Capital Market Review

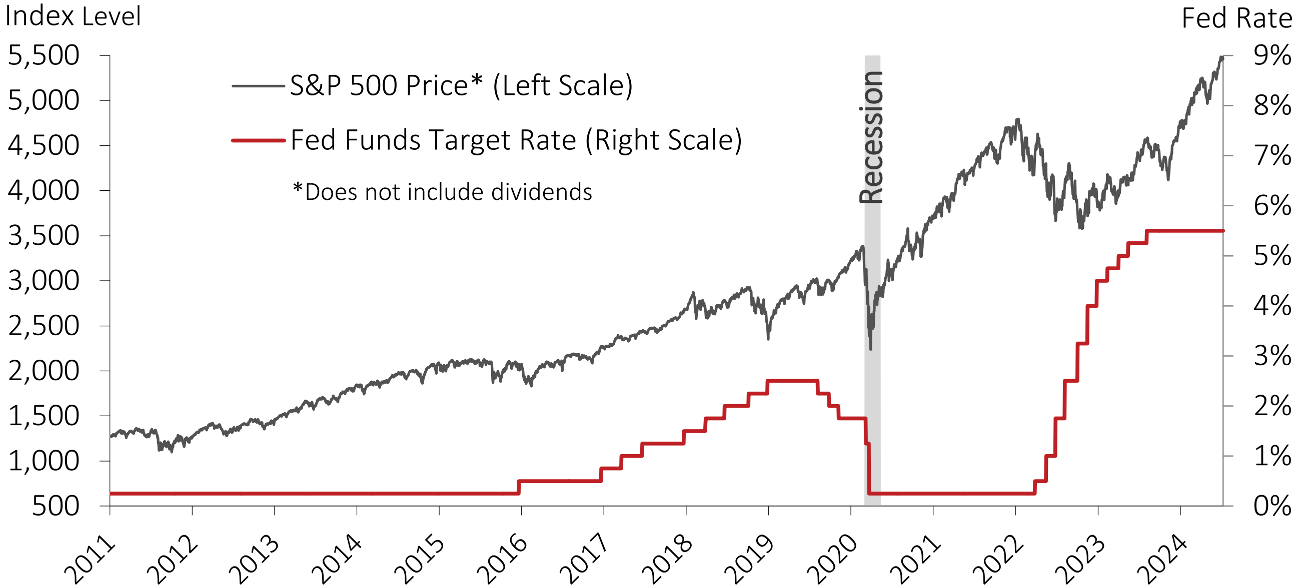
June 30, 2024

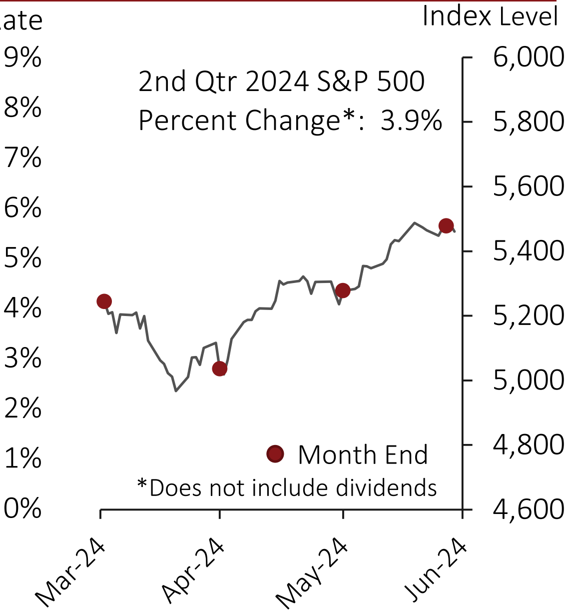



DeMarche

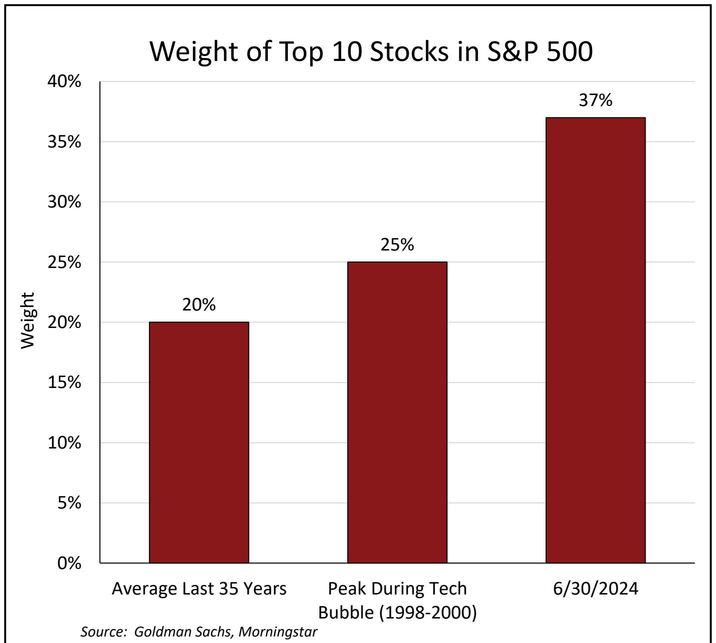
[Watch the Capital Markets Review Key Takeaways Video]

The Song Remains the Same



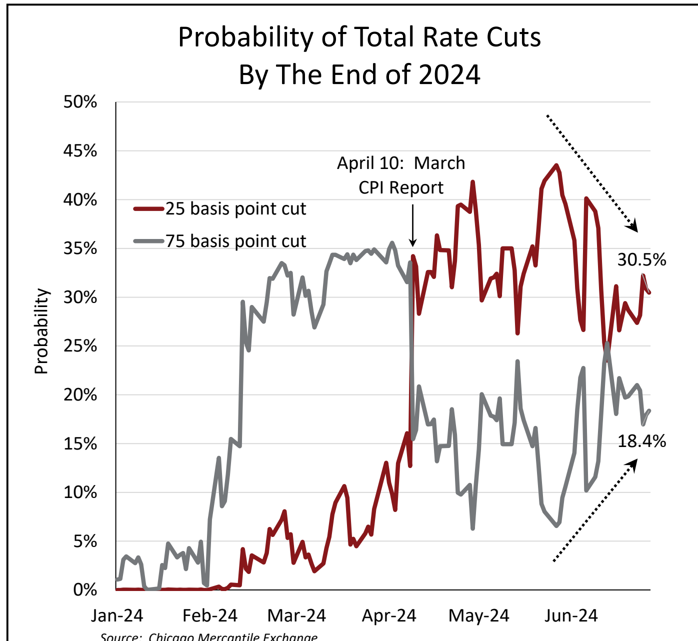


Source: Standard & Poor's, Federal Reserve



The S&P 500 continued its march forward to new all-time highs. The move upward was led by the largest stocks in the index. Now the top ten have reached an all-time high weight in the S&P 500 index at 37%. In fact, the average stock was down 2.6% (as shown in the equal weighted S&P 500) while the cap-weighted S&P 500 Index gained 4.3%.

The chart to the right shows rate cut probabilities. Back in April, the sharp move in probability for three rates cuts dropped precipitously when the March CPI report was released. Since then, market expectations for rate cuts by the end of 2024 have increased slightly now that the economy is showing signs of slowing growth.

