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MARKET REVIEW

› 2nd QUARTER 2024

EXECUTIVE SUMMARY

- US stocks continued their strong performance. The S&P 500 rose 4.3% for the period and 15.3% year-to-date, with growth continuing to outperform value sectors.
- International stocks had a positive quarter, rising 1.2%, with a year-to-date return of 6%. Emerging Markets surprised with a notable 5.1% gain for the quarter.
- Fixed Income remained uneventful as short-term interest rates held steady. Alternative asset classes had mixed results with Real Estate continuing to underperform for the year while Reinsurance and Corporate lending outperformed their respective benchmarks.

Quarterly Market Review

Preparing for Market Volatility: The Importance of Performing Lifeboat Drills

William Wang, CFP®
Managing Director

"One of the funny things about the stock market is that every time one person buys, another sells, and both think they are astute."
– William Feather

Franklin D. Roosevelt once said, "A smooth sea never made a skilled sailor." The analogy centers around the importance of overcoming adversity to achieve personal and/or professional growth.

In 2019, Fuel Your Inspirations published a personal reflection book that draws on historical accounts such as the harrowing tale of the Endurance expedition to Antarctica led by Sir Ernest Shackleton. The book highlights how the challenging circumstances of the expedition forged resilience, leadership, and skill in the crew — qualities that a smooth sea could never build. This inspiring narrative underscores the value of adversity in developing strength and capability, making it a powerful resource for personal growth and wisdom.

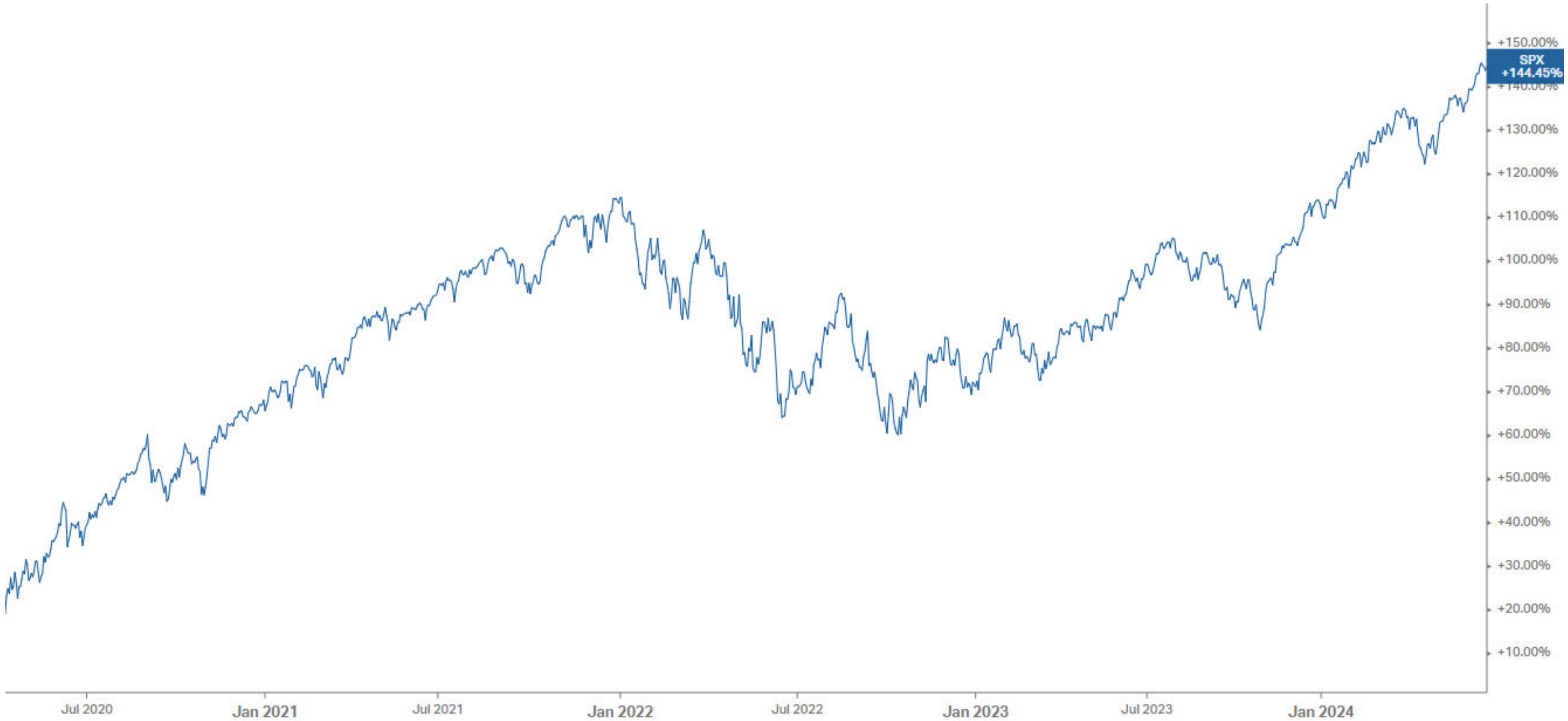
What does a smooth sea or skilled sailor have to do with the stock market? Much like the ocean tide, capital markets can ride extreme highs and lows. The longer and more experienced you are in the markets, the more understanding you are of its cyclicality and unpredictability. All investors inevitably experience turbulent years; the wise ones weather the storm, while the untested abandon ship. Nevertheless, these sharp changes don't occur often, allowing our collective attention to drift elsewhere, and this false sense of security can often lead to a lack of preparedness.

