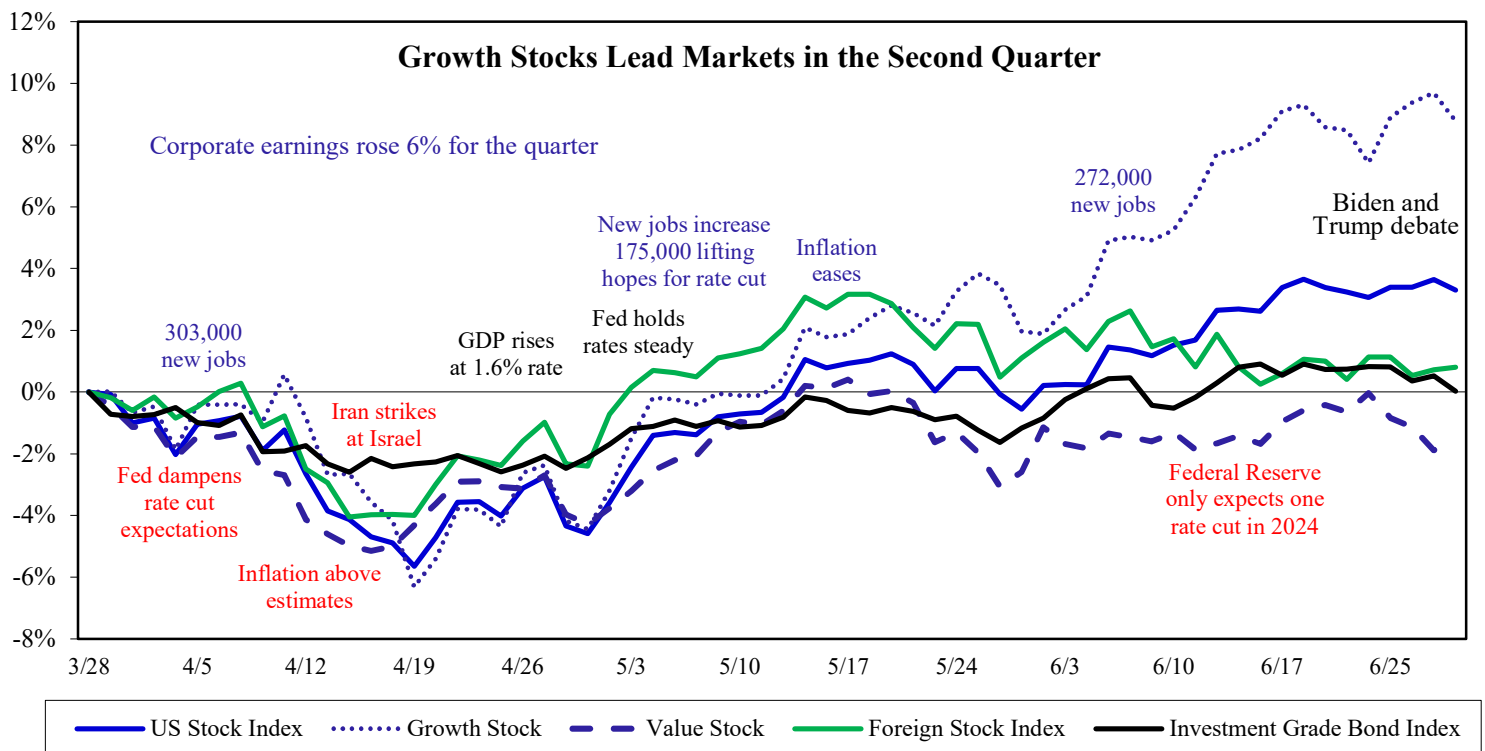


Economic and Financial Market Summary

Second Quarter 2024

After stocks and bonds fell in April, they rebounded in May and June as inflation showed signs of cooling. The higher-than-expected inflation earlier in the year appears to have been caused by seasonal effects. Lower inflation and more moderate growth in the economy and jobs market could allow the Federal Reserve to cut rates in September. This along with continued excitement about Artificial Intelligence (AI) boosted growth stocks. Well over 50% of the market's gains in 2024 came from just five companies (Nvidia, Alphabet, Amazon, Meta Platforms, and Microsoft). This narrow leadership worries some investors who want to see other companies join in the rally.

In the second quarter, the overall U.S. stock market rose 3% and growth stocks averaged a 9% return. Small-cap and value stocks declined slightly this quarter, and foreign stocks were basically flat partly because of election turmoil in Europe. High quality bonds were also flat, but junk bonds performed better as the solid economy means bankruptcies and defaults should not be a problem for many companies.



The meteoric rise of Nvidia and other stocks related to AI has some on Wall Street making comparisons to the dot-com bubble of 1999. The huge profits for these companies give a measure of reassurance that valuations are not as lofty, but U.S. stocks are still not cheap. S&P 500 companies trade at 21 times projected earnings compared to the 10-year average of 18 times. It will be important for the growth in earnings to meet the optimistic expectations of an 11% increase in 2024 and 14% jump in 2025.

Risks include global and political troubles, but financial markets often take these in stride since there are normally checks and balances to limit radical changes. A resurgence in inflation would greatly disappoint investors and the Federal Reserve could be slower to cut rates since financial conditions do not appear that tight. A sharp slowdown in the economy would also concern investors. If earnings increase broadly and interest rate cuts happen in 2024, the stock market rally could spread to small-cap companies that are more impacted by higher rates and value stocks that tend to be more economically cyclical. When stocks have a strong first half like this year, they usually continue to make gains in the second half too.