LEGACY BRIDGE
PRIVATE FAMILY OFFICES

2024 Mid-Year Market Outlook **As of June 30, 2024**

Executive Summary

For the first 6-months of this year, global equities rallied 10.3%, as measured by the MSCI All-Country World Index. Consistent with all of 2023, strength continued to come from large-cap US stocks. Mid and Small-Cap US shares, and non-US stocks, while all positive, underperformed the broader market.

- Coupled with the ongoing strength in the Artificial Intelligence (AI) trade, a more resilient consumer in the U.S. fueled by improving real wages and continued low unemployment has led to strength in the S&P 500, which led all other major indices in the period, rising 15.3%.
- With the market now anticipating 3 rate cuts for the remainder of 2024, we believe rates will be higher-for-even-longer and are expecting just one cut this year due to the stickiness of inflation in the 3% range.
- Within equities, we have been increasing our positioning in Mid and Small-Caps, as well as certain attractive opportunities in non-US equities, to take advantage of a broadening of the market and a weakening US dollar.
- Within Fixed Income, we continue to take advantage of the higher interest rates and extending maturities.

2024 Year-to-Date Global Markets in Brief

For the first 6-months of this year, global equities rallied 10.3%, as measured by the MSCI All-Country World Index. Consistent with all of 2023, strength continued to come from large-cap US stocks. Mid and Small-Cap US shares, and non-US stocks, while all positive, underperformed the broader market.

US Markets continued Buoyed by Mega-Cap Tech

US Large-Cap Equities

At the mid-point of 2024, the S&P 500 led all markets with a gain of 15.3%, YTD. For the second quarter, the S&P rose 4.3%. In our pervious Legacy Bridge Outlook we published in early January, we expected markets to see a higher degree of volatility in the first half of this year. Market expectations at the turn of the year were for six Fed rate cuts in 2024 beginning at their March meeting. However, we expected two-to-three rate cuts given the stickiness of inflation and wage growth, and ongoing strength in the jobs market. Notably, we were correct on this. Inflation has continued to remain well above the 2% Fed target, while unemployment has remained below 4%. As of this writing, market expectations are now for one-to-two rate cuts this year. The 10-year US Treasury yield has gone from 3.81% at the end of 2023 to 4.34%. With interest rates rising, and expectations for 6 cuts dashed, we would have expected heightened volatility in the equity markets. To the contrary, equity markets, particularly US Large-Caps, have done quite well, breaking historical highs on a number of occasions for a couple reasons:

- **Earnings:** Earnings growth for the S&P 500 in the first quarter was a solid 6.0%. As we enter the 2Q earnings reporting period, market expectations are for a 8.3% earnings increase, year-over-year. Wage growth of 4.1% at the end of May has outpaced the level of inflation (CPI of 3.3%), allowing companies to pass on price increases. Coupled with the low level of unemployment this has helped to create the stickiness of inflation and has led to solid GDP growth of 1.5% in the first quarter with expectations of second quarter growth of around 2%.
- **Artificial Intelligence:** AI and the companies driving this initiative have continued to propel the market higher in the first half of 2024. Nvidia (Ticker: NVDA), clearly the leader in the space, has garnered a 149.5% increase in its share price this year and has accounted for roughly 10 percentage points of the S&P 500 return so far this

year. While in 2023, a CEO would just mention "AI" during their earnings call and get a "pop" higher in their share price, it has now migrated to tie the company in some way to Nvidia, or Nvidia's CEO Jenson Huang.

Mid and Small-Cap Equities Faced Interest Rate Headwinds

Mid and small-cap stocks rose 5.0% and 1.7%, respectively, in the first six months of this year underperforming the S&P 500. These companies tend to be more interest rate-sensitive due to funding needs, so the increase in interest rates during the period was a hinderance. While Small-Caps rallied in March, it was short-lived as inflation and a hawkish Fed squelched enthusiasm.

A strengthening US Dollar Created a Headwind for Non-US Markets

The higher interest rates in the US and rate cuts by central banks in Canada, Switzerland and Europe late in the second quarter led to a stronger US dollar in the first half of 2024. During the period, the US Dollar increased 4.4% creating a headwind for non-US equities. For the first 6-months of the year, International Developed equities gained 5.3%. Strength in Japan (+6.4%) on the heels of increased government spending and export growth was a primary contributor. Modest growth in Europe, with negative earnings revisions, has weighed on results in many of the European markets.

