Portfolio Management, LLC

Building Wealth Wisely

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The Haves and the Have-Nots

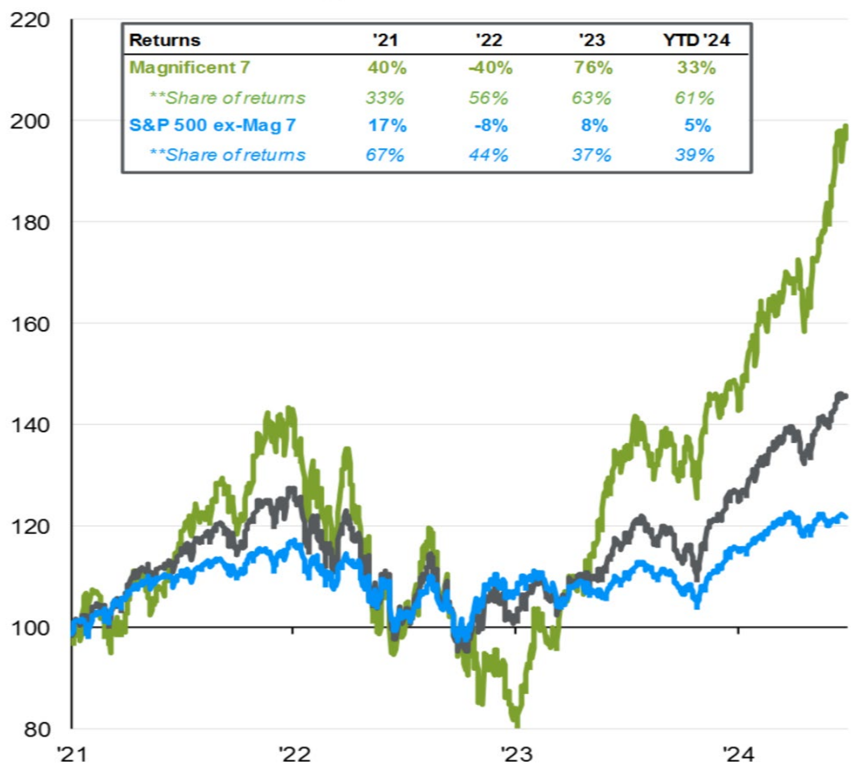
Most financial markets continue to trend in a positive direction, but this year so far is a tale of the haves and the have-nots. The prospects for Artificial Intelligence continue to propel large cap growth stocks to new highs, leaving most other investment categories in the dust.

Most of the gains in the S&P 500 in recent years have been generated by just seven stocks known as the Magnificent 7 – Nvidia, Amazon, Alphabet, Apple, Microsoft, Tesla, and Meta.

Here is the first half of the year scorecard for the most prominent investment categories:

+14.5% gain for the S&P 500 stock index (cap weighted)
+4.1% gain for the S&P 500 equal weighted index
+3.5% gain for the EAFE international stock index
+1.0% gain for the Russell 2000 small cap stock index
-0.7% decline for the Bloomberg Total Return Aggregate Bond index