Overview:

Quarterly Market Review

Preparing for Market Volatility: The Importance of Performing Lifeboat Drills

Over the past four years, the S&P 500 has increased from 2,280 on March 16, 2020, to 5,469 on June 30, 2024 — a 140% increase during that timeframe or an approximate annual growth of 22%. In comparison, since March 2012 (after markets finally recovered to pre-2008 financial crisis levels), market returns have averaged approximately 11.91%. From 1929 to 2008, equity market returns were close to 9.5% per year. It is safe to say what we've experienced these past four years can be described as riding highs.



But what does riding a low look like? For many newer investors, this experience might seem foreign. So, let's take a brief walk down memory lane. From 1929 (pre-great depression era) to 2009 (post-financial crisis), bear markets have coincidently presented themselves, on average, about every four years. There have been 16 occurrences where the stock market declined over 20% in one period, so it's safe to say market volatility is an inevitable aspect of investing.

Quarterly Market Review

Preparing for Market Volatility: The Importance of Performing Lifeboat Drills

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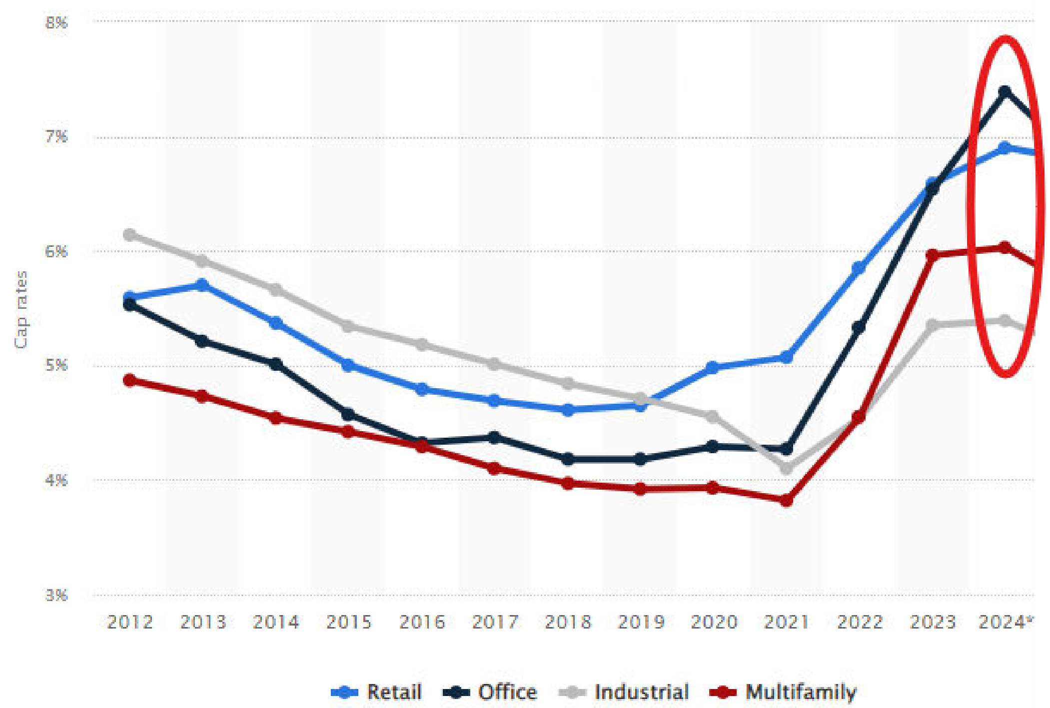
(1) BEAR MARKET	(2) TIME PERIOD	(3) % DECLINE
1	September 1929 - June 1932	87%
2	July 1933 - March 1935	34%
3	March 1937 - March 1938	55%
4	November 1938 - April 1942	46%
5	May 1946 - March 1948	28%
6	August 1956 - October 1957	21%
7	December 1961 - June 1962	28%
8	February 1966 - October 1966	22%
9	November 1968 - May 1970	36%
10	January 1973 - October 1974	48%
11	November 1980 - August 1982	27%
12	August 1987 - December 1987	33%
13	July 1990 - October 1990	20%
14	July 1998 - October 1998	21%
15	March 2000 - October 2002	49%
16	October 2007 - March 2009	57%
	Average	**38%**