Emerging Markets—Country Exposures Continued to Matter

Emerging Market equities rose a solid 7.5% through June 30, but much like International Developed, it matters what stocks and what countries you are in. Performance has been led by some of the largest countries in the Index, with Taiwan up 29.4% in the period on the ongoing strength of Taiwan Semiconductor (Ticker: TSM). India, the fastest growing economy across the emerging markets, rallied 16.9%. India is also the most populous country with attractive demographics and a business-friendly government that is beginning to attract some of the largest consumer and manufacturing multi-national companies who may be shifting their attention from China. China underperformed the broader index, up 4.7% in the period as conflicting economic data and geopolitical tensions have held investors back despite historically cheap valuations.

Fixed Income

Fixed income fell 2.2% in the period. Bonds have struggled as inflation lingered, leading to a hawkish Fed and "higher-for-even-longer" concerns. However, this has provided us with more opportunity to pick up attractive yields and extend maturities in Legacy Bridge portfolios.

+ + + + + + +

2024 Mid-Year Outlook and Asset Allocation Summary

The US economy has shown more resilience and stamina than most people expected when the Federal Reserve started raising interest rates in March 2022. With rate hikes all but done, and expectations of the next Fed move to lower rates later this year, this has created at least a marginal easing in the marketplace and has provided a path for solid economic growth and a reacceleration of corporate earnings. We are cautiously optimistic that this trend of earnings and economic growth will continue for the next few quarters fueled by a more resilient consumer that is benefiting from the "wealth effect" created from appreciated assets, markets and rising real wages. We expect inflation to remain above the Fed's 2% target for the foreseeable future and that we will see one rate cut in the second half of this year versus the three expected by the market. While this could create some market volatility, we believe the earnings growth and the ongoing excitement around Artificial Intelligence will continue to prop up the US equity markets.

LEGACY BRIDGE
PRIVATE FAMILY OFFICES

2024 Mid-Year Market Outlook **As of June 30, 2024**

Rates Will Likely Stay Higher-for-Longer

At the beginning of this year, the market was pricing in six Fed rate cuts in 2024. At the time, we thought this was too aggressive, citing the stickiness of inflation, as we forecast 2-3 cuts beginning in June. While we were correct in calling the markets' over-optimism, we have updated our outlook for Fed rate cuts for the balance of this year. The markets are currently pricing in three Fed Fund rate cuts beginning in September, and we believe even that is too aggressive. Our outlook for interest rates is that they will stay higher-for-longer, with only one rate cut as the Fed simply is not done fighting inflation. Further, over the longer-term, we are expecting the fed funds rate to be within the range of 4.00% - 4.25% for the next three to five years. We believe this to be the case for the following reasons:

1. **A Resilient Consumer:** As we discuss below, a combination of positive real wages, low unemployment and the "wealth effect" caused by rising capital markets and home prices are expected to continue to buoy inflation.
2. **Deglobalization:** The global trend toward reshoring is inflationary. Any potential future tariffs or trade wars will likely only exacerbate the situation.
3. **The Energy Transition:** Energy transition is costly. In addition to spending on new technologies, we must also rewire the existing grid. Both are inflationary.
4. **The US Fiscal Deficit:** Higher fiscal deficits mean higher borrowing needs to finance them.

The Consumer Stays Resilient

We know rate hikes are having an impact on various borrowers. While higher interest rates and inflation tends to hit those on the lower third of the income spectrum the most, the impacts have not crept much in to the higher income brackets. Thus, we expect consumer spending to continue to fuel mediocre economic growth of around 1.5% in the second half of this year. Even though consumers with a lot of debt are being negatively impacted by higher interest rates, the "wealth effect" is more than compensating for the negative effects of rising rates. The stock market is up, hitting record highs seemingly on a weekly basis, while home prices continue to rise. Fixed income cash flows have also improved. Absent a shock to the economy, we believe these factors will be a tailwind to consumer spending over the coming quarters.

As mentioned earlier, wage growth of 4.1% at the end of May has outpaced the level of inflation (CPI of 3.3%), allowing companies to pass on price increases. This has led to solid earnings growth, with analysts estimating an earnings increase of 8.3% in the second quarter, while earnings growth is estimated to be 11.3% for the full year. We believe this will be the continued driver for the S&P 500 in the second half of this year, and why we remain cautiously optimistic about US equities.

Artificial Intelligence (AI) Will Continue to Dominate the Global Investment Landscape

Even though today's parallels to the tech bubble exist, we believe there are meaningful differences between then and now. The artificial intelligence AI associated companies of today are making sustained profits while generating strong cash flow, while most of the dot.com darlings in the late 1990's did not. Analysts are projecting second quarter earnings growth in AI technology to be a robust 14% and 18% for the AI-associated companies (Google and Meta) in the communications services sector.