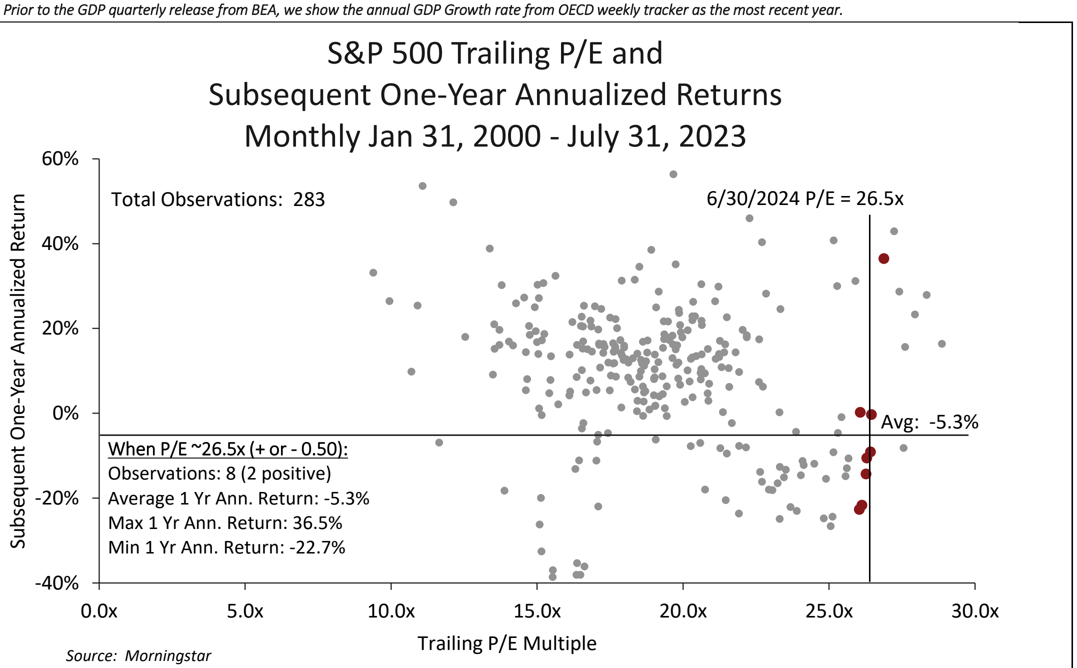


INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	2.6	11.7	20.2	6.9	11.8	9.2
Russell 3000	3.2	13.6	23.1	8.1	14.1	12.1
S&P 500	4.3	15.3	24.6	10.0	15.0	12.9
MSCI EAFE USD	-0.4	5.3	11.5	2.9	6.5	4.3
MSCI Emerging Markets USD	5.0	7.5	12.5	-5.1	3.1	2.8
Bloomberg Aggregate	0.1	-0.7	2.6	-3.0	-0.2	1.3
Bloomberg Global Aggregate	-1.1	-3.2	0.9	-5.5	-2.0	-0.4
FTSE Non-US Gov't Bond	-2.8	-6.2	-2.2	-9.4	-5.0	-2.4
NAREIT (Public RE)	-0.9	-2.2	5.7	-2.0	3.0	5.8
Bloomberg Commodity	2.9	5.1	5.0	5.7	7.2	-1.3

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.

Indicator Year Ending 6/30	2024	2023	2022	2021	50-YEAR Average
GDP Annual Growth Rate*	2.7	2.4	1.9	11.9	2.6
Unemployment	4.1	3.6	3.6	5.9	6.2
Inflation (CPI)	3.0	3.0	9.1	5.4	3.8
10-Year Interest Rates	4.4	3.8	3.0	1.5	5.9

**Note: Prior to the GDP quarterly release from BEA, we show the annual GDP Growth rate from OECD weekly tracker as the most recent year.*