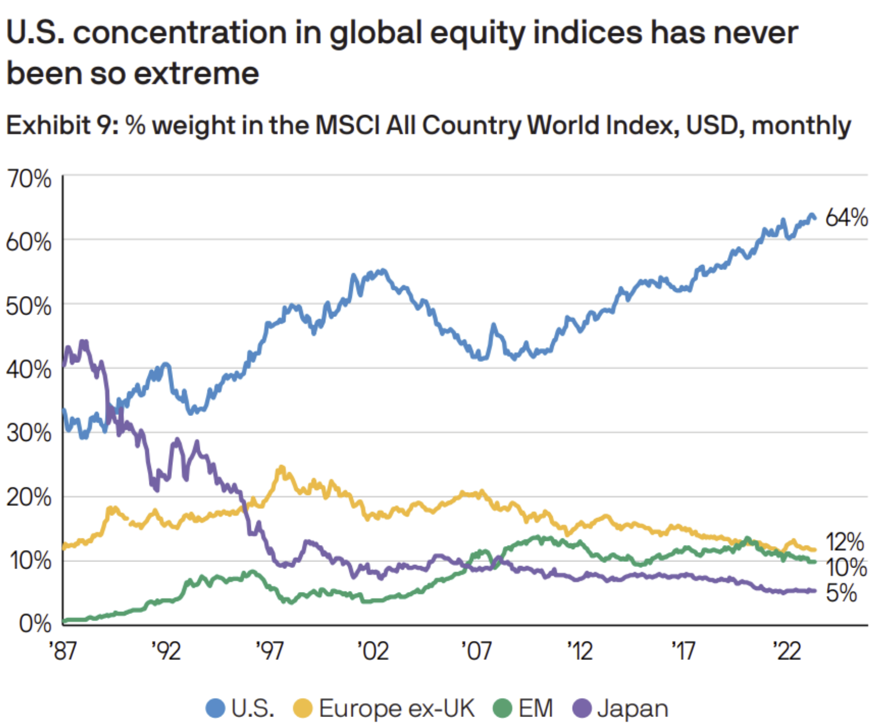
Performance of "Magnificent 7" stocks in S&P 500*
Indexed to 100 on 1/1/2021, price return



Returns	'21	'22	'23	YTD '24
Magnificent 7	40%	-40%	76%	33%
**Share of returns	33%	56%	63%	61%
S&P 500 ex-Mag 7	17%	-8%	8%	5%
**Share of returns	67%	44%	37%	39%

The differentiation between the haves and the have-nots presents a lot of opportunities since so many investment categories are still reasonably priced. We currently find many value stocks, mid cap stocks, and international equities to be relatively appealing. Small cap value stocks look particularly attractive in comparison to large cap growth stocks.

Similar valuation spreads can be found when comparing U.S. stocks and international stocks. International valuations have fallen well below their U.S. counterparts and below their own historical averages. Outperformance by U.S. stocks has propelled them to the largest share of the global equity market of all time.



Source: FactSet, MSCI, J.P. Morgan Asset Management. Countries are represented by their respective MSCI index. Data are as of May 31, 2024.

Any particular asset class or region can go through a long period of overperformance or underperformance. While diversification helps reduce the risk of having too many eggs in the wrong basket – and has been proven to smooth out the ride – it can also be frustrating in the interim when so many categories trail in performance at the same time.

The following chart of annual asset class returns shows how most categories tend to revert to the mean over time. All too often, investors get burned when they chase yesterday's winners. Buying high is not a sustainable strategy. Studies indicate beginning valuations for an investment often offer the best prediction of future returns.

Asset class returns

GTM | U.S. | 60

2009-2023 Ann.	2009-2023 Vol.	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD
Large Cap 14.0%	Small Cap 21.9%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Comdty. 16.1%	Large Cap 26.3%	Large Cap 11.3%
Small Cap 11.3%	REITs 21.2%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	DM Equity 18.9%	DM Equity 7.5%
REITs 10.9%	EM Equity 20.3%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	High Yield -12.7%	Small Cap 16.9%	Comdty. 6.8%
High Yield 8.6%	DM Equity 18.4%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Fixed Income -13.0%	Asset Alloc. 14.1%	Asset Alloc. 4.4%
Asset Alloc. 8.1%	Comdty. 16.6%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	Asset Alloc. -13.9%	High Yield 14.0%	EM Equity 3.5%
DM Equity 7.4%	Large Cap 16.1%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	DM Equity -14.0%	REITs 11.4%	High Yield 2.8%
EM Equity 6.9%	High Yield 11.5%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	EM Equity 10.3%	Small Cap 2.7%
Fixed Income 2.7%	Asset Alloc. 11.5%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	EM Equity -19.7%	Fixed Income 5.5%	Cash 2.3%
Cash 0.8%	Fixed Income 4.5%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Cash 5.1%	Fixed Income -1.6%
Comdty. -0.2%	Cash 0.7%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	REITs -24.9%	Comdty. -7.9%	REITs -4.3%

