



Global Market Commentary: Second Quarter 2024

Markets Have Mixed 2nd Quarter

Global equity markets had a very mixed second quarter, as the mega-caps and smaller-caps struggled while the larger-caps and tech names performed very well.

Despite the mixed results in the second quarter, by many measures, U.S. and global equities are off to a good start in 2024, building on the terrific performance from the final quarter of 2023. As an example, the S&P 500 has turned in a gain of about 15% YTD and these first 6 months are among the top-seven best starts in the last 35 years, as the S&P 500 has recorded more than 30 new record closes so far in 2024.

For the second quarter of 2024:

- The DJIA lost 1.1%;
- The S&P 500 gained 4.1%;
- NASDAQ jumped 8.1%; and
- The Russell 2000 lost 2.6%.

The themes that drove market performance in the second quarter continued to center around inflation, the Fed, the housing market, mostly good corporate earnings, and the labor market. In addition, recent inflation data – specifically the PCE Index (the Fed’s preferred measure of inflation) – suggests that inflation might be waning, leading to Wall Street placing the odds of a September rate cut at about 50/50.

The other big theme that continued to take shape this quarter was the developments in generative artificial intelligence stocks, with AI chipmaker Nvidia as the poster-child for this space as it leapt almost 36% this past quarter.

Further, we saw that:

- Volatility, as measured by the VIX, trended down this quarter, losing about 9% and ending June at 12.55, very close to its 5-year low.
- West Texas Intermediate crude traded within a tight band this quarter, losing almost 3% and ending the quarter at \$81.46/barrel. For comparison, this time last year, crude prices were under \$70/barrel.

Market Performance Around the World

Investors saw mixed quarterly performance around the world too, as 20 of the 36 developed markets tracked by MSCI were positive for the second quarter of 2024. And for the 40 developing markets tracked by MSCI, 27 were positive.

Index Returns	2Q2024
MSCI EAFE	-1.48%
MSCI EURO	-4.43%
MSCI FAR EAST	-3.64%
MSCI G7 INDEX	+2.17%
MSCI NORTH AMERICA	+3.42%
MSCI PACIFIC	-2.62%
MSCI PACIFIC EX-JAPAN	+1.43%
MSCI WORLD	+2.15%
MSCI WORLD EX-USA	-1.61%

Source: MSCI. Past performance cannot guarantee future results

Sector Performance Rotated in 2Q2024

The overall sector performance in the second quarter was not surprisingly mixed, as more than half of the 11 S&P 500 sectors declined. That contrasts sharply with the performance for the first quarter where only one sector declined (Real Estate) whereas the other 10 all jumped markedly.

Given the robust performance of the previous quarter, only 1 sector improved on a relative basis, as Information Technology turned in another double-digit showing.

Here are the sector returns for the first and second quarter of 2024:

S&P 500 Sector	1Q2024	2Q2024
Information Technology	+12.30%	+13.48%
Energy	+10.77%	-2.12%
Health Care	+8.70%	-1.26%
Real Estate	-2.00%	-2.15%
Consumer Staples	+7.01%	+0.86%
Consumer Discretionary	+3.66%	+0.31%
Industrials	+10.36%	-3.19%
Financials	+12.04%	-1.88%
Materials	+7.52%	-4.65%
Communication Services	+15.09%	+8.78%
Utilities	+4.23%	+4.63%

Source: Fidelity Management & Research

Reviewing the sector returns for just the 2nd quarter of 2024, we saw that:

- 5 of the 11 sectors were painted green, but those 5 were all positive for the preceding quarter too;
- The tech-laden sectors – think Information Technology and Communication Services turned in exceptional back-to-back-to-back quarters.
- The Energy sector saw a very large swing from Q1 to Q2, gaining more than 10% last quarter and losing about 2% this quarter.

- The differences between the best (+13%) performing and worst (-4%) performing sectors in the second quarter was very wide.

The Federal Reserve and Rates

At the center of the Wall Street's collective attention once again was the Fed, where our central bank decided to leave rates unchanged – much to no one's surprise.

Specifically, the central bank announced it would maintain the federal funds rate range at 5.25% to 5.5%, where rates have been since last July.

"So far this year, the data have not given us greater confidence," Fed Chair Powell said. "The most recent inflation readings have been more favorable than earlier in the year, however, and there has been modest further progress toward our inflation objective."

"We know that reducing policy restraint too soon or too much could result in a reversal of the progress we have seen on inflation. At the same time, reducing policy restraint too late or too little could unduly weaken economic activity and employment."

