

Portfolio Manager



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Senior Portfolio Manager

Top Contributors as of June 30, 2024

Company Name	Avg. Weight (%)	Contribution to Return (%)
SPDR Portfolio S&P 500 ETF	43.52	1.52
Vanguard FTSE All-World ex-US Small-Cap ETF	11.44	-0.15
iShares Core MSCI Total International Stock ETF	25.95	-0.13

Top Detractors as of June 30, 2024

Company Name	Avg. Weight (%)	Contribution to Return (%)
iShares Core S&P Small Cap ETF	17.39	-0.43

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period and the last 12 months, contact PortfolioAnalytics@ccmg.com.

Technology Triumphs and Mega-Cap Growth Leads

Market Review

After a strong first quarter, equities continued their advance in the second quarter, but the group of winners narrowed dramatically in late May and June. Markets experienced their first 5% correction of the year in April as higher interest rates began to bite, but after the 10-year Treasury yield halted at 4.75% at the end of April, markets promptly took off again.

While May's rally was led by mega-cap Technology and growth stocks, broader segments of the market also participated in the same fashion. However, at the end of May, the market's character changed, and large-cap growth continued higher as they delivered strong earnings. Buying fervor also continued towards members of the AI ecosystem.

Meanwhile, large-cap value, mid-cap, and small-cap stocks peaked in price. While in aggregate their prices have only stalled, their relative performance collapsed. Between May 15th and June 30th, while the NASDAQ 100 (QQQM) gained 6.0%, the S&P 500 (which has three times as much large-cap growth as large-cap value) was up 3.1%; in contrast, both mid-cap (IJH) and small-cap (IJR) stocks both declined 3.5%.

All of this occurred while interest rates were generally declining, a condition that is often positive and necessary for market breadth. Lower interest rates coincided with a moderating job market and weakening consumer data. While many industrial and consumer-driven industries struggled to deliver earnings, Technology delivered again, and investors in search were only left to pursue mega-cap growth and little else. Thus, while the S&P 500 delivered a strong 4.3% gain for the quarter and 15.3% for the year, other areas of the U.S. equity markets were much in line with muted broad international equity returns.

Second Quarter Portfolio Highlights

- Last fall, our models turned positive after interest rates turned downwards, and on November 6th, the Global Tactical portfolios moved to a risk-on stance owning equities where the portfolio remains at the end of the second quarter. Equities have enjoyed substantial gains since then; and since taking a risk-on stance in early November, the S&P 500 (SPLG) has dominated in its leadership, soaring 26.3%, while small-caps (IJR) have risen 15.4%. Broad international equities have similarly risen 15.3%, and international small-caps are up 14.0%. In contrast, broad Treasuries (GOVT) are up 4.4%, while cash equivalents (SHV) are up 3.4%.
- The stunning performance of U.S. large-cap growth stocks has driven that segment of the market to valuation extremes. The NASDAQ 100's forward P/E has risen to 28.0, which is at the very high end of historical ranges, which we believe makes it vulnerable to a larger drawdown. However, the S&P Small Cap Index only has a forward P/E of 15.2, which is not out of line and in the middle of its range. Thus, while large-cap growth does present more extreme potential for a downside correction, broader markets are not out of line and are nowhere near bubble territory.
- Treasury rates have been rising for most of 2024, but in May, the 10-year Treasury yield broke an uptrend line; and while our models do not yet favor Treasuries as the defensive vehicle of choice, we expect that very well could become the case. This would naturally make sense, since markets are beginning to price in now two Fed rate cuts before the end of the year.

Past performance is not indicative of future results.

This is not a recommendation to buy or sell a particular security. Please see attached disclosures.



Positioning and Outlook

The quantitative models that drive the Global Tactical portfolio allocations examine trends in credit markets to determine whether risk-taking is being rewarded or punished. The corporate credit backdrop has been very positive for all of 2024, and spreads have been below 3% at historically tight levels for much of the first half and remain well controlled.

As a result, our models have favored equities and risk-facing assets for all of 2024, and we would expect to maintain that stance over the intermediate-term. The great majority of market gains have been concentrated among mega-caps to the extent that at the end of the second quarter the ten largest S&P 500 companies comprise 37% of the index. The market's three growth sectors: Technology, Telecommunications Services, and Consumer Discretionary now comprise 52% of the S&P 500 – the most since early 2000.

This has pushed mega-cap valuations to stretched and concerning levels, while broader market valuations are within broadly normal historical ranges. Looking forward, one question will be whether the market has rallied earlier than in past election years.

Either way, markets have enjoyed a sustained rally since the end of 2022, and this long period of optimism has left them vulnerable to disappointment. This may be particularly true among the recent leaders and stellar performers. Earnings growth for the third and fourth quarters are expected to be 20%, and such lofty levels could be revised downward, an event that is very frequent in September and October as companies provide their initial outlooks for the upcoming year.

Recent election years have featured sustained periods of weakness up into election day, and our best guess is that this year will be no different. Large caps, in particular, have surged and are more vulnerable to a sizeable correction. It may even take some time for the final election results to be known, and volatility could ensue. However, it is important to remember that such a decline has historically been fear and sentiment-based, and not based on weakening fundamentals. Once the election results finally became known, markets have staged vigorous and sustained rallies.

That could well be the case again. Our models focus on credit markets and the underlying fundamentals that drive them to assess the broader risk environment. Right now, we see very few problems on the horizon. We would not be surprised that weakness could turn our models defensive as autumn approaches. However, market history surrounding elections and our broad macroeconomic view would hold that any volatility that we see in the second half of the year would be driven by sentiment and fear and therefore tactical in nature. Thus, volatility could very well could present a buying opportunity.

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Equity stocks of small and mid-cap companies carry greater risk, and more volatility than equity stocks of larger, more established companies.

The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

High Yield Corporate Bond Index is designed to track the performance of U.S. dollar-denominated, high-yield corporate bonds issued by companies whose country of risk use official G-10 currencies, excluding those countries that are members of the United Nations Eastern European Group (EEG).

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 80% of U.S. equities.

The Nasdaq-100 is a stock market index made up of 101 equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange.

A small-cap ETF is a type of exchange-traded fund that invests in small companies whose value is less than \$2 billion

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