See Bear Market White Paper written by HFG Director and Founder, Ty Haberling, CFP® 3Q 14

Stock prices can be driven by a multitude of factors, including economic data releases, geopolitical events, changes in monetary policy, and unexpected global crises. Equity valuations today are at near record highs (see CAPE and PB Slide), and the Federal Reserve has worked tirelessly to slow inflation and economic activity. Mathematically speaking, when risk-free rates (the rate of return on investments with no chance of loss) and cap rates rise significantly, as they have during this period, real estate and equity asset prices tend to take a hit.



Quarterly Market Review

Preparing for Market Volatility: The Importance of Performing Lifeboat Drills

If GDP is loosely used to measure our nation's economic productivity and the S&P 500 used to approximate the market price of corporate America, it wouldn't take an economist to see something is out of balance.

Experience shows that markets are cyclical, experiencing periods of high volatility followed by stability and growth. Recognizing this cyclical nature is essential for investors to avoid panic during volatile times. Remember, skilled sailors don't jump overboard. One of the biggest challenges the stock market presents is the emotional stress of just not knowing what exactly triggered the recession or decline. This unknown fear and anxiety can lead to impulsive decisions, such as selling off assets at a loss or deviating from a long-term investment strategy, which is the worst mistake an investor can make. Performing financial lifeboat drills helps all of us mentally prepare for what inevitably lies ahead.

At HFG, we can't emphasize enough how important it is to work with your financial advisor on setting clear guidelines and strategies *before* these events occur. Just as lifeboat drills prepare individuals for emergencies at sea, financial lifeboat drills prepare investors for market downturns.

Preparing for Market Volatility: The Importance of Performing Lifeboat Drills

A financial lifeboat drill involves a series of proactive steps and strategies designed to prepare an investor for market downturns. These drills help ensure that investors have a well-structured plan in place, reducing the likelihood of panic-driven decisions. Here are the key components to being prepared:

Diversification - Diversification is a fundamental principle of risk management. By spreading investments across different asset classes, sectors, and geographic regions, you can reduce the impact of a downturn in any single market. During a lifeboat drill, you should review your portfolios to ensure they are adequately diversified. This includes evaluating the allocation to stocks, bonds, real estate, alternatives, and other assets to minimize risk, as well as US, International, and Emerging Markets.

Asset Allocation - Asset allocation involves determining the right mix of assets based on your risk tolerance, time horizon, and financial goals. Regularly reassessing asset allocation is crucial, especially before anticipated periods of volatility. All investors should consider rebalancing their portfolios to maintain the desired level of risk and ensure that their investments align with their long-term objectives.

Emergency Fund - Having an emergency fund and appropriate level of liquidity is essential for financial stability. It provides a cushion during market downturns, reducing the need to sell investments at a loss to cover unexpected expenses. A lifeboat drill should include assessing the adequacy of the emergency fund, ensuring it covers at least three to six months' worth of living expenses or working capital for business operators.

Stress Testing Your Portfolio - Stress testing involves evaluating how a portfolio would perform under different market scenarios. This helps you understand the potential impact of extreme market conditions on your investments. During a lifeboat drill, you should work with your financial advisor to simulate tests to identify vulnerabilities in your portfolio and make necessary adjustments to mitigate risks.

Reviewing Investment Goals and Time Horizon - Market volatility can challenge your commitment to your financial goals. A lifeboat drill should involve revisiting these goals and reassessing the time horizon for each investment. Long-term goals, such as retirement, may tolerate more volatility, while short-term goals may require a more conservative approach.

Setting Pre-Defined Rules for Action - Having predefined rules for action during market volatility can prevent emotional decision-making. This includes establishing criteria for rebalancing and determining thresholds for buying or selling assets. For those who have liquidity, explore adding to the portfolio during down markets and shifting your focus from the temporary losses to long-term gains. Keep in mind, if you are contributing to your 401(k) or 403(b) plans, you are systematically adding dollars as asset prices decline.

Staying Informed and Educated - Knowledge is a powerful tool in navigating market volatility. You should stay informed about economic indicators, market trends, and geopolitical events. You should also remember that the relationship between economic performance and market performance is not one-to-one. Discussing portfolio risk and how different asset classes might perform in emergency situations is a far better investment of time. For example: Short-term high-quality bonds tend to provide stability, while intermediate and longer-term bonds see price appreciation if rates fall and vice versa if they rise. Stocks provide strong returns in bull markets; they also fall the sharpest during uncertain times. Alternative asset classes can provide predictable income yield and uncorrelated behavior if underwritten appropriately.

