Q2 2024

Quarterly Market & Economic Perspective

Keeping a Balanced Approach

SUMMARY

- Stocks and bonds all had mixed results during Q2.A global portfolio of 60% stocks/40% bonds has already gained 6.7% YTD through June.
- Fed continued to pause but not pivot, keeping rates at the 5.25-5.5% level they set in July 2023.
- You may have heard, there is an election coming in November...

POSITIVE SIGNALS

- Unemployment had been < 4% for 30 consecutive months; it increased to 4.1% in June.
- Growth (GDP) in US still solid.
- The May CPI report was a step in the right direction in the inflation fight.
- Even with their high concentration, the top 10 stocks in the S&P 500 are still delivering earnings, on average.

REASONS FOR CONCERN

- Is the consumer starting to crack? The consumer drives about two-thirds of GDP and there have been elevated delinquencies for credit cards and auto loans.
- Inflation remains elevated; headline CPI and PCE still higher than the Fed would prefer; expect a bumpy road towards targeted 2% inflation levels.
- The top 10 stocks in the S&P 500 are highly concentrated; the vast majority of the Q2 return came from information technology sector.

SOURCE: MORNINGSTAR; RUSSELL, MSCI, DOW JONES, BLOOMBERG, ICE BOA ML BENCHMARKS SHOWN; PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS

COMMENTARY

Q2 2024 by the numbers

- 5.25% - 5.50% was the Fed's policy rate set in July 2023 as they worked to tame inflation, the highest level since 2001. The Fed has paused here as investors await the pivot to lower rates.
- One interest rate cut is now expected by the Federal Reserve in 2024; six to seven cuts were initially expected as we started 2024; three cuts were anticipated just last quarter.
- 3.3% and 2.6% were the May 2024 headline CPI and PCE figures, slightly below the 3.4% and 2.7% April figures.
- 37% is the amount the top ten stocks in the S&P 500 comprise from a market capitalization perspective; a mark that is the highest it's been going back to at least 1996, and well above the percentage set in the internet bubble.
- 4.3% was the S&P 500 return for Q2.4.1% of it came from the information technology sector alone.
- 15.3% was the S&P 500 return YTD through June 30. Without just one stock, Nvidia, the S&P 500 return would have been around 11%.

Let's talk about the economy

- Economy remains strong, but cracks may be showing.
- Inflation is still higher than preferred.

The overall economy remains in a relatively good position, though some cracks may be starting to appear. If we talk about economic growth, the most recent GDP numbers showed a year over year increase of 2.9%, which is above trend growth of 2%.

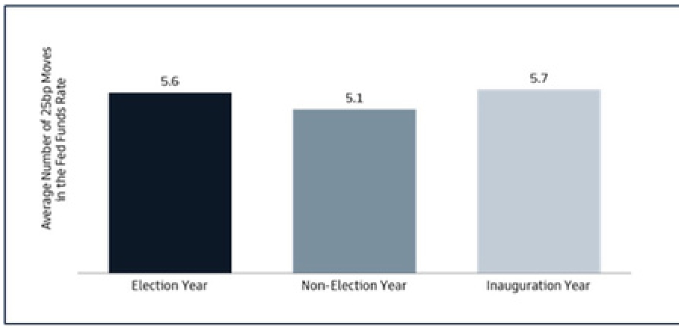
At the same time, roughly two-thirds of GDP is driven by consumers, and we know there have been elevated delinquencies for credit cards and auto loans. At the same time, the jobs report that came out in early July showed contrasting data with the number of new jobs added slightly beating expectations while the unemployment rate eked up to 4.1%, breaking a string of 30 consecutive months it had been below 4%. This data is part of the backdrop for the Fed's decision whether to lower the Fed Funds rate, especially as inflation remains elevated and above their 2% target.

One interesting aspect of inflation is where it has been coming from. In 2022, when CPI jumped to over 9%, inflation was coming from almost every underlying component. However, if we look at the contributors to inflation today, it is primarily coming from shelter, dining & recreation, and auto insurance, and not so much from energy and core goods like it had a couple of years ago.

Where we stand today, the Fed is expecting one rate cut in 2024, which pales in comparison to the six to seven that were expected at the start of the year, or even the three that were expected just last year.