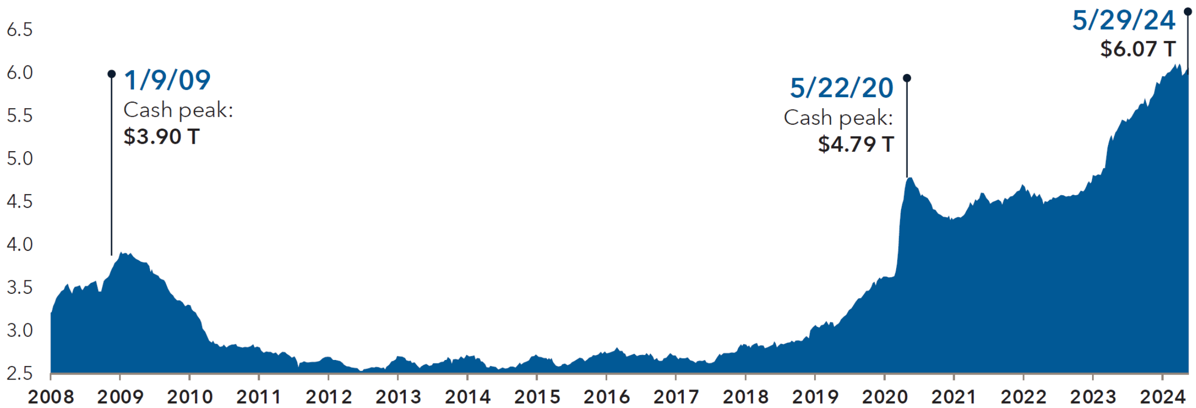
Savvy investors might note that large cap stocks have been all-too-popular investments, whereas real estate and fixed income have been out of favor. Bonds certainly look their most attractive in many years. Interest rate volatility and policy rate uncertainty have weighed on bond market performance this year, resulting in increasingly attractive yields. If the Federal Reserve starts cutting short-term rates as expected, most bonds will serve to gain in value.

We remain constructive on both stocks and bonds, and we are hopeful financial markets will broaden in the coming quarters. Corporate earnings continue to recover from the last recession, balance sheets are strong, unemployment is low, and inflation is trending down. We are now in the second year of a bull market – which is usually a productive time for stocks.

Moreover, there is a lot of cash on the sidelines that can make its way back into the market.

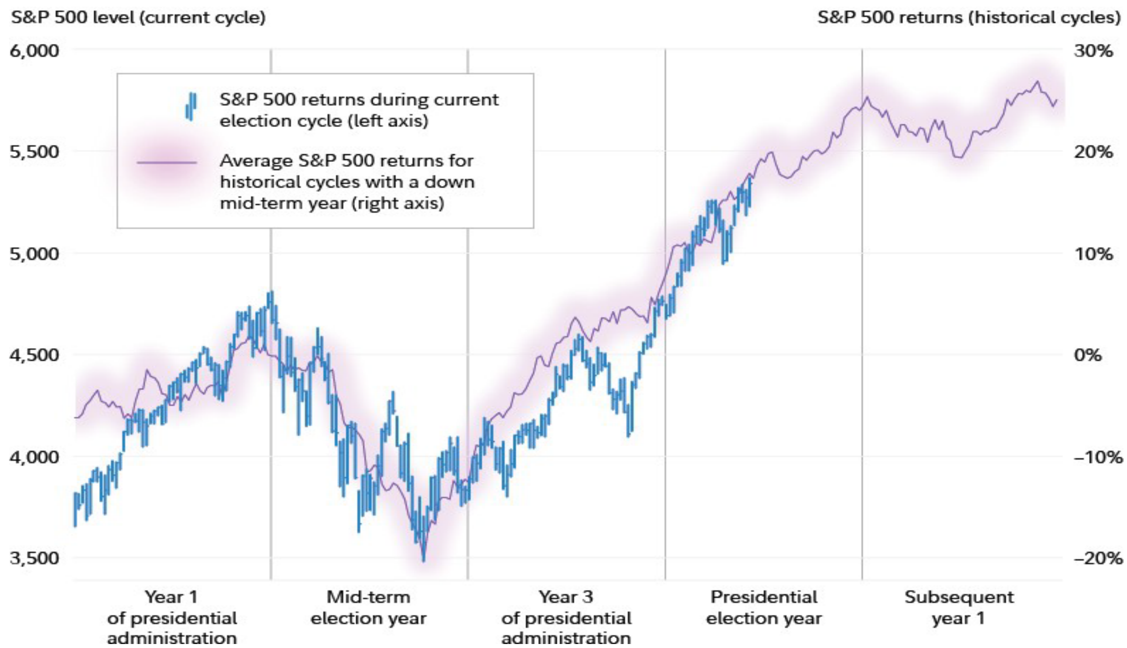
There are still mountains of cash on the sidelines