Conclusion

Much like bad weather for a sailor, market volatility is a reality that all investors must face. By performing financial lifeboat drills, you can prepare yourself mentally and strategically for turbulent times. Diversification, asset allocation, stress testing, and setting predefined rules are all critical components of these drills. Understanding the broader economic context and staying informed are also essential for making informed decisions. Ultimately, the goal of a lifeboat drill is to build resilience and confidence, enabling you to navigate through market volatility without succumbing to fear and panic. By being well-prepared, you can stay focused on your long-term goals and make rational decisions that support your financial well-being.

Long-Term Market Summary

Index returns as of June 30, 2024

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
1 Year	23.13%	11.22%	12.55%	5.10%	2.63%	5.26%
5 Years	14.14%	6.55%	3.10%	0.65%	-0.23%	0.51%
10 Years	12.15%	4.27%	2.79%	2.94%	1.35%	2.45%

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]).

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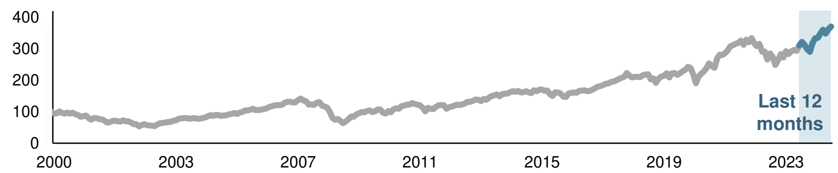
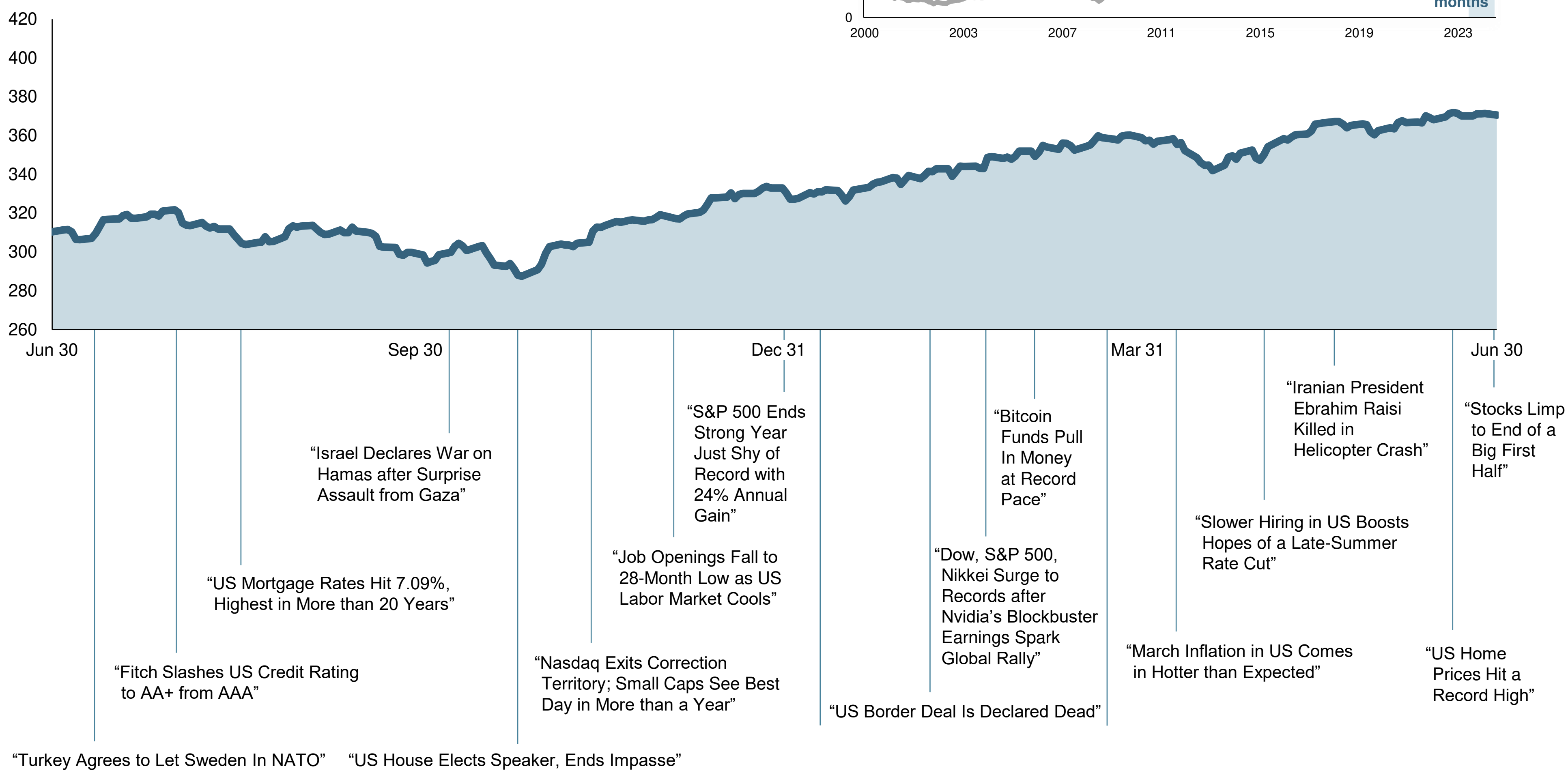
World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months