Fed Chairman Powell continued to state the Fed is going to be data dependent in deciding if and when to lower rates. And as we approach November (you may have heard there are elections in November), some investors may ask if the Fed would make any rate cuts before the election? The simple answer is yes, they may, as they have in the past. Last quarter we showed a chart highlighting the path of Fed rate cuts and increases, along with how they intersected with election years. This quarter we are giving you the data. As Exhibit 1 shows, the Fed has adjusted rates by 25 bps nearly six times, on average, during election years, similar to what it has been during inauguration years, and slightly higher vs. non-election years, highlighting the Fed remaining apolitical.

EXHIBIT 1



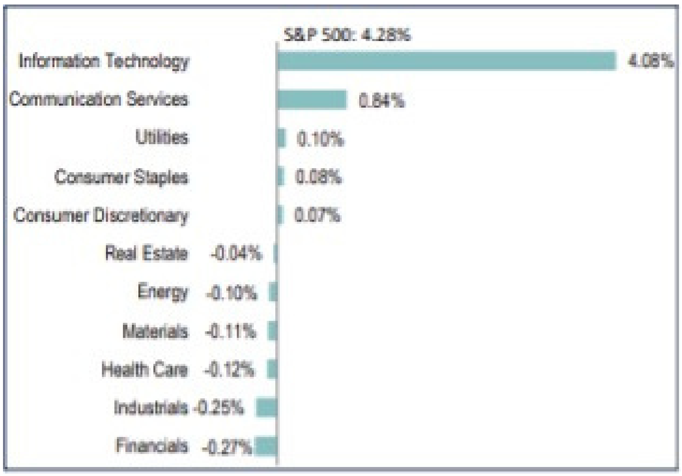
SOURCE: ST. LOUIS FED AND GOLDMAN SACHS ASSET MANAGEMENT, AS OF JUNE 28, 2024

U.S. Stocks

- US stock indexes were mixed for the second quarter, though most are positive YTD.
- The tech sector dominated S&P 500 returns in Q2.
- The top ten stocks in the S&P 500 represent 37% of the index, indicating a high level of concentration, even well above the percentage during the internet bubble.

In the US, the S&P returned 4.3% for the second quarter, with the tech sector being responsible for 4.1% of the return (95%).In fact, as Exhibit 2 shows, tech was the only sector that contributed more than 1% to return, with six of the 11 sectors having negative returns for the quarter.

EXHIBIT 2



SOURCE: HTTPS://WWW.SPGLOBAL.COM/SPDJI/EN/DOCUMENTS/PERFORMANCE-REPORTS/DASHBOARD-US.PDF. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

We also know from Exhibit 3 that YTD through June, a majority of the S&P 500's 15.3% return (61%) came from just seven stocks, known as the Magnificent 7, as they have returned 33% YTD while the rest of the S&P returned only 5%.

