



## **Investment Perspective**

### **Second Quarter 2024**

During the second quarter, the S&P 500 Index rose 4.28% while the Russell 2000 Value Index fell 3.64%. International equity markets also decreased with the MSCI EAFE returning -0.20%.

Equity markets were mixed as fixed income markets continued reversing expectations for rate cuts, and the leading inflation indicators pointed to a reduction in the disinflationary forces and the potential for modestly higher inflation in late 2024 to early 2025. Global industrial activity continued to modestly improve, which should strengthen future employment conditions and offset modest weakness in consumer spending. Despite the higher interest rates, we continue to expect the economic cycle and liquidity conditions to be supportive of risk assets through the November election.

Post the November 2024 election, the investment outlook should become less certain. As we exit 2024, there is uncertainty as to the sustained level of corporate tax rates, continued pressure from raising and unsustainable deficits, and the risks associated with refinancing corporate debt in the higher interest rate environment. Despite the near-term improvement in global industrial activity, our longest leading indicators for the U.S. economy are pointing to the potential for a growth slowdown to occur in the first half of 2025. As we move through the back half of 2024, additional leading indicators will either confirm or dispel a potential 2025 economic downturn, which will allow us to adjust the portfolio ahead of any shift in economic fundamentals.

The Bloomberg Aggregate Index returned 0.1% for the quarter while the ICE BofA 1-10 AAA-A Municipal Index returned -0.2%. During the quarter, the Federal Reserve paused raising interest rates and continued to indicate that interest rate cuts are likely in 2024 if inflation continues to track towards the Fed's 2% target. The market is pricing in two 25 basis point (bps) cuts for 2024 with the first cut at the September meeting.

Treasury yields were relatively stable quarter over quarter with the curve shifting up approximately 10 bps. However, Treasuries rallied in May and June following softer CPI, PPI and PCE readings. For example, the 10-year Treasury yield declined approximately 35 bps from its peak in April. While the softer inflationary readings are positive, Core PCE (the Federal Reserve's preferred inflation gauge) is still tracking above the Fed's target at 2.6%.

Investment grade credit spreads widened 3 bps ending the quarter at +88 bps over Treasury yields. With spreads continuing to trade inside their historical averages and with volatility levels low, we anticipate better opportunities to increase our exposure to Corporate bonds in 2024 should credit spreads widen from these relatively rich levels.

With the Fed likely at the end of its tightening cycle, we plan to maintain a longer duration across our fixed income strategies, and we anticipate positive bond returns in 2024 if the Fed cuts interest rates.