborn inflation may restrict the potential for more cutbacks. The euro area's annual inflation rate increased from 2.4% in April to 2.6% in May. Data pointing ahead indicated that the eurozone's economic recovery was slowing down. From 52.2 in May to 50.8 in June, the flash HCOB composite purchasing managers' index decreased. The foundation of PMI statistics is surveys given to businesses in the manufacturing and service industries. A value greater than 50 denotes expansion, and a value less than 50 denotes contraction. The quarter's main area of attention was politics. Right-wing nationalist parties made gains in the European legislative elections. In response to this, President Macron called for parliamentary elections in France, a move that startled the markets and caused French shares to underperform the wider eurozone index.

Moving to the third quarter, stocks are high on optimism and good news as the economy continues to grow, inflation is starting to decline seriously, the Fed may cut interest rates for the first time in more than four years, and significant earnings growth from AI-related tech companies is continuing unabated.