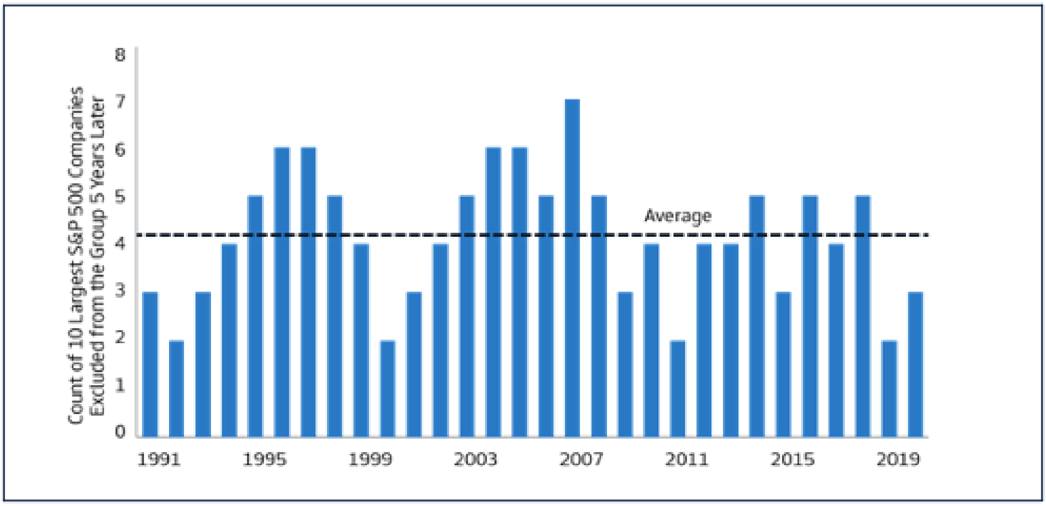
EXHIBIT 3

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%

SOURCE: FACTSET, STANDARD AND POORS, JP MORGAN ASSET MANAGEMENT. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Based on the success of the Mag 7 in 2023 and 2024, some investors may be tempted to significantly overweight those stocks, thinking they will continue to dominate.

EXHIBIT 4



SOURCE: BLOOMBERG AND GOLDMAN SACHS ASSET MANAGEMENT.AS OF MARCH 31, 2024. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

However, if history is our guide, Exhibit 4 shows that since 1990, on average, four of the top 10 S&P stocks by market capitalization fell out of the group in the following five years, on average. In other words, we would recommend diversifying into other stocks as well.

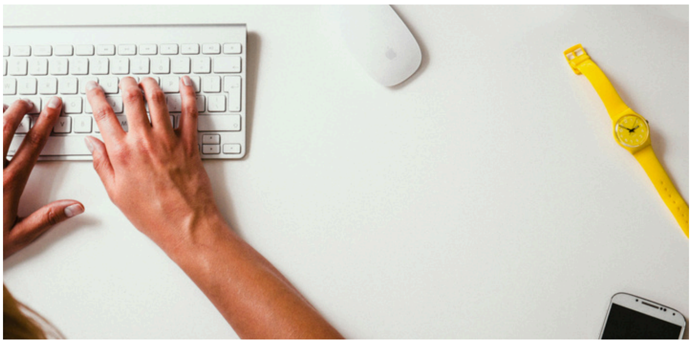
In fact, if you look at the top 10 holdings in the S&P 500 from five years ago vs. today, there are three stocks that were in the top 10 (Johnson and Johnson, JP Morgan, and Exxon Mobil) that are no longer included and were replaced by Nvidia, Eli Lilly, and Broadcom.

And if you go back 10 years to July 1, 2014, only three of the S&P 500 holdings from that time (Microsoft, Apple, and Berkshire Hathaway) are still in the top 10 now. The other seven stocks that were previously included (Exxon Mobil, Johnson and Johnson, GE, Wells Fargo, Chevron, JP Morgan, and Proctor & Gamble) have all fallen out.
Note: The review of holdings from five and ten years ago was done using Morningstar Direct, using SPY as the ticker as that was a S&P ETF with recent holdings available (June 27, 2024)

Non-U.S. Equity

- Developed non-US stock returns were all negative for Q2, while emerging markets gained 5.0%.
- Developed and emerging market stocks are all positive YTD through June.
- There are many strong-performing stocks outside the US.

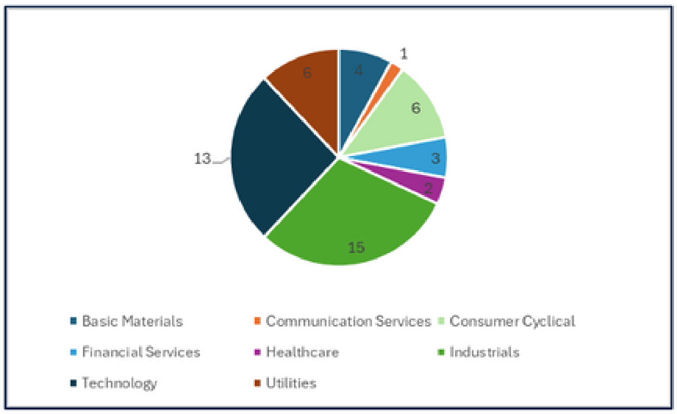
Some investors look at the returns generated in the US and suggest that non-US companies simply can't keep pace. However, this doesn't appear to be the case as we dove into the question to whether the US has a monopoly on the best performing stocks across the globe. We used the ticker ACWI for this analysis, an ETF that represents the global stock market.



Specifically, 11 more of the top 50 came from India, nine from China, seven from South Korea, with Japan, Taiwan, Malaysia, Belgium, Germany, Norway, and Singapore all being represented in the top 50.