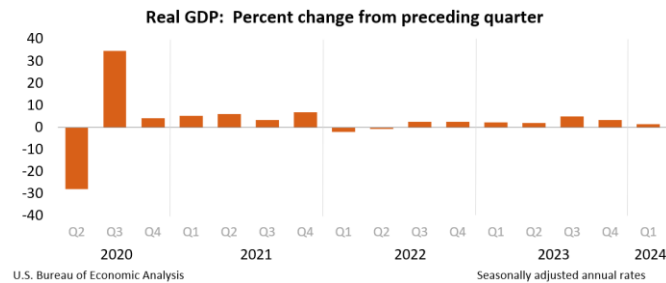
FED FUNDS RATE SINCE 2000



GDP Up 1.4% in First Quarter

Real gross domestic product (GDP) increased at an annual rate of 1.4% in the first quarter of 2024, according to the "third" estimate released by the Bureau of Economic Analysis. In the "first" estimate, the increase in real GDP was 1.6% and in the "second" estimate it was 1.3%. In the fourth quarter of 2023, real GDP increased 3.4%.

The upward revision primarily reflected a downward revision to imports, which are a subtraction in the calculation of GDP, and upward revisions to nonresidential fixed investment and government spending. These revisions were partly offset by a downward revision to consumer spending.



The increase in real GDP primarily reflected increases in consumer spending, residential fixed investment, nonresidential fixed investment, and state and local government spending that were partly offset by a decrease in private inventory investment. Imports increased.

Compared to the fourth quarter, the deceleration in real GDP primarily reflected decelerations in consumer spending, exports, and state and local government spending, and a downturn in federal government spending. These movements were partly offset by an acceleration in residential fixed investment. Imports accelerated.

Personal Income Increases

Current-dollar personal income increased \$396.8 billion in the first quarter, a downward revision of \$7.7 billion from the previous estimate. The increase primarily reflected increases in compensation (led by private wages and salaries) and personal current transfer receipts (led by government social benefits to persons).

Disposable personal income increased \$240.2 billion, or 4.8%, in the first quarter, a downward revision of \$26.6 billion from the previous estimate. Real disposable personal income increased 1.3%, a downward revision of 0.6%.

Personal saving was \$777.3 billion in the first quarter, a downward revision of \$19.3 billion from the previous estimate. The personal saving rate – personal saving as a percentage of disposable personal income – was 3.8% in the first quarter, the same as the previous estimate.

Gross Domestic Income/Corporate Profits

Real gross domestic income (GDI) increased 1.3% in the first quarter, a downward revision of 0.2% from the previous estimate. The average of real GDP and real GDI, a supplemental measure of U.S. economic activity that equally weights GDP and GDI, increased 1.4% in the first quarter, the same as the previous estimate.

Profits from current production (corporate profits with inventory valuation and capital consumption adjustments) decreased \$47.1 billion in the first quarter, a downward revision of \$26.0 billion from the previous estimate.

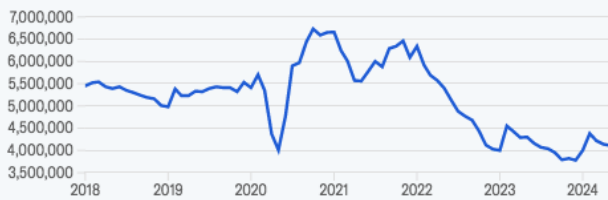
Profits of domestic financial corporations increased \$65.0 billion in the first quarter, a downward revision of \$8.7 billion from the previous estimate. Profits of domestic nonfinancial corporations decreased \$114.5 billion, a downward revision of \$0.3 billion. Rest-of-the-world profits increased \$2.3 billion, a downward revision of \$17.0 billion. In the first quarter, receipts increased \$25.7 billion, and payments increased \$23.4 billion.

Existing Home Sales Slip/Prices Hit Record

The National Association of Realtors announced that existing-home sales slightly declined in May as the median sales price climbed to a record high. In the four major U.S. regions, sales slid month-over-month in the South but were unchanged in the Northeast, Midwest and West. Year-over-year, sales rose in the Midwest but receded in the Northeast, South and West.

U.S. EXISTING HOME SALES FALL FOR A THIRD CONSECUTIVE MONTH

Sales dipped to seasonally adjusted annual rate of 4.11 million units in May.



SOURCE: NATIONAL ASSOCIATION OF REALTORS

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- Existing-home sales slipped 0.7% in May to a seasonally adjusted annual rate of 4.11 million. Sales descended 2.8% from one year ago.
- The median existing-home sales price jumped 5.8% from May 2023 to \$419,300 – the highest price ever recorded and the eleventh consecutive month of year-over-year price gains.
- The inventory of unsold existing homes grew 6.7% from the previous month to 1.28 million at the end of May, or the equivalent of 3.7 months' supply at the current monthly sales pace.

