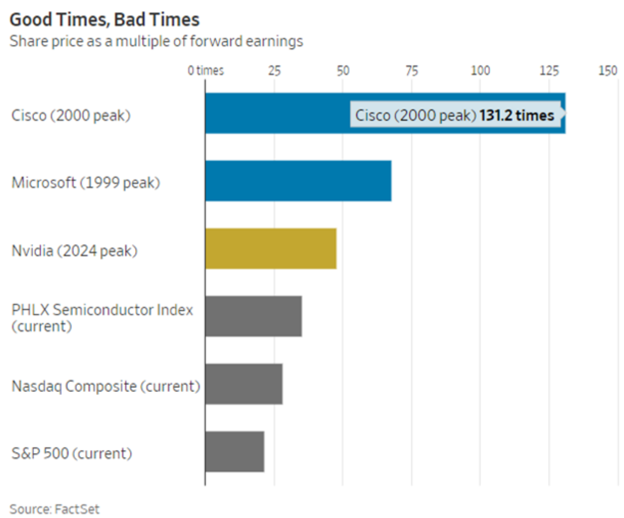
JUNE 2024 MARKET REVIEW

	6/30/2024 Level	QTD Change	1 Year Change
S&P 500	$5,460	4.3%	24.6%
MSCI ACWI Ex USA	$307	1.1%	11.6%
MSCI Emerging Markets	$574	5.3%	12.6%
Bloomberg US Aggregate	$2,147	0.1%	2.6%
10 Year Treasury Rate	4.36%	+16 BP	+55 BP
Bloomberg Commodity Index	$238	2.9%	5.0%
Bitcoin	$60,864	-12.7%	99.8%

The headline market indices, across equities, bonds, and commodities, all advanced in the second quarter, although the large level of bifurcation between winners and losers has continued. Emerging markets and Asian (ex Japan) equities performed extremely well for the quarter as did the S&P 500, while European equities were mildly positive. Commodity prices rebounded after a difficult start to the year, and US bonds were slightly positive. On a year-to-date basis, US stocks have paved the way, returning over 15%, while the other major regions drove solid mid-to-high single digit returns. Momentum has been a powerful elixir for investors as the companies, industries, and regions that have performed well since the market bottomed in late 2022 have continued their strong performance through the first half of the year. There are currently two factors moving markets: the demand for products and services powering the AI boom, which we discuss in more detail below; and concerns around the broad economy and high level of interest rates. We view fears of a broad market selloff unfounded, although volatility is expected to jump in the second half of the year as over half of the world's population is able to vote in democratic elections.

In recent conversations with clients and prospective clients, many of the same questions continue to arise, and we are happy to share our thoughts on some of the more polarizing topics in personal finance and markets at the moment. Our recommendations to individual clients may differ slightly from the broad opinions below - there is no "one size fits all" type solution in personal finance, although these examples depict our current mindset. As we have discussed in prior reviews, we are cautiously optimistic that the market will remain on solid footing as inflation continues to trend lower and earnings continue to trend higher, although valuations may become a headwind if earnings growth slows.

1. Nvidia, Nvidia, Nvidia - do we own enough Nvidia in the portfolio?



Source: WSJ

Given the recent media attention that Nvidia has garnered, many clients have asked about how much exposure we have to the chipmaker (and other AI winners) in their respective portfolios. While some clients may own Nvidia directly, others may own it through index funds or mutual funds. On a look-through basis (analyzing the holdings within broader index/mutual funds), Nvidia is one of the largest holdings in all of our clients' portfolios. Naturally, the conversation typically results in further discussion around whether the run-up in Nvidia shares is a warning sign, and if we are in the midst of a bubble similar to the early 2000s dot-com bubble that burst. While our focus here is on Nvidia for comparison purposes, our thoughts can be extrapolated to pertain to the broader AI theme. Post Covid, Nvidia is clearly the market darling, in the same way that Cisco was in the late 1990s (prior to losing over 80% of its value). How similar are these stories?