We also wanted to answer the question as to whether the tech sector has a monopoly on the best performing stocks across the globe. Again, the answer was no. As Exhibit 5 shows, while 13 of the top 50 performing global stocks were in the tech sector, there were 15 in the industrial sector. There were another six each in consumer cyclicals and utilities.

EXHIBIT 5



SOURCE: MORNINGSTAR DIRECT, ACWI WAS THE ETF USED TO REPLICATE THE MSCI ACWI, DATA AS OF JUNE 13, 2024. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Global REITs

(Real Estate Investment Trusts)

- Global REITs, as represented by the Dow Jones Global Select REIT, declined 1.4% over the quarter and are down -3.0% YTD through June.
- In the US, specialty REITs performed the best YTD (18.9%). Source: NAREIT

Global Fixed Income

- Bond returns were mainly positive for the second quarter, with the exception of 5-10 year munis, even as Treasury yields mostly rose.
- While current cash and money market rates are attractive, bonds have historically generated much stronger returns following CD's hitting their peak rates (which is assumed to have happened September 30, 2023). Don't get caught sitting in cash and missing out on bond returns.

Treasury rates rose slightly across most of the US Treasury curve over the quarter, and the yield curve is slightly less inverted than it was three months ago. The same can be said for the corporate and municipal yield curves as well.

As of June 30, the yield to maturity on corporate bonds rated A-BBB was 5.61%. This is an attractive yield, especially given their relatively low credit risk.

There are many rules of thumb in investing.Unfortunately, like other rules of thumb, many are based on perceived experiences rather than theory or reality, and therefore can be invalid. One rule of thumb we often hear is that an inverted yield curve is a sign that a recession is likely coming. As a reminder, an inverted yield curve is when short term interest rates are higher vs. long term rates and is considered unusual as investors should expect a higher level of return for longer-dated bond instruments.

Is this rule of thumb accurate?

Well, Exhibit 6 shows several periods where there have been lengthy periods between a yield curve inversion and the next recession.Note in the bottom row that, not only has the predicted recession not occurred, but the equity market has been positive during this period as well, returning 12.9% through April 30, 2024.

EXHIBIT 6

Upside Down

US yield curve inversions, recession dates and market performance as of April 30, 2024.

Yield Curve Inversion		First Recession	Trading Days	Cumulative Market Return
Start	Length (Days)	After Inversion Onset	from Inversion to Recession	Between Inversion and Recession
Aug 18, 1978	988	Jan 1980	346	13.11%
Dec 13, 1988	327	Jul 1990	391	32.90%
Feb 2, 2000	230	Mar 2001	272	-14.71%
Dec 27, 2005	361	Dec 2007	486	20.91%
Apr 1, 2022	522	?	522	12.88%

SOURCE: SOURCE: DIMENSIONAL FUNDS, PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS. ACTUAL RETURNS MAY BE LOWER. INVERSION WHEN THE YIELD ON THE 2-YEAR TREASURY EXCEEDED THE YIELD ON THE 10-YEAR TREASURY. RECESSION DATES REPRESENT THE PEAK MONTH OF THE BUSINESS CYCLE. INDIVIDUAL INVERSION ONSET DEFINED AS THOSE LASTING AT LEAST 50 TRADING DAYS WITH NO INVERSION IN THE PRIOR 250 TRADING DAYS. NUMBER OF DAYS AND RETURN SINCE ONSET OF CURRENT INVERSION ARE THROUGH APRIL 30, 2024. 10-YEAR AND 2-YEAR CONSTANT MATURITY TREASURY YIELDS FROM FACTSET. BUSINESS CYCLE DATES FROM NBER. MARKET RETURN REPRESENTED BY THE FAMA/FRENCH TOTAL US MARKET RESEARCH INDEX. THE FAMA/FRENCH INDICES REPRESENT ACADEMIC CONCEPTS THAT MAY BE USED IN PORTFOLIO CONSTRUCTION AND ARE NOT AVAILABLE FOR DIRECT INVESTMENT OR FOR USE AS A BENCHMARK. EUGENE FAMA AND KEN FRENCH ARE MEMBERS OF THE BOARD OF DIRECTORS OF THE GENERAL PARTNER OF, AND PROVIDE CONSULTING SERVICES TO, DIMENSIONAL FUND ADVISORS LP. SEE “INDEX DESCRIPTIONS” FOR DESCRIPTIONS OF THE FAMA/FRENCH INDEX DATA.

