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SECOND QUARTER 2024 ECONOMIC AND FINANCIAL MARKETS REVIEW

The stock market performed well during the first half of 2024 as better-than-anticipated economic strength and upbeat corporate earnings outweighed concerns regarding inflation, interest rates, and troublesome geopolitical events. This year began with investors hoping inflation would decline rapidly and that this would allow the Federal Reserve Board to lower interest rates multiple times. Lower interest rates are typically positive for stocks as this helps the economy to grow by decreasing borrowing costs. Lower interest rates also make stocks appear more attractive than fixed-income investments such as bonds and money market funds. However, during the second quarter, it became apparent that inflation would not subside as much as the Fed desired, and there would not be as many interest rate reductions as investors initially hoped for this year.

Even though the Fed did not lower interest rates during the first half of this year, the stock market appreciated on the back of strong corporate earnings, which were generally better than expected. In particular, large company stocks related to the promising field of Artificial Intelligence led the market, with the technology sector outperforming most other sectors of the economy. As a result, the major stock market indexes finished the first half of the year positively, with the S&P 500 Index up 14.48% and the Dow Jones Industrial Average up 3.79%. Bonds did not fare as well during the first half of 2024, as the Bloomberg Intermediate U.S. Government/Credit Bond Index increased only 0.49%.

While the decline in inflation has seemed to pause for now, inflation will hopefully subside during the second half of this year. If this is the case, the Fed will be able to lower interest rates one or two times this year, providing another lift for stocks. This scenario, where the economy continues to grow but inflation declines, is typically positive for stocks.

In addition to uncertainty regarding inflation, many investors are concerned that this year's contentious election could derail the bull market. However, election years are typically positive for stocks because investors anticipate that the current government will not do anything that is harmful to the economy prior to the election, such as raise taxes, reduce spending, or create new regulations. As we get closer to the election, there could be a market correction if investors and traders become concerned that events related to the election could harm the economy and corporate earnings. However, there could also be a relief rally in stocks once the uncertainty is over.

Until now, the stock market has mostly ignored overseas wars and geopolitical conflicts. However, at some point, investors may become nervous about the impact that the war in the Middle East and the war in Ukraine have on oil prices and the global economy. Economic activity could slow if oil prices increase significantly, leading to lower corporate earnings. This is

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because both individuals and corporations depend on purchasing oil and gasoline on a daily basis. Rising oil prices would challenge the theory that inflation will decline in the second half of this year, and corporations will have difficulty matching or beating this year's earnings expectations. Furthermore, the expectation of significant Federal Reserve Board interest rate cuts will be lowered.

Stock market gains continue to primarily come from large, global corporations, while small company stocks continue to underperform. We are hopeful that stock market gains will broaden in the second half of the year to include smaller companies. In the meantime, we continue to favor large companies and shorter-term bonds.

As always, we will continue to monitor ongoing economic and financial market conditions. In the meantime, please contact us if you have any questions regarding your portfolio or the financial markets in general.

** Index returns were obtained from the Wall St. Journal and Bloomberg on June 29, 2024.*

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