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Retirement Market Recap

CHOPPY SEAS AHEAD

Investors flock to thematic investing to stay afloat

Investors gained 4.28% in the second quarter after a strong first quarter for equities, in which the S&P 500 rose 10.56%. These gains came with unexpected volatility and high performance dispersion across equity sectors and capitalization sizes. Conflicting economic data has made the path for the Federal Reserve (The Fed) anything but clear, with investors continuing to go back and forth on expectations for the amount and pace of interest rate cuts. Further consolidation into a handful of select stocks and themes continues to drive markets higher despite a variety of concerns.

Geopolitical tensions remain arguably at the highest level since WWII. Concerns over further escalation of the eastern European conflict are growing, driven by recent support for Russia's invasion of Ukraine from China, Iran and North Korea. The likelihood of a prolonged war in eastern Europe coupled with tension over the future of the NATO alliance continues to drive market volatility and uncertainty overseas.

Despite an uncertain global backdrop and narrow market leadership, the U.S. equity market showed resilience in Q2. The S&P 500 declined by over 4% in April as concerns of an overheating economy led to unease among market participants. These concerns somewhat abated in the U.S. with softer than expected economic data in May and June, leading to more accommodative expectations for future interest rate decisions by The Fed.

International equities were mixed during the second quarter as the MSCI EAFE Index (international developed equities) declined by 0.64%, with French stocks weighing on the index's returns due to political tensions. The MSCI Emerging Markets Index performed well on a relative basis, gaining 4.24% in Q2, primarily led by a rebound in China. While emerging market equities have struggled over the past decade, the economic expansion within mainland China may prove to be a unique source of returns for investors moving forward.

The continued back and forth of the "higher for longer" narrative for interest rates has continued to create uncertainty for investors and as a result, choppy conditions for bond markets. Conflicting and volatile economic data have made long-term capital market projections and tactical asset allocation decisions difficult for institutional investors. The inability to accurately quantify geopolitical events creates another layer of uncertainty that allocators must navigate. This lack of a clear base case further underlines the importance of developing diversified, strategic allocations that can benefit in a variety of market cycle dynamics.

An often significant holding in strategic asset allocations is fixed income. Investment grade fixed income has continued to struggle in 2024 with the Bloomberg US Aggregate Bond Index declining 0.71% year-to-date through Q2. Not surprising given the risk-on environment thus far in 2024, the key outperformer in the bond market has been high-yield credit, with the Bloomberg US Corporate High Yield Index gaining 1.09% in Q2, bringing YTD performance to +2.58%.

While equities are still the place to be for investors in 2024, it has not been a broad rally. Increasingly, equity markets have been driven by a small number of outperformers and specific trends, such as artificial intelligence and GLP-1 semaglutide drugs. This has led some market participants to caution and compare the current environment to historical instances of "irrational exuberance" (a phrase made popular by Robert J. Shiller in his book, *Irrational Exuberance*).

Statistics are attributed to Morningstar.

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Charley Grant of *The Wall Street Journal* explains, "In this year's bull market, there are artificial intelligence plays like Nvidia – and then there's everything else…Nvidia reported sales and profits in May that blew past Wall Street expectations for the fifth consecutive quarter. The stock rose 37% in the second quarter and is up 149% for the year."[1]

As for GLP-1 semaglutide drugs, it appears we are in the early stages of what could become a monumental shift globally, especially in Western countries. As Jessica Nix of *Bloomberg* describes, "One in eight US adults has tried medications from the fast-growing class of new diabetes and obesity drugs…The market for the drugs is expected to reach at least $80 billion by 2030, according to Bloomberg Intelligence."[2] Eli Lilly, maker of Mounjaro and Zepbound, has gained 55.32% YTD, while Novo Nordisk, maker of Ozempic and Wegovy, has gained 41.81% YTD.[3]

Where markets move from here is hard to predict. The outcomes of contentious elections in the U.S. and mainland Europe may lead to new agendas that interrupt the status quo investors have become accustomed to in the post-pandemic era. The potential for geopolitical escalations continues to be top of mind as nations in the Far East develop stronger alliances in what may be viewed as direct opposition to NATO.

Lastly, as more people invest in exciting new themes, the potential for a bubble may loom, especially if we see unexpected changes made by The Fed, stickier inflation or unforeseen regulatory hurdles regarding new trends. Regardless of one's views of capital markets, the second half of 2024 should be anything but boring.

[1] Grant, Charley. (July 1, 2024) No Nvidia in Your Portfolio? Your Just Toast. *The Wall Street Journal*. https://www.wsj.com/finance/stocks/no-nvidia-in-your-portfolio-youre-just-toast-1a166572?mod=ai_more_article_pos9

[2] Nix, Jessica. (May 10, 2024) One in Eight US Adults Have Taken Ozempic or Similar Drugs. *Bloomberg*. https://www.bloomberg.com/news/articles/2024-05-10/weight-loss-diabetes-drugs-like-ozempic-reach-one-in-eight-americans

[3] YCharts

EQUITY AND RETIREMENT INDICES	3 MO	YTD	1 YR	3 YR	5 YR	10 YR
S&P 500 TR USD	4.28%	15.29%	24.56%	10.01%	15.05%	12.86%
Russell 3000 TR USD (Broad Market)	3.22%	13.56%	23.13%	8.05%	14.14%	12.15%
Russell 1000 TR USD (Large Cap)	3.57%	14.24%	23.88%	8.74%	14.61%	12.51%
Russell Midcap TR USD	-3.35%	4.96%	12.88%	2.37%	9.46%	9.04%
Russell 2000 TR USD (Small Cap)	-3.28%	1.73%	10.06%	-2.58%	6.94%	7.00%
MSCI EAFE NR USD (Int'l Equity)	-0.42%	5.34%	11.54%	2.89%	6.46%	4.33%
MSCI Emerging Markets NR USD (E.M. Equity)	5.00%	7.49%	12.55%	-5.07%	3.10%	2.79%
S&P United States REIT TR USD (Real Estate)	0.01%	-0.35%	7.52%	0.26%	3.87%	5.73%
Morningstar Lifetime Mod. TR 2020	0.74%	3.48%	8.48%	-0.32%	4.54%	4.71%
Morningstar Lifetime Mod. TR 2040	1.01%	6.38%	13.32%	2.09%	7.54%	6.90%

FIXED INCOME INDICES	3 MO	YTD	1 YR	3 YR	5 YR	10 YR
ICE BofA 3M US Trsy Note TR USD	1.30%	2.62%	5.33%	3.04%	2.19%	1.54%
ICE BofA 1-3YR US Trsy TR USD	0.94%	1.24%	4.53%	0.40%	1.06%	1.14%
BBgBarclays Long Term US Trsy TR USD	-1.81%	-5.01%	-5.61%	-10.49%	-4.26%	0.60%
BBgBarclays US Aggregate Bond TR USD	0.07%	-0.71%	2.63%	-3.02%	-0.23%	1.35%
BBgBarclays US Treasury US TIPS TR USD	1.41%	2.26%	5.37%	2.15%	3.16%	2.03%
BBgBarclays High Yield Corp TR USD	1.09%	2.58%	10.44%	1.64%	3.92%	4.31%
BBgBarclays Global Aggregate TR USD (Global Bond)	-1.10%	-3.16%	0.93%	-5.49%	-2.02%	-0.42%

ICE BofAML – Intercontinental Exchange Bank of America Merrill Lynch; BBgBarc – Bloomberg Barclays; S&P 500 – Standard & Poors; MSCI – Morgan Stanley Capital International
Sources: Morningstar as of June 31, 2024

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