This debunks yet another misconception that stock market returns are correlated with economic growth. This data provides all the more reason we would not recommend investing simply based on rules of thumb.

Overall, we continue to view our bond allocations as a method of reducing overall portfolio risk (as measured by standard deviation), given that stocks are expected to have much higher volatility.Our portfolio’s focus will continue to be on high quality bonds with an emphasis on short to intermediate duration government and corporate bonds, where default risk has historically been relatively low.

AUTHORS

Mario Nardone, CFA

Mario is the Chief Investment Strategist for XYPN Invest and the President & Founder of East Bay Financial Services. Mario began his investment career in 1999 with Vanguard mutual funds in Valley Forge, PA, where he consulted institutions and financial advisors on investment policy, portfolio construction, and Exchange-Traded Funds (ETFs). He also held roles as a research analyst, a municipal bond fund specialist, among others, during his tenure. In 2003 he earned the Chartered Financial Analyst designation, and he continues to mentor aspiring Charter candidates and young investment professionals.

Mario is Past President of CFA Society South Carolina and Former Chairman of the College of Charleston Finance Department Advisory Board. His approach to investments and the industry has been featured in Investment News, NAPFA Advisor Magazine, South Carolina Public Radio, and other publications and media outlets.

Eric Stein, CFA

Prior to joining East Bay, Eric worked for a variety of firms, both large and small. This includes 7+ years with Goldman Sachs Asset Management where he held roles in areas such as performance measurement, client service, risk analysis, and portfolio construction. During his tenure there, Eric had the opportunity to cover many different types of asset classes, vehicles, and client types. Eric also worked at RSM U.S. Wealth Management for 10+ years, serving as the Chief Investment Officer while providing strategic leadership and solutions for their national investment platform.

As a Partner at East Bay, Eric serves a select group of financial advisory firms as their outsourced Chief Investment Strategist. Responsibilities of this role include continuous oversight of advisor clients' investments, bespoke strategies for unique situations, client communications, and more.

DISCLOSURES

Portfolio management and sub-advisory services are offered through XY Investment Solutions, LLC ("XYPN Invest"), a Securities Exchange Commission registered investment advisor based in Bozeman, MT. XYPN Invest and its representatives are in compliance with the current filing requirements imposed upon Securities Exchange Commission registered investment advisors by those states in which XYPN Invest maintains clients. For a detailed discussion of XYPN Invest and its advisory fees, see the firm's Form ADV Part 1 and 2A on file with the SEC at adviserinfo.sec.gov. XY Investment Solutions, LLC ("XYPN Invest"), through its partnership with East Bay Financial Services, LLC ("East Bay"), builds investment models through a technology solution, and supports financial planners with investment strategies based on research, experience, and sound rationale. XYPN Invest primarily allocates client assets among various mutual funds and/or ETFs. XYPN Invest may also allocate client assets in individual debt and equity securities, options and independent investment managers. XYPN Invest's services are based on long-term investment strategies incorporating the principles of Modern Portfolio Theory. XYPN Invest manages client investments in portfolios on a discretionary basis. Email support@xyinvestmentsolutions.com with specific questions about models you may be using or considering in your practice. The commentary contained herein is intended to be general and educational in nature, and is not intended to be used as the primary basis for investment decisions, nor should it be construed as advice designed to meet the particular needs of an individual investor. Nothing contained herein should be considered legal, tax, accounting, investment, financial, or other professional advice, and should not be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation of any security or other financial product or investment strategy. Investors should consult with a qualified professional advisor before taking any action based on this commentary. Investing in mutual funds, exchange-traded funds ("ETFs"), and other equity and debt securities involve risks, including loss of principal. Any performance data quoted represents past performance. Past performance does not guarantee future results and principal value will fluctuate so that an investor's investments, when redeemed, may be worth more or less than their original cost. Performance data quoted does not account for any advisory fees imposed by XYIS or any independent and unaffiliated financial planners, or other transaction charges, expenses, taxes, or other fees and costs. Performance of an investor's actual portfolio will differ from any performance presented. Investing in foreign securities may involve certain additional risk, including exchange rate fluctuations, less liquidity, greater volatility and less regulation. Small company stocks may be subject to a higher degree of market risk than the securities of more established companies because they tend to be more volatile and less liquid. Bonds are subject to risks, including interest rate risk which can decrease the value of a bond as interest rates rise. REIT investments are subject to changes in economic conditions and real estate values, and credit and interest rate risks. Investors cannot invest directly in an index. Indexes are unmanaged and reflect reinvested dividends and/or distributions, but do not reflect sales charges, commissions, expenses or taxes. An investor should consider a portfolio's investment objectives, risks, charges and expenses carefully before investing. The underlying funds' prospectus contain this and other important information. Please read any applicable prospectus carefully before investing.