LONG TERM (2000–Q2 2024)



SHORT TERM (Q3 2023–Q2 2024)



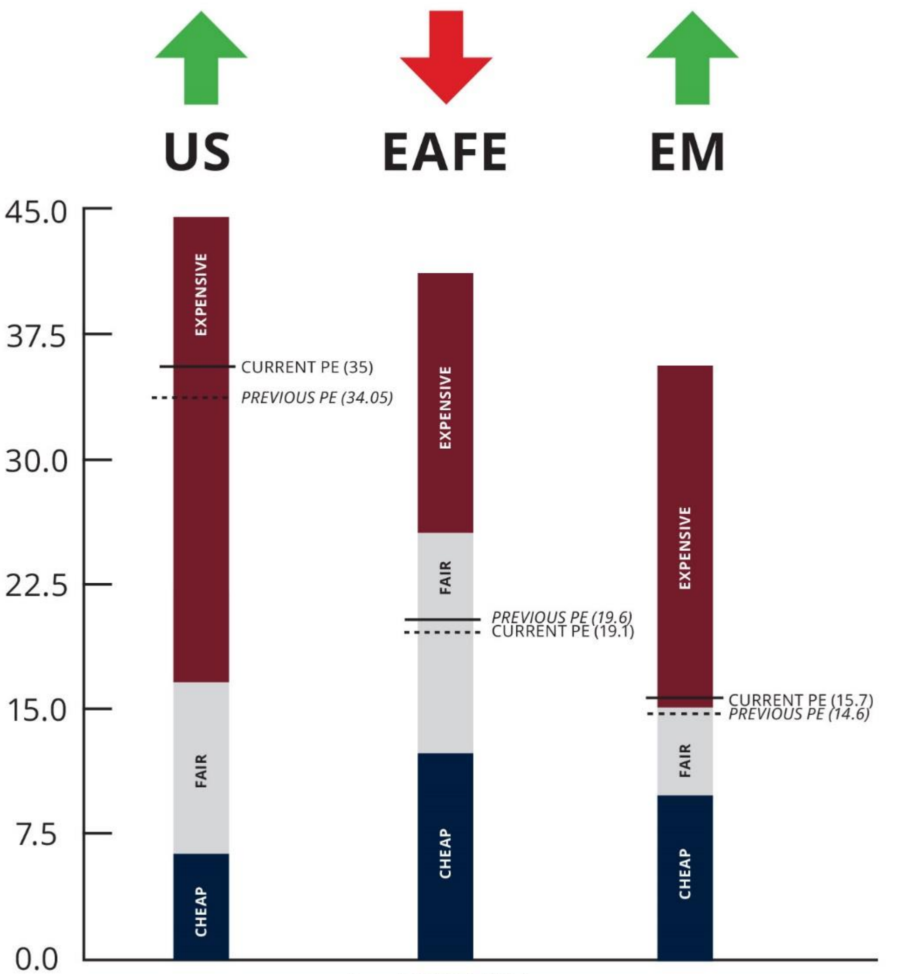
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

