Market Review

as at June 30, 2024

ARGUS Wealth Management

The first half of 2024 witnessed robust equity performance, led by AI-related tech stocks. Strong corporate earnings have propelled global growth stocks to outperform other asset classes despite ongoing economic uncertainties.

Geopolitical events, particularly the European parliamentary elections and the snap election in France, have introduced some volatility, impacting the region's equity and bond markets but not the broad market. Yet the US is still setting the tone, and investor sentiment remains cautiously optimistic, a mood that is reflected in the anticipation of possible rate cuts in the latter half of the year.

Equity Market Returns

The MSCI World Index achieved an impressive 13.5% return year-to-date, signalling broad confidence in global equities, even amidst ongoing policy uncertainties. The S&P 500 Index also achieved a stellar 15% return since the start of the year. However, it is notable that nearly 60% of this year's gains were concentrated in just five mega-cap companies: Nvidia, Microsoft, Amazon, Meta, and Apple.

These companies have surged due to investor excitement over the potential of generative artificial intelligence, with Nvidia alone responsible for 31% of the market's advance in the first half of the year.

Recently, the rally has become even more concentrated, with Nvidia, Apple, and Microsoft collectively driving over 90% of the market's gains in the second quarter. Growth across other sectors was considerably less. The equal-weighted version of the S&P 500 Index has only risen about 4% year-to-date.

US Economic Overview

Paradoxically, strong US economic data have emerged as "bad news" for markets since they dampen investor hopes for aggressive rate cuts. The US Federal Reserve ("the Fed") maintained its policy rate during the June 2024 meeting, projecting only one rate cut for the entire year. This decision reflects ongoing concerns about inflation and the need to balance economic growth with price stability. Market consensus has aligned with this view.

Employment data present a mixed picture: June's gain of 206,000 jobs exceeded economists' consensus forecast from around 190,000, but a rise in unemployment to 4.1% left the jobless rate at the highest level since November 2021. Average hourly earnings in June increased by 3.9% year-over-year, marking the slowest growth in three years.

The minutes from the Federal Reserve's June meeting revealed that policymakers are now more attentive to downside risks in the labour market, acknowledging that weakening demand may lead to higher unemployment faster than previously expected.

The latest jobs report appeared to strengthen expectations of a potential Fed rate cut later this year as yields of government bonds fell.

US Political Developments

While the Fed strives to provide guidance and stability, the US political landscape continues to inject volatility. The upcoming Presidential election introduces policy uncertainty and potential economic impacts, likely influencing investor confidence and market dynamics.

Notable Policy Differences

The federal budget deficit remains a critical topic. Policy differences between the parties are stark; a Democratic administration might let the 2017 tax cuts expire and increase spending, whereas a Republican administration may extend these tax cuts and implement new ones, but neither approach is likely to reduce the long-term deficit trajectory.

Another focal point is immigration, which has surged in recent years, adding millions to the US population. The handling of immigration is expected to differ significantly between the parties, with Republicans likely to adopt a much tougher stance.

This could impact labour supply and, in turn, potentially raise inflation.

Outlook

Despite a healthy economic backdrop, markets may face some challenges in the coming quarters. So much optimism is built into the implied market outlook that any downside surprise could affect performance.

Expectations of solid corporate profitability have been crucial to sustaining the current market rally. We've seen the extent to which global growth stocks have driven returns higher despite economic and political uncertainty.

The relentless surge in Big Tech has elevated the valuation of the S&P 500 Index from a multiple of 19 times expected earnings in January to just over 21 times currently. Analysts remain optimistic about the second-quarter earnings of tech companies, but the market will be vulnerable if these companies do not follow through with earnings that support these valuations.

Despite the short-term volatility the November election may bring, the performance of equity markets usually improves with greater certainty, regardless of which party wins the election. Data going back to 1928 suggests that average full-year price returns in election vs. non-election years are basically the same — at 7.3% and 7.5%, respectively — but the path to getting there is very different. This year's strong start could mean an even better trajectory for stocks if past cycles are any indication.