In our opinion, we continue to be in the early phase of this technology revolution, which essentially includes the basic building blocks of semiconductors, hardware, and cloud infrastructure. The semiconductor space has been clearly an early-stage winner, with digital and data hardware emerging late in the first half of the year. Software has been the laggards, and we have begun positioning Legacy Bridge portfolios there.

LEGACY BRIDGE
PRIVATE FAMILY OFFICES

2024 Mid-Year Market Outlook **As of June 30, 2024**

Non-US Equities Look Relatively Attractive as a Weakening US Dollar Gets Underway

In our outlook for 2024 from the beginning of this year, we were calling for the US dollar to weaken, specifically in the second half of this year. At present, we believe the US dollar is now entering a down cycle, which will have positive implications for non-US equities. As interest rates rose in the first half of 2024, the US dollar index gained 4.4% moving from 101.38 at the beginning of this year to 105.85 at the end of June. With our expectation of lower inflation, a slowing economy, and a more dovish Fed in the second half of the year, this should help to pull the dollar lower. In addition, we would expect the record fiscal deficit to further pressure the dollar as this would serve to depress economic growth, pushing the dollar down even further. This would provide a tailwind for international stocks as, historically, a weaker dollar has played a critical role in the performance of non-US stocks.

The Legacy Bridge Path Forward

- Within US equities, the Legacy Bridge Investment Team continues to opportunistically increase exposure to Mid and Small-Caps as the Fed prepares to cut rates. We are funding this by trimming our exposure to Large-Caps from an over-weighting to an even-weighting, focusing on new opportunities in Large-Caps, where valuations relative to growth prospects are more attractive.
- With the dollar expected to weaken in the second half of the year we are also constructive on non-US equities, with a focus on emerging markets where valuation discounts relative to the US are at historic highs. We remain mindful of country exposures and continue to be cautious on China, as well as certain European exposures.
- The “higher-for-even-longer” environment that we correctly called at the end of last year has continued to allow us to lock in higher yields through the first half of 2024, while extending maturities on our fixed income investments. With the possibility of Fed rate cuts on the horizon, and credit spreads on more risky credits narrow, we see better opportunity in the more defensive areas, particularly US agencies to take advantage of attractive yield in those securities.
- We remain cautious on real estate. We do see some selective opportunities in industrial, multi-family, and retail, but are avoiding commercial office building REITs given the ongoing post-COVID work-from-home environment.
- For commodities, we have increased exposure within our equity holdings to the energy and industrial metals complex.
- Alternatives serve a purpose in the portfolio as a diversifier and a hedge against the downside. While we are cautiously optimistic for the capital markets in the second half of this year, we remain even-weighted on alternatives.

Legacy Bridge embraces independent thinking in pursuit of uncommon results and the delivery of an exceptional client experience. We welcome your thoughts and questions and would be pleased to share a conversation with you.

We are grateful for your trust and confidence and are committed to continuing to earn it.

Tim Kadlec
Chief Investment Officer

Steve Musser, CFA®
Senior Investment Strategist

LEGACY BRIDGE
PRIVATE FAMILY OFFICES

2024 Mid-Year Market Outlook **As of June 30, 2024**

DISCLOSURES

The information presented is the opinion of Legacy Bridge, LLC., and does not reflect the view of any other person or entity. The information provided is believed to be from reliable sources, but no liability is accepted for any inaccuracies. This is for information purposes and should not be construed as an investment recommendation. The opinions expressed are subject to change without notice. Reliance upon information in this material is at the sole discretion of the reader. This information is not intended to be complete or exhaustive and no representations or warranties, either express or implied, are made regarding the accuracy or completeness of the information contained herein. This material may contain estimates and forward-looking statements, which may include forecasts and do not represent a guarantee of future performance. Past performance is no guarantee of future performance. Investing involves risks. Legacy Bridge LLC., is an investment adviser registered with the U.S. Securities and Exchange Commission.

The S&P 500 generally represents performance of 500 large companies listed on exchanges in the U. S. It is one of the most commonly followed equity indices. The MSCI ACWI captures Large and Mid-Cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. With 2,921 constituents, the index covers approximately 85% of the global investable equity opportunity set. FactSet Research System is a financial data and software company that provides research for Wall Street professionals and individual investors.

# # #