Global Valuations

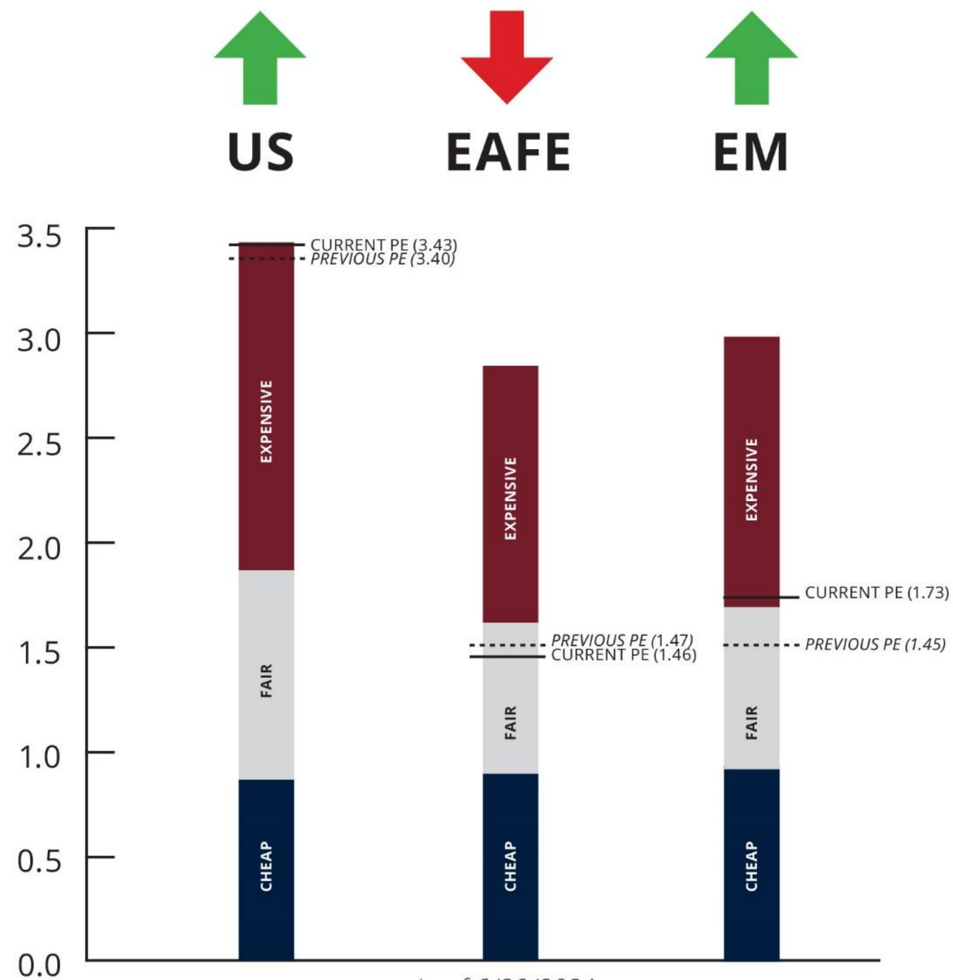
What is the Investment Climate?

Price-to-Earnings (CAPE)



As of 6/30/2024

Price-to-Book Value



As of 6/30/2024

Cyclically Adjusted Price-to-Earnings or “CAPE” is a valuation metric, where the current market price is divided by the last ten years of average earnings (adjusted for inflation). The price you pay is what you get, and by utilizing average earnings over a longer period (10 years), we can put into perspective whether the current market price is trending toward expensive, undervalued, or fairly valued historically.

US Stocks

Second Quarter 2024 Index Returns

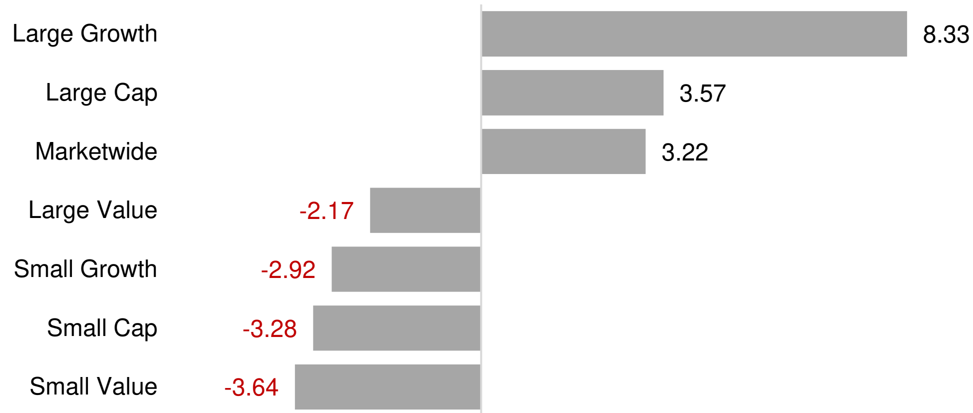
The US equity market posted positive returns for the quarter and outperformed non-US developed markets but underperformed emerging markets.

Value underperformed growth.

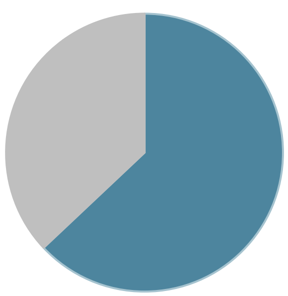
Small caps underperformed large caps.

REIT indices underperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



63%

US Market

$52.1 trillion

Period Returns (%)

				Annualized		
Asset Class	QTR	YTD	1 Year	3 Years	5 Years	10 Years
Large Growth	8.33	20.70	33.48	11.28	19.34	16.33
Large Cap	3.57	14.24	23.88	8.74	14.61	12.51
Marketwide	3.22	13.56	23.13	8.05	14.14	12.15
Large Value	-2.17	6.62	13.06	5.52	9.01	8.23
Small Growth	-2.92	4.44	9.14	-4.86	6.17	7.39
Small Cap	-3.28	1.73	10.06	-2.58	6.94	7.00
Small Value	-3.64	-0.85	10.90	-0.53	7.07	6.23

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Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Value (Russell 1000 Value Index), Large Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Value (Russell 2000 Value Index), and Small Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market.