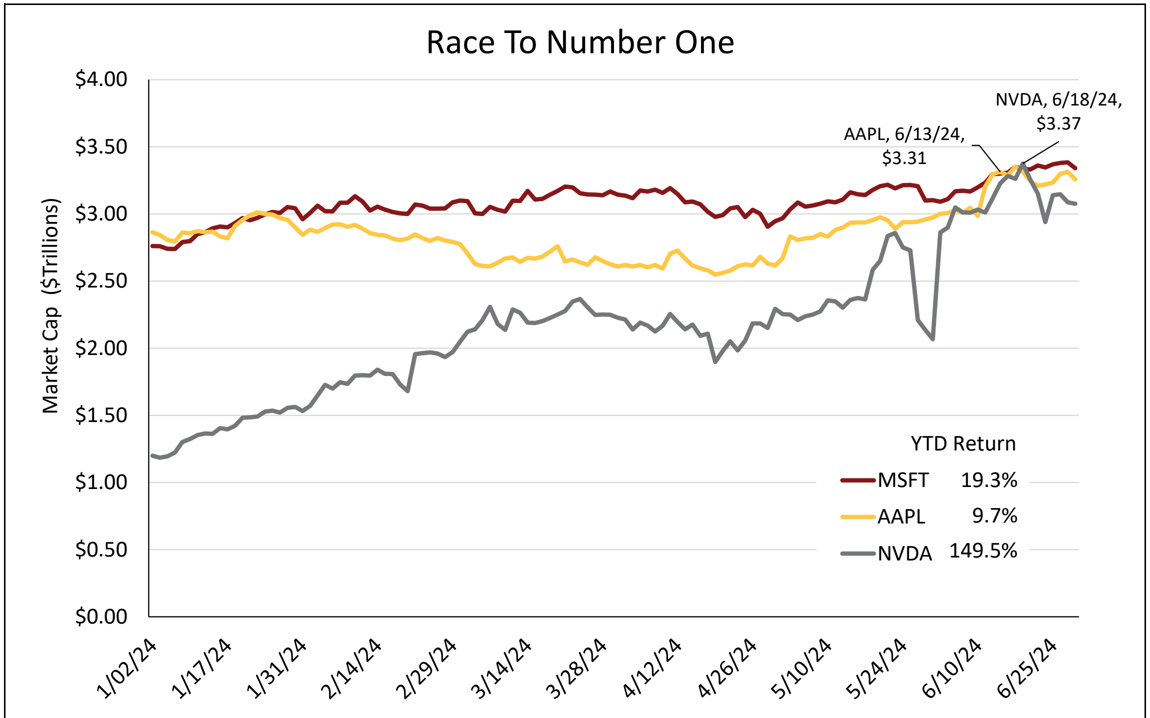
- Inflation's rate of change moderated somewhat in the second quarter, setting up the potential for interest rates cuts by the end of 2024. Going forward, higher beginning coupon rates will help cushion price volatility as interest rates change.
- Bonds finished the quarter in "barely" positive territory as interest rates rose. The 10-year Treasury yield closed at a 4.34% for the quarter, up 13 basis points from the end of the first quarter. But the 10-year did bounce around in the quarter reaching a high of 4.70% and a low of 4.21%
- The U.S. dollar continued to be strong when compared to a trade weighted basket of currencies. The strong dollar provides a headwind to international returns. The MSCI EAFE index returned a negative forty basis points for the quarter.
- The S&P 500 posted its sixth positive quarter out of the past seven (going back to fourth quarter of 2022). With this push upward, the market has gotten more expensive as measured by P/E ratio. The chart to the left shows a vertical line representing a trailing P/E of 26.5 times, S&P 500 valuations in this range have an average subsequent annual return of negative 5.3%. However, the dispersion is great, ranging from negative 22.7% to positive 36.5%.

DeFact

The dominance of the U.S. market over developed and emerging market stocks in the past 15 years is evident in the weight of the U.S. capitalization in the MSCI All-Country World index. The U.S. makes up an all-time high of 64% of the index with the Euro Area making up 12%, the Emerging Markets making up 10% and Japan making up 5% of the index. ~MSCI, JP Morgan

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500	4.3	15.3	24.6	10.0	15.0	12.9
S&P Mid-Cap 400	-3.4	6.2	13.6	4.5	10.3	9.1
S&P Small-Cap 600	-3.1	-0.7	8.7	-0.3	8.1	8.2
Russell 1000	3.6	14.2	23.9	8.7	14.6	12.5
Russell 1000 Growth	8.3	20.7	33.5	11.3	19.3	16.3
Russell 1000 Value	-2.2	6.6	13.1	5.5	9.0	8.2
Russell 2000	-3.3	1.7	10.1	-2.6	6.9	7.0
Russell 2000 Growth	-2.9	4.4	9.1	-4.9	6.2	7.4
Russell 2000 Value	-3.6	-0.8	10.9	-0.5	7.1	6.2

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.



Source: Statmuse.com, Morningstar

- Growth stock's performance bias in large cap can be seen in the returns of the Russell 1000 and the Russell 2000. Large cap stocks are up in the quarter 3.6%, while small cap stocks fell 3.3%. The narrow market performance we have talked about this year has persisted in the second quarter. At the end of June, the top 10 stocks in the S&P 500 made up 37% of the index.
- Small cap stocks continued to struggle primarily due to the number of unprofitable companies in the index. At the end of June, about 44% of Russell 2000 companies were unprofitable. In addition, the slowing of economic growth in the U.S. tended to punish the cyclical companies such as Industrials, health care and discretionary sectors the most in the quarter.
- The story of technology stocks has been the story of large cap artificial intelligence (AI) stocks versus everything else. Small cap tech stocks fell by 3.8% in the quarter after strong first quarter performance of 34%. The large cap tech stocks were up 15% in the quarter and up over 31% year-to-date.
- Year-to-date, the S&P 500 has returned 15.3%. Nvidia, the AI darling stock, started the year with a market cap of $1.2 trillion and ended the second quarter with a market cap of $3.0 trillion, about a 149.5% return. During the second half of June, it briefly passed by Apple and Microsoft to be the largest company in the world. Its meteoric rise contributed about 500 basis points to the 15.3% return of the S&P 500.