Macro Indices Report as at June 30, 2024 (percent)

	JUN	MAY	APR	Q2 2024	YTD	2023	Annualized 3 Years	Annualized 5 Years
GLOBAL EQUITY								
MSCI AC World Total Return	2.2	4.1	-3.3	8.2	11.3	22.2	5.4	10.7
MSCI EAFE	-1.6	4.0	-2.5	6.0	5.8	18.9	3.5	7.1
NORTH AMERICA EQUITY								
S&P 500 Total Return	3.6	5.0	-4.1	10.6	15.3	26.3	10.0	15.0
DOW JONES INDUSTRIAL AVG	1.2	2.6	-4.9	6.1	4.8	16.2	6.4	10.3
S&P 400 Net TR	-1.6	4.3	-6.0	9.8	5.9	15.8	4.0	9.7
NASDAQ COMPOSITE	6.0	7.0	-4.4	9.3	18.6	44.7	7.8	18.2
RUSSELL 2000 INDEX	-0.9	5.0	-7.0	5.2	1.7	16.9	-2.6	6.9
S&P/TSX COMPOSITE INDEX	-1.4	2.8	-1.8	6.6	6.1	11.8	6.0	9.3
EUROPE EQUITY								
BLOOMBERG EUROPEAN 500	-1.1	3.5	-0.7	7.6	9.5	16.7	7.7	8.9
FTSE 100 INDEX	-1.0	2.0	2.7	4.0	7.9	7.7	9.0	5.7
CAC 40 INDEX	-6.2	1.6	-1.9	9.0	1.9	20.1	8.0	9.1
DAX INDEX	-1.4	3.2	-3.0	10.4	8.9	20.3	5.5	8.0
ASIA EQUITY								
MSCI AC Far East Ex Japan	3.1	1.5	0.8	1.1	6.6	0.4	-11.1	-0.7
NIKKEI 225	2.9	0.2	-4.9	21.6	19.3	31.0	13.4	15.4
HANG SENG INDEX	-1.1	2.5	7.4	-2.5	6.2	-10.5	-11.9	-6.0
S&P/ASX 200 INDEX	1.0	1.1	-2.9	5.8	4.8	14.0	7.9	8.6
SHANGHAI SE COMPOSITE	-2.9	-0.4	2.1	2.2	0.9	-1.0	-3.7	2.4
SOUTH AMERICA & EM EQUITY								
MSCI EM Net Total Return USD Index	3.9	0.6	0.4	2.4	7.5	9.8	-5.1	3.1
S&P LATIN AMERICA 40	-5.7	-1.3	-3.4	-2.0	-11.9	34.2	1.7	0.7
BRAZIL IBOVESPA INDEX	1.5	-3.0	-1.7	-4.5	-7.7	22.3	-0.8	4.2
S&P BSE SENSEX INDEX	7.1	-0.3	1.1	2.1	10.3	20.3	16.1	16.3
FIXED INCOME								
ICE BoA 1-3 Year US Treasury Index	0.6	0.7	-0.3	0.3	1.2	4.3	0.4	1.1
BLOOMBERG US Agg	0.9	1.7	-2.5	-0.8	-0.7	5.5	-3.0	-0.2
BLOOMBERG Multiverse (Unhedged)	0.2	1.3	-2.5	-1.9	-3.0	6.0	-5.3	-1.8
Citi World BIG US Hedged	0.8	0.9	-1.8	-0.3	-0.4	6.9	-2.6	-0.3
ICE BoA US High Yield Index	1.0	1.1	-1.0	1.5	2.6	13.5	1.6	3.7
JPM EMBI Global Core – US$	2.1	1.0	-1.2	1.8	1.8	10.8	-4.8	3.1
JPM EM Global Cove – Local	-0.5	-0.3	-1.9	-2.2	-2.2	10.9	-5.4	-1.9
COMMODITIES								
BLOOMBERG Commodity Index	-1.9	1.3	2.2	0.9	2.4	-12.6	2.2	4.9
GOLD	8.1	-0.3	-1.2	6.5	6.5	14.6	9.4	11.3
OIL (WTI)	6.8	-5.1	-0.1	18.3	19.8	-3.8	16.2	0.0

Argus Wealth Management Limited

The Argus Building
14 Wesley Street
Hamilton HM11, Bermuda

Tel: +1 (441) 295 9000
invest@argus.bm
arguswealth.bm

ARGUS Wealth Management