ICI Money Market Fund Assets (USD trillions)



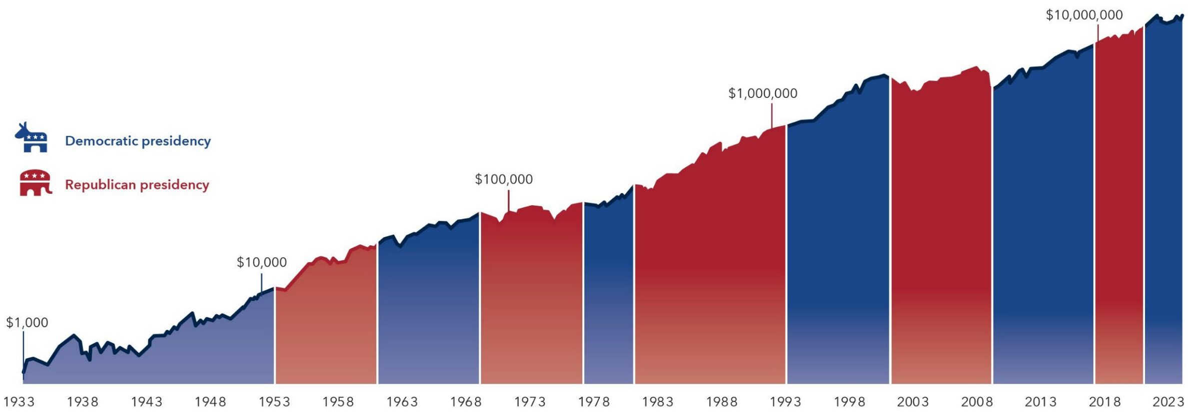
Financial markets might experience some volatility this year as voters size up the impact of the pending election. Investors don't like uncertainty. Ironically, stocks tend to do well during most election years, with the current cycle tracking remarkably close to historical trends.

Historical returns and the election cycle



Of further interest, while elections are certainly consequential, their historical impact on long-term investment results has been muted. Financial markets have tended to do well regardless of which party controls the White House. Investors who focus too much on possible negative outcomes usually miss out on gains.

Growth of a hypothetical $1,000 investment in S&P 500 Index



SOURCES: Capital Group, RIMES, Standard & Poor's. Chart shows the growth of a hypothetical $1K investment made on March 4, 1933 (the date of Franklin D. Roosevelt's first inauguration) through December 31, 2023. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale. Past results are not predictive of results in future periods.

Long-term results often require us to ignore both the pundits and the popular. A sound investment strategy also requires extra patience when markets are narrow. We believe in the long-term benefits of building and maintaining a diversified mix of quality investments. At some point, financial markets should become more inclusive, and gains should spread across more categories.