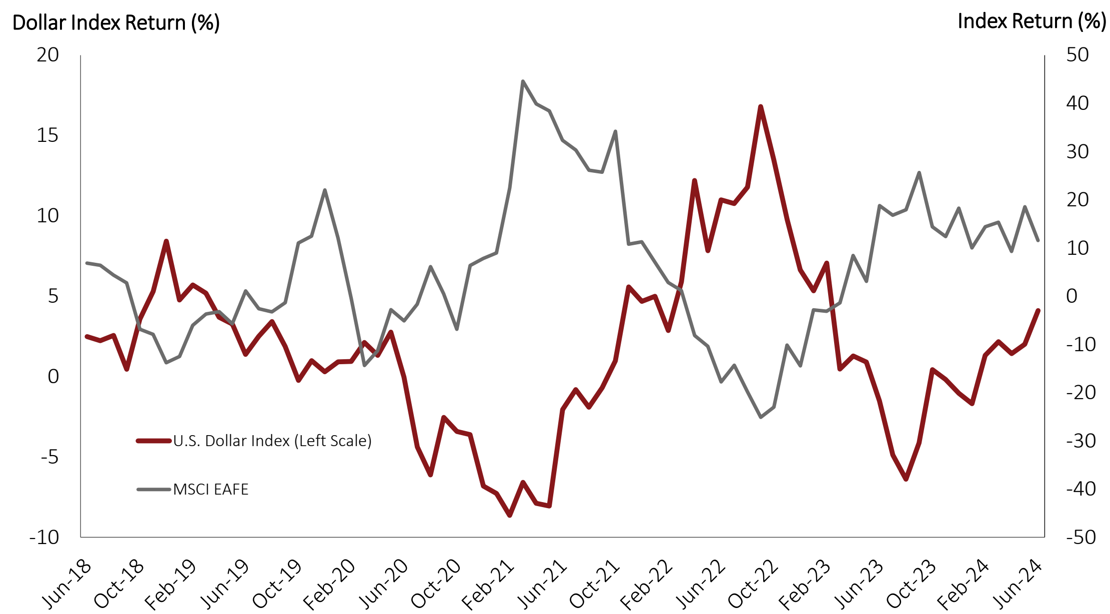
DeFact

Want another trivia data point for dinner conversation? Apple, Microsoft and Nvidia are each larger in market cap than all but three country's (China, Japan and India) equity markets and are on par with the market cap of the United Kingdom. ~Companiesmarketcap.com

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	1.0	11.1	15.1	8.1	9.0	7.4
MSCI EAFE USD	-0.4	5.3	11.5	2.9	6.5	4.3
Growth	-0.8	6.2	9.4	0.1	6.5	5.4
Value	0.0	4.5	13.7	5.5	6.1	3.0
MSCI All Country-ex US	1.0	5.7	11.6	0.5	5.5	3.8
MSCI AC Asia-ex Japan	7.2	9.7	12.9	-5.8	3.5	4.2
MSCI Emerging Markets	5.0	7.5	12.5	-5.1	3.1	2.8
MSCI EAFE Small Cap	-1.8	0.5	7.8	-3.4	4.2	4.3
MSCI Japan	-4.3	6.3	13.1	2.3	6.6	5.5
MSCI China	7.1	4.7	-1.6	-17.7	-4.3	1.4
MSCI Germany	-1.4	5.6	10.1	-0.9	4.6	2.4
MSCI France	-7.5	-2.0	0.5	2.6	6.5	5.0
MSCI UK	3.7	6.9	12.5	6.9	5.7	2.7

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.

