Investment and Economic Update
Second Quarter 2024

The U.S. and (to a lesser extent) global equity markets continue to generate positive returns for investors, the bond market is settling down and the long-predicted recession keeps being moved back by the market pundits. It's almost easy to forget that bear markets ever happen, given the returns of last year and this year's first two quarters.

The gains have slowed down from the red-hot first quarter, but they are still historically robust. The widely quoted S&P 500 index of large company stocks gained 3.92% during the year's second quarter and is now sitting on a 14.48% gain for the year so far. Meanwhile, the Russell 2000 Small-Cap Index, smaller companies posted a 1.02% gain in the year's first six months. The technology-heavy Nasdaq Composite Index has gained 18.13% so far this year.

Foreign markets are up for the year as well. The broad-based EAFE index of companies in developed foreign economies has gained 3.51% in the first half of 2024. Emerging market stocks of less developed countries, as represented by the EAFE EM index, have gained 6.11% in dollar terms so far this year.

The bond markets seem to have settled into stability, though we are still experiencing an inverted yield curve. Yields on 10-year Treasury bonds rose slightly from 4.32% at the start of the quarter to 4.40% currently. 30-year government bond yields have risen incrementally from 4.46% in the first quarter to 4.56% today.

But with the inverted yield investors can get higher returns on, respectively, 12-month Treasuries (5.11% rate, 6-month government (5.32%) and 3-month Treasury bills (5.35%). Five-year municipal bonds have risen from a 2.44% aggregate yield to 2.96%, while 30-year munis moved from roughly 3.75% in the first quarter to 3.79% today.

The markets seem to be testing new highs every week or so, but the first thing you notice, if you look closely at the numbers, is the more modest returns experienced in the second quarter compared with the first. The commentators and pundits interpret that as the markets 'running out of steam,' as if daily and monthly price movements are produced by some kind of mechanical engine. They're not. The early part of the year might be fairly described as a period of overenthusiasm, while today investors seem to be more relaxed about the possibility of 'missing out.'

The chief worry as we enter the third quarter is that much of the equity returns are coming from small handful of AI-related companies. The companies that are most closely associated with AI developments—Nvidia, Apple, Amazon, Meta and Microsoft—are soaring even as the rest of the market is taking a pause. As a result, the S&P 500 is also soaring, on a very thin number of big winners.

There is no question that AI will change our business and personal lives, perhaps dramatically, the way software and information technology have done. But history has shown that investing in transformative technologies can be tricky at best. The bigger question, that will be answered in the next 12 months, is whether the rest of the market will hold up if there is a (perhaps temporary) pullback in the highest-performing tech stocks in our investment indices.

Below, we have summarized some of the widely quoted indexes for your reference. As a reminder the challenge is, the DJIA is not the same as the S&P 500, which is not the same as the NASDAQ – and none of these indexes perfectly match your own distinct mix of assets and their expected returns, especially if you own a globally diversified portfolio with exposure to stocks and bonds, large and small companies, value and growth companies, and U.S. and non-U.S. based companies. The following returns are quarter YTD, and a rolling one year; respectively:

S&P 500: 3.92%, 14.48%, 22.70%
Dow Jones: -1.73%, 3.79%, 13.69%
NASDAQ Composite: 8.26%, 18.13%, 28.61%
Russell 2000 (Small-Cap): -3.62%, 1.02%, 8.42%
MSCI EAFE (International): -1.48, 3.51%, 8.58%
Barclay's Capital US Aggregate Bond: 0.07%, -0.71, 2.63%

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