International Developed Stocks

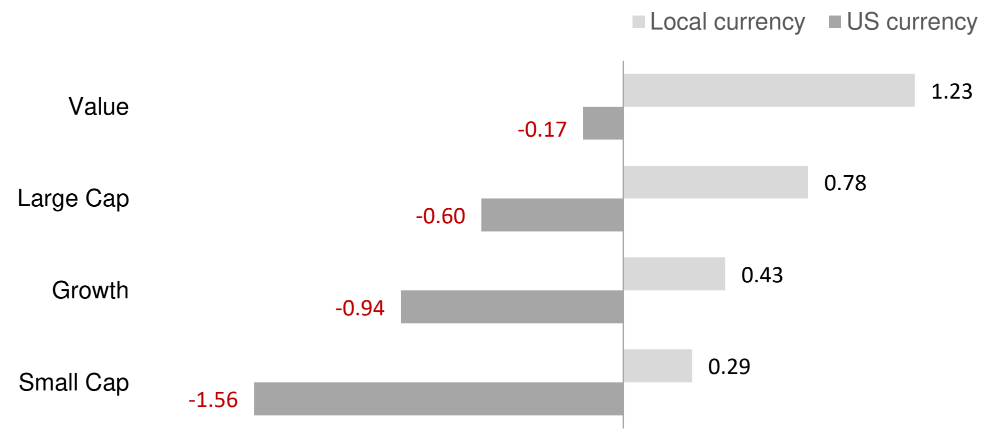
Second Quarter 2024 Index Returns

Developed markets outside of the US posted negative returns for the quarter and underperformed both US and emerging markets.

Value outperformed growth.

Small caps underperformed large caps.

Ranked Returns (%)

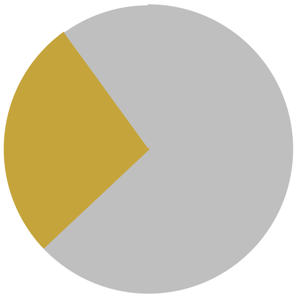


World Market Capitalization—International Developed

26%

International Developed Market

$21.4 trillion



Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized 3 Years	Annualized 5 Years	Annualized 10 Years
Value	-0.17	4.03	13.17	5.45	6.21	3.06
Large Cap	-0.60	4.96	11.22	2.82	6.55	4.27
Growth	-0.94	5.91	9.36	0.02	6.46	5.23
Small Cap	-1.56	0.98	7.80	-2.98	4.69	4.04

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Market segment (index representation) as follows: Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI World ex USA IMI Index is used as the proxy for the International Developed market.

Emerging Markets Stocks

Second Quarter 2024 Index Returns

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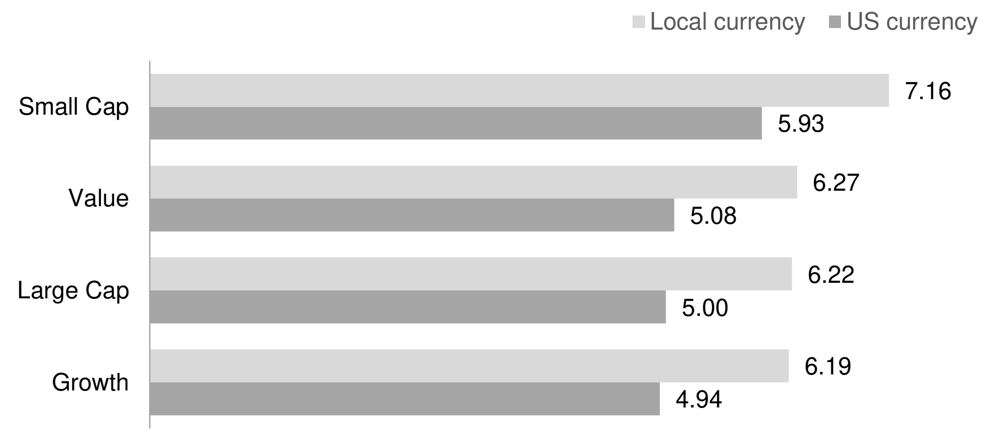
Emerging markets posted positive returns for the quarter and outperformed both US and non-US developed markets.

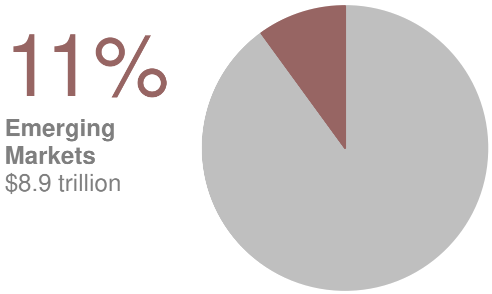
Value outperformed growth.