U.S. Dollar Index and MSCI EAFE Index
One Year Rolling Returns



Source: Federal Reserve, S&P, MSCI

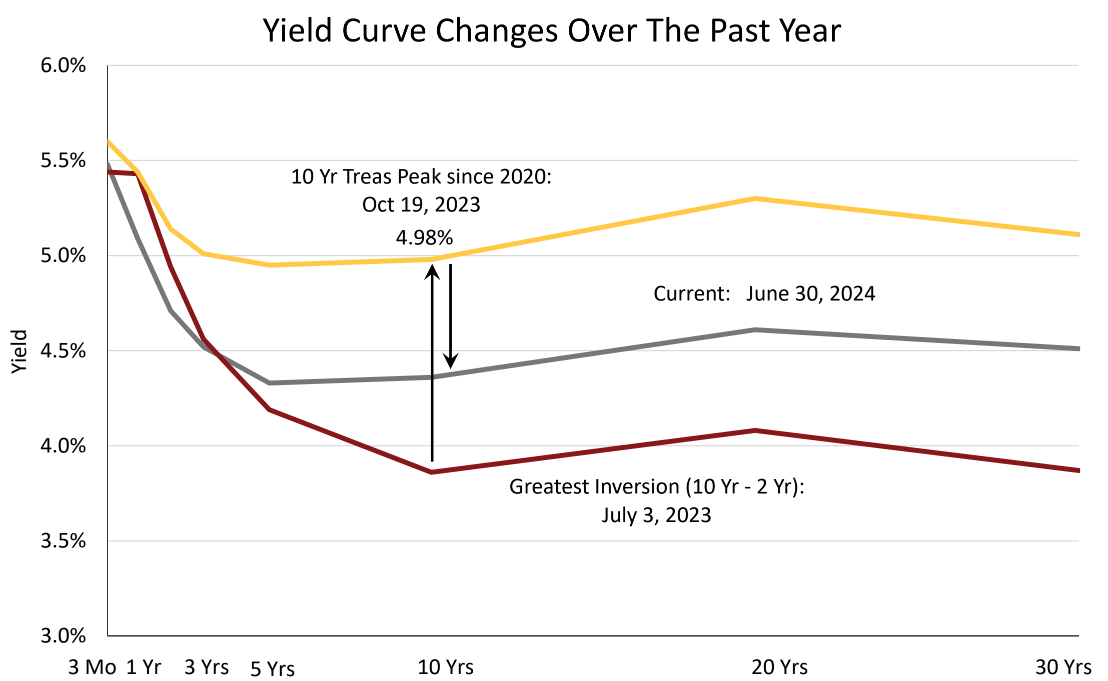
- Emerging markets rebounded in the quarter as Chinese stocks rallied about twenty percentage points in April and May before settling in at a 7.1% gain for the quarter. The Chinese government stepped in to help stabilize the market, signaling to global investors that the government will provide support to the market.
- Economic growth in Europe is showing some signs of life. The Euro area's GDP grew at a 0.3% rate in the first quarter, improving from the 0.1% contraction in the fourth quarter. Despite this slight rebound, developed international stocks struggled in the quarter due to increased uncertainty surrounding elections. For example, French stocks fell about 11% in early June after the EU Parliamentary elections.
- Japanese stocks fell after reaching an all-time high in the first quarter. The yen has weakened as compared to the dollar to a point not seen since the late 1980s. The weaker currency has boosted profits of exporters by making their products cheaper to buyers overseas.
- The chart to the left shows how the strengthening dollar provides a headwind to international returns. The dollar (red line) has strengthened over the past year and subsequent returns for the MSCI EAFE (gray line) moderated from the better returns in early 2023 when the dollar was weaker.

DeFact

The U.S. dominance of the world's stock markets can be boiled down to Technology. According to Schwab research, the S&P 500 behaves like the Global Technology index. Other countries across the globe show strong correlation to other indexes. For example, the UK stock market has a strong correlation to the Global Energy index and the French stock market has a strong correlation to the Global Industrials index. The takeaway: the main factor influencing performance is sector exposure. ~Charles Schwab

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Bloomberg Aggregate	0.1	-0.7	2.6	-3.0	-0.2	1.3
Bloomberg 1-3 Gov Credit	1.0	1.4	4.9	0.6	1.2	1.4
Bloomberg Gov Credit Long	-1.7	-4.1	-1.6	-8.5	-2.2	1.6
Bloomberg US TIPS	0.8	0.7	2.7	-1.3	2.1	1.9
ICE BofA Merrill Lynch High Yield	1.0	2.5	10.3	1.6	3.7	4.2
CSFB Leveraged Loan (bank loans)	1.9	4.4	11.0	6.0	5.4	4.6
Bloomberg Global Aggregate	-1.1	-3.2	0.9	-5.5	-2.0	-0.4
JPM EmgMkt Bd Glbl Dvrsfd (hard)	0.1	1.4	8.0	-2.8	-0.4	2.2

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.