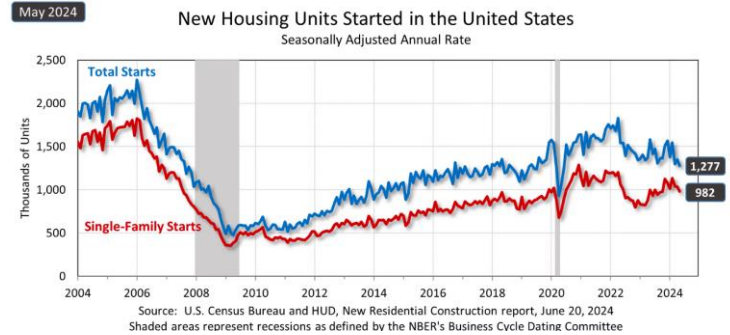
Construction Spending Down

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced the following new residential construction statistics for May 2024:

- Privately-owned housing units authorized by building permits in May were at a seasonally adjusted annual rate of 1,386,000. This is 3.8% below the revised April rate of 1,440,000 and is 9.5% below the May 2023 rate of 1,532,000.
- Privately-owned housing starts in May were at a seasonally adjusted annual rate of 1,277,000. This is 5.5% below the revised

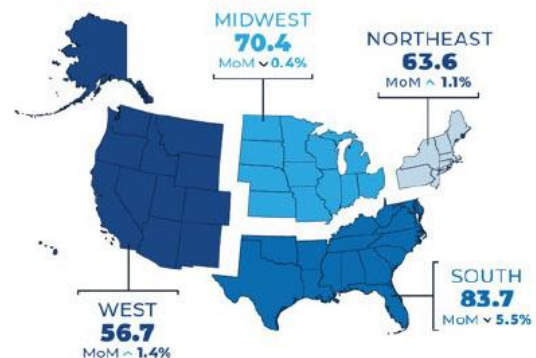
April estimate of 1,352,000 and is 19.3% below the May 2023 rate of 1,583,000.

- Privately-owned housing completions in May were at a seasonally adjusted annual rate of 1,514,000. This is 8.4% below the revised April estimate of 1,652,000, but is 1.0% above the May 2023 rate of 1,499,000.



Pending Home Sales Slip Too

Pending home sales in May slipped 2.1%, according to the National Association of Realtors. The Midwest and South posted monthly losses in transactions while the Northeast and West recorded gains. Year-over-year, all U.S. regions registered reductions.



The Pending Home Sales Index – a forward-looking indicator of home sales based on contract signings – decreased to 70.8 in May. Year over year, pending transactions were down 6.6%. An index of 100 is equal to the level of contract activity in 2001.

“The market is at an interesting point with rising inventory and lower demand. Supply and demand movements suggest easing home price appreciation in upcoming months. Inevitably, more inventory in a job-creating economy will lead to greater home buying, especially when mortgage rates descend.”

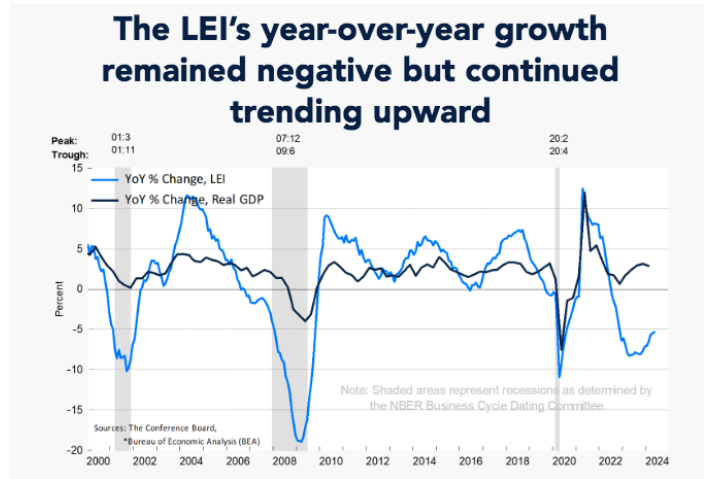
Retail Sales Decline

The U.S. Census Bureau announced that U.S. retail and food services sales for May 2024 were \$703.1 billion, up 0.1% from the previous month, and up 2.3% above May 2023.



Leading Economic Index Fall Again

The Conference Board Leading Economic Index for the U.S. decreased by 0.5% in May 2024 to 101.2 (2016=100), following a 0.6% decline in April. Over the six-month period between November 2023 and May 2024, the LEI fell by 2.0% — a smaller decrease than its 3.4% contraction over the previous six months.



“The U.S. LEI fell again in May, driven primarily by a decline in new orders, weak consumer sentiment about future business conditions, and lower building permits. While the Index’s six-month growth rate remained firmly negative, the LEI doesn’t currently signal a recession. We project real GDP growth will slow further to under 1 percent (annualized) over Q2 and Q3 2024, as elevated inflation and high interest rates continue to weigh on consumer spending.”

Consumer Confidence Weakens

The Conference Board Consumer Confidence Index dipped in June to 100.4 (1985=100), down from 101.3 in May.



In addition:

- The Present Situation Index – based on consumers' assessment of current business and labor market conditions – increased to 141.5 from 140.8 last month.
- The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – fell to 73.0 in June, down from 74.9 in May.

The Expectations Index has been below 80 (the threshold which usually signals a recession ahead) for five consecutive months.

Sources: bea.gov; nar.realtor; census.gov; conference-board.org; msci.com; factset.com; fidelity.com; nasdaq.com; wsj.com; morningstar.com

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