

ECONOMIC & MARKET UPDATE



June 30, 2024

Stock prices and bond yields rose in the 2nd Quarter. Global equity prices posted another quarter of solid gains and added to a stellar one-year performance, aided by signs of improvement across geographies and a solid consumer backdrop in the U.S. However, a rise in U.S. Treasury yields impacted bond prices, leading to modest losses in some interest-rate-sensitive fixed-income categories. This was due to rising inflation expectations which raised concerns among investors about the U.S. Federal Reserve's potential to keep interest rates higher for longer than anticipated.

A continued rally in the stock prices of the largest U.S. companies by market capitalization—concentrated in the technology and communications sectors—once again drove the U.S. equity market's gain. Expanding valuation multiples propelled the bulk of the large-stock gains and the overall market return, but more interest-rate sensitive fixed-income categories registered modest gains or in some cases slight losses.

ASSET CLASS 2ND QUARTER RETURNS:

ASSET CLASS	Q2 2024 RETURNS
Emerging Markets	5.0%
US Large Cap	4.3%
Multisector Bonds	0.8%
Strategic Equity	0.1%
Core Bonds	0.1%
Developed International	-0.4%
Real Assets	-0.9%
US Small Cap	-3.1%
US Mid Cap	-3.5%

An index is a hypothetical portfolio of securities representing a particular market or a segment of it used as indicator of the change in the securities market. Indexes are unmanaged, do not incur fees and expenses and cannot be invested in directly.

THE FED, INTEREST RATES, INFLATION

The Fed continued to signal it would begin easing this year while forecasting higher growth and inflation for 2024. The market's expectations for rate cuts dropped during Q1 to align with the Fed's outlook for three cuts by the end of this year. Historically, stocks and bonds rallied between the last hike and the first cut. So far, stocks and bonds have posted positive returns since the last Fed hike.

EMPLOYMENT

Labor markets continued to enjoy a relatively benign softening trend without a major rise in unemployment. Job openings continued to drop from their peak, and labor-force participation rates remained high. Consumer spending was again supported by solid real wage growth, which continued amid a slightly softening labor market backdrop and ebbing inflation.

US ECONOMY

According to a Bloomberg survey of 74 economists, the U.S. Gross Domestic Product (GDP) is predicted to expand by 2.4% in 2024 and 1.7% in 2025. The key takeaway is that while the economy is slowing, it doesn't appear to be on the brink of a recession. Corporate earnings were solid for the first quarter, with 80% of S&P 500 companies reporting earnings above consensus expectations. Earnings growth for the quarter is now expected at a robust 6%, beating the initial expectations of 3.5%.

2024 IN FOCUS

Various factors, including the looming U.S. presidential election, persistent inflation, and international tensions, continue to shape market dynamics. Additionally, recent legislation (the Infrastructure Investment and Jobs Act (2021), the Inflation Reduction Act (2023), and the CHIPS and Science Act (2022)) stimulating the economy poses inflationary risks, potentially complicating the Federal Reserve's monetary policy decisions. Market valuations still appear reasonable in some sectors, providing for upside potential.

We closely monitor the economic picture, markets and the impact on client portfolios.

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