Source: Federal Reserve of St. Louis (FRED)

- As usual, the talk of the quarter was the Federal Reserve and the prospects of rate cuts by the end of 2024. Signs of slowing economic growth such as job growth and consumer confidence shows signs of wavering. With this backdrop, the market now expects up to 50 basis points of rate cuts by the end of the year.

- Rates increased early in the quarter and then fell later as data indicated slowing activity. Rates still ended the quarter higher than they began. Increasing rates is a negative for bond performance as evident by very modest 10 basis point return for the Aggregate in the second quarter.

- High yield and bank loans (lower credit quality) continue to generate positive returns. Credit spreads continue to be narrow to Treasuries along the maturity curve as default rates remain low despite evidence of economic growth slowing down.

- The chart to the left shows the change in the yield curve over the past year. Back in 2023, the expectation was that the Fed would have to cut interest rates sooner rather than later. That changed quickly in early 4th quarter 2023 as the expectation was then "higher for longer." Now expectations have moderated as economic data shows slowing of economic growth.

DeFact

Corporations have been stockpiling liquid assets (such as Treasury debt) on their balance sheets. According to the Fed, nonfinancial corporates have hoarded roughly $7.9 trillion in liquid assets at the end of the first quarter, an all-time high. Additionally, the amount of liquid assets almost equals the amount of short-term liabilities on balance sheets, a near all-time high ratio. The speculation is that these liquid assets will help companies weather an economic slowdown. ~Federal Reserve, Charles Schwab

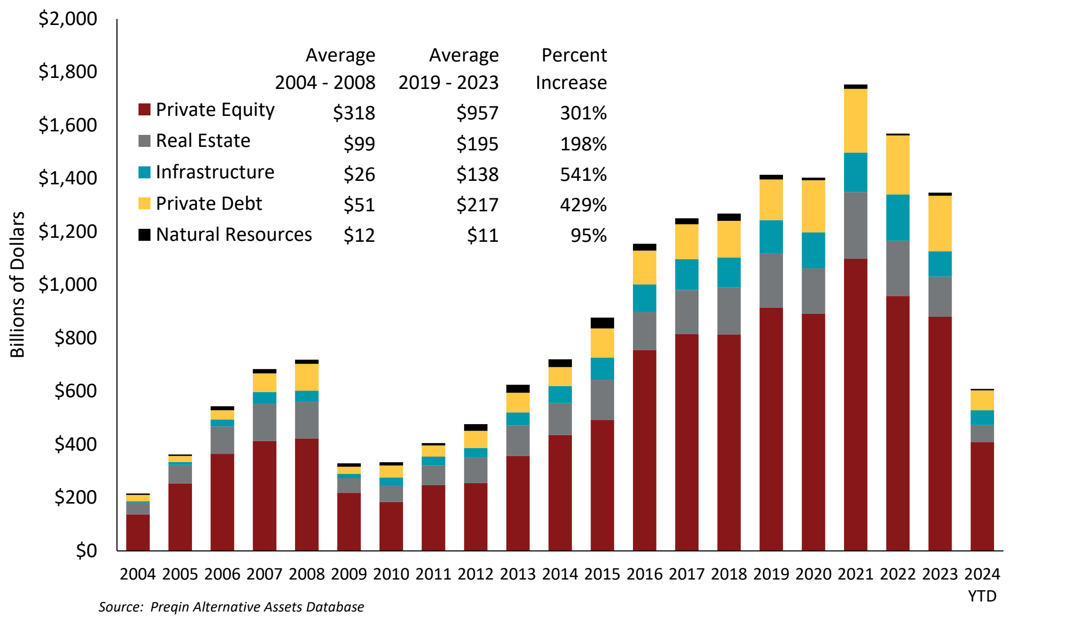
Less Liquid Strategies – Lagged One Quarter