Small caps outperformed large caps.

Ranked Returns (%)



World Market Capitalization—Emerging Markets



Period Returns (%)

				Annualized		
Asset Class	QTR	YTD	1 Year	3 Years	5 Years	10 Years
Small Cap	5.93	7.04	20.04	2.54	9.99	5.15
Value	5.08	6.46	14.13	-1.09	2.91	1.96
Large Cap	5.00	7.49	12.55	-5.07	3.10	2.79
Growth	4.94	8.45	11.08	-8.70	3.18	3.51

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Fixed Income

Second Quarter 2024 Index Returns

Interest rates generally increased in the US Treasury market for the quarter.

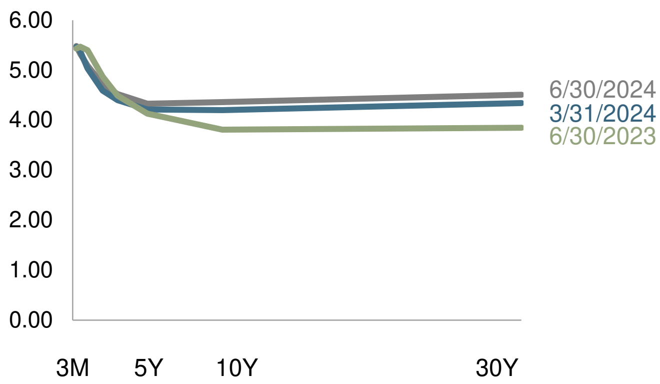
On the short end of the yield curve, the 1-Month US Treasury Bill yield decreased 2 basis points (bps) to +5.47%, while the 1-Year US Treasury Bill yield increased 6 bps to +5.09%. The yield on the 2-Year US Treasury Note increased 12 bps to +4.71%.

The yield on the 5-Year US Treasury Note increased 12 bps to +4.33%. The yield on the 10-Year US Treasury Note increased 16 bps to +4.36%. The yield on the 30-Year US Treasury Bond increased 17 bps to +4.51%.

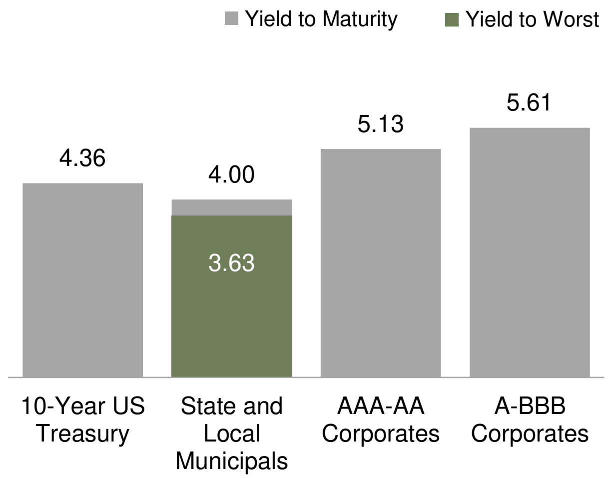
In terms of total returns, short-term US treasury bonds returned +0.77% while intermediate-term US treasury bonds returned +0.58%. Short-term corporate bonds returned +0.96% and intermediate-term corporate bonds returned +0.74%.[1]

The total returns for short- and intermediate-term municipal bonds were +0.35% and -0.92%, respectively. Within the municipal fixed income market, general obligation bonds returned -0.30% while revenue bonds returned +0.07%.[2]

US Treasury Yield Curve (%)



Bond Yield Across Issuers (%)



Period Returns (%)

				Annualized		
Asset Class	QTR	YTD	1 Year	3 Years	5 Years	10 Years
ICE BofA US 3-Month Treasury Bill Index	1.32	2.63	5.40	3.03	2.16	1.51
ICE BofA 1-Year US Treasury Note Index	1.11	1.95	5.02	1.80	1.69	1.36
Bloomberg U.S. High Yield Corporate Bond Index	1.09	2.58	10.44	1.64	3.92	4.31
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.87	1.13	4.84	0.38	1.03	1.43
Bloomberg U.S. TIPS Index	0.79	0.70	2.71	-1.33	2.07	1.91
Bloomberg U.S. Aggregate Bond Index	0.07	-0.71	2.63	-3.02	-0.23	1.35
Bloomberg Municipal Bond Index	-0.02	-0.40	3.21	-0.88	1.16	2.39
FTSE World Government Bond Index 1-5 Years	-0.06	-1.41	2.43	-2.73	-0.79	-0.78
Bloomberg U.S. Government Bond Index Long	-1.80	-4.99	-5.55	-10.45	-4.24	0.60

1. Bloomberg US Treasury and US Corporate Bond Indices.
2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). Bloomberg data provided by Bloomberg.