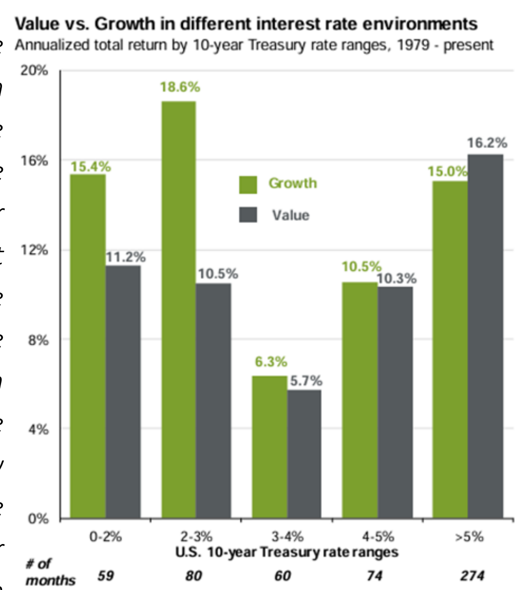
This comparison is interesting - both companies have been seen as manufacturers of hardware powering the latest technological generations; the advent of the internet in the case of Cisco 25 years ago, and artificial intelligence for Nvidia today. However, in our opinion, financially, and fundamentally, the stories are quite different. At the time, the massive increase in Cisco's share price, and other internet companies, was quite speculative in nature and funded by risky debt with relatively little earnings to show for it. The move higher in Nvidia shares is in part driven by the sheer financial strength and buying power of its biggest customers, a fact unlikely to change in the near-term. At its peak, Cisco traded at valuation levels well in excess of Nvidia's, all while it experienced deteriorating revenue growth and margins. Nvidia, on the other hand, has done a tremendous job of growing revenue and earnings, while increasing margins simultaneously. Now, there are surely signs of frothiness when it comes to the semiconductor sector and it will be nearly impossible for the leaders to continue moving higher at their current pace. We remain comfortable including Nvidia in client portfolios, however, there will most likely be multiple winners in the chip space, and as such, we recommend diversified exposure to the sector, especially given the massive outperformance of the biggest chipmakers. It is our view that the chips industry is not bubbly at this point; valuations are clearly demanding of a large amount of growth, and now it is time for Nvidia and others to deliver on these expectations.

2. Should we continue to keep a sizable amount of funds in money market to take advantage of the 5%+ yields rather than move those assets into our riskier longer-term investment account?

While the current yield on savings accounts or in money market funds seems attractive at first glance, history suggests that shifting dollars from cash into stocks and bonds when interest rates have peaked leads to higher long-term returns. To the extent that clients already have enough liquidity in an emergency fund (typically 3-6 months of spending), we recommend that anything in excess of that should be put to work in their investment portfolio. Noting the recency bias, since the last Fed Funds hike in the middle of 2023, US equities have returned over 20%, significantly outperforming cash equivalents. Having said that, investors should absolutely take advantage of these high yields as they save towards large purchases over the coming 1-3 years.

3. When will the Fed lower interest rates?

While forecasting economic policy is not our expertise, it is our expectation that the Fed will begin cutting interest rates in the Fall of 2024, with more cuts following in 2025. This is a massive pivot from the beginning of the year, when investors were expecting 5-6 rate cuts throughout the year. While the level of the Fed Funds Rate plays a key role in the level of mortgage and credit card rates (amongst other things), not only have we (collectively) proven an inability to accurately predict central bank actions, but those who spend significant time and energy on these forecasts are missing the forest through the trees in our opinion. Investors have become highly sensitive to various economic data points in their quest to price in future Fed moves despite the timing of central bank policy decisions having little impact on the long-term performance of global equity markets. There is a theory that stocks need lower interest rates to perform well, however, all things equal, we would rather have a strong economy and higher base rates rather than a weaker economy and lower base rates. The data actually shows that equity markets can perform well in both low and high interest rate regimes, (per the graph from JPMorgan on the right).



Source: JPMorgan