June 30, 2024

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF ODCE	-2.4	-7.1	-11.3	3.4	3.5	6.8
NCREIF Property (Private RE)	-0.9	-3.9	-7.1	3.7	3.8	6.4
Apartment	-1.0	-3.9	-6.3	5.0	4.5	6.3
Industrial	0.1	-2.2	-3.1	14.6	14.2	13.9
Office	-3.8	-9.0	-17.4	-7.0	-2.8	2.6
Retail	0.6	-0.5	-0.8	2.4	-0.2	4.0
NCREIF Timberland	2.1	6.6	9.9	11.0	7.0	5.8
NCREIF Farmland	0.7	3.0	3.6	7.4	6.1	7.1
HFR FOF Composite	4.2	7.5	9.8	2.9	5.0	3.6
Conservative	0.8	2.7	5.3	3.4	4.7	3.4
Diversified	4.3	7.0	9.4	3.5	5.3	3.7
Preqin Private Equity	1.2	1.2	6.7	10.2	15.7	14.1
Preqin Private Debt	3.7	3.7	10.4	11.0	9.8	8.3
Preqin Infrastructure	5.0	5.0	10.2	14.2	12.0	11.0

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.
All data in the table above are as of previous quarter.

Private Capital Funds Raised By Year



Source: Preqin Alternative Assets Database

- Real estate continues to reprice in the face of a slowing economy and higher interest rates. For the past twelve months, real estate values have declined 11.3%, as measured by the ODCE. Office real estate continues to reprice lower. The industrial sector, which has boosted longer-term returns, now is posting negative twelve-month returns.

- Private equity returns lag public equity returns. You see in the table that returns in the first quarter are slightly positive as compared to strong first quarter public market returns for stocks. Over the longer term, private equity returns have outperformed public equity.

- The chart to the left shows the growth of the private markets whether it be private equity, private debt, or real assets. As banks have been pulling back from lending due to increased regulation and capital requirements from 2008, the void is being filled by private debt. Private equity also has grown as more companies stay private for longer. Before the turn of the century, the Wilshire 5000 had over 7,500 companies in it. At the end of 2023, the index contained about 3,400. Infrastructure has been growing due to clean energy, transportation and digitalization (AI and data).

DeFact

Private credit demand continues to run ahead of supply. Typically, loans are arranged by investment banks and then sold to an array of investors. With the backdrop of higher yields and fairly solid economic fundamentals, lenders have made available over $13 billion so far this year, ahead of the trend of 2023. Given the flushness of funds available, borrowers are seeing better terms on their loans, and in some cases, 25 to 100 basis points in tighter credit spreads. ~WSJ

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Catalysts for Portfolios: The Frontier

September 17-19, 2024

Sheraton Overland Park
Overland Park, KS

Registration Link

DeMarche

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You're invited to the 41st Annual DeMarche Client and Investor Conference in Overland Park from September 17-19. Join us to prepare for the market cycles to come. Conference registration and hotel bookings are now open.

Today's institutional investors must know where to find an edge. During the conference, DeMarche's expert consultants and investment industry leaders will examine the significant changes in institutional investing, explore the impact of economic, market, and geopolitical cycles on your portfolio, and focus on opportunities for achieving required return. Our emphasis will be on providing practical solutions for client portfolios, best practices for portfolio design in this shifting landscape, and applicable ideas for the catalysts that may emerge to lead markets and portfolios in the years to come.

Make this a catalyst year and register today for the DeMarche Client and Investor Conference.

Conference Theme: Catalysts for Portfolios: The Frontier

The risk and return profiles of institutional investment portfolios are changing as we enter the mid-2020s. New catalysts are emerging including artificial intelligence technologies, positive real yields in risk-free securities, shifts in consumer demand, and changes to workforce demographics. Investment products are evolving and offering new solutions for our investment challenges. To achieve the efficient frontier, which offers the highest expected return for a given level of risk, investors need to stay at the forefront of understanding the ever-changing world of investing.

As one of the country's premier institutional investor educational events, the DeMarche Client and Investor Conference is designed to keep you on top of the critical investment topics, market forces, and developing industry trends that shape investment strategies and portfolio returns.