DISCLOSURES

Benchmark descriptions: MSCI ACWI Index, MSCI's flagship global equity index, is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 24 emerging markets, covering approximately 85% of the free float- adjusted market capitalization in each market. Russell 3000 Index is a market-capitalization-weighted equity index that tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S incorporated equity securities. Standard & Poors 500 is an index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices. Russell 1000 Index is an index of approximately 1,000 of the largest companies and is a subset of the Russell 3000, comprising approximately 90% of total market capitalization of all listed US stocks. Russell 1000® Growth Index is a market capitalization weighted index that measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. Russell 1000® Value Index is a large-cap value index measuring the performance of the largest 1,000 U.S. incorporated companies with lower price-to-book ratios and lower forecasted growth values. Russell 2000® Growth Index measures the performance of the Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. Russell 2000® Value Index is an unmanaged, market-value weighted, value-oriented index comprised of small stocks that have relatively low price-to-book ratios and lower forecasted growth values MSCI EAFE (Europe, Australasia, Far East) Index is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. MSCI EAFE Small Cap Index captures small cap representation across Developed Markets countries around the world, excluding the US and Canada. MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries and covers approximately 85% of the free float-adjusted market capitalization in each country. MSCI Frontier Markets Index captures large and mid cap representation across 29 Frontier Markets countries and covers about 85% of the free float-adjusted market capitalization in each country. Dow Jones Global Select REIT Index is designed to measure the performance of publicly traded REITs and REIT-like securities and is a sub-index of the Dow Jones Global Select Real Estate Securities Index (RESI), which seeks to measure equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded globally. The index is designed to serve as a proxy for direct real estate investment. Dow Jones U.S. Select REIT Index tracks the performance of publicly traded REITs and REIT-like securities and is designed to serve as a proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index. Dow Jones Global ex-US Select REIT Index is designed to measure the performance of publicly traded REITs and REIT-like securities traded globally ex-US. ICE BofAML 3-Month T-Bill Index is an unmanaged index that measures returns of three-month Treasury Bills. ICE BofAML 1-5 Year US Treasury, Corporate and Municipal Indexes are subsets respectively of ICE BofAML US Treasury, Corporate and Municipal Indexes including all securities with a remaining term to final maturity greater than or equal to 1 year and less than 5 years. ICE BofAML 5-10 Year US Treasury, Corporate and Municipal Indexes are subsets respectively of ICE BofAML US Treasury, Corporate and Municipal Indexes including all securities with a remaining term to final maturity greater than or equal to 5 years and less than 10 years. ICE BofAML 10+ Year Treasury, Corporate and Municipal Securities Index are subsets respectively of ICE BofAML US Treasury, Corporate and Municipal Securities Indexes including all securities with a remaining term to final maturity greater than or equal to 10 years. Bloomberg Barclays Global Aggregate Bond Index provides a broad-based measure of the global investment-grade fixed income markets (one version shown with its currency hedged back to the USD and is noted as such). Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed- rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency). J.P. Morgan Global (ex-US) Government Bond Index: Is the standard unmanaged foreign securities index representing major government bond markets outside the US markets (one version shown with its currency hedged back to the USD and is noted as such). ICE BofAML US Inflation-Linked Treasury Index tracks the performance of U.S. dollar denominated inflation linked sovereign debt publicly issued by the U.S. government in its domestic market. Qualifying securities must have at least one year remaining term to final maturity and no more than 5 years to maturity. Bloomberg Barclays U.S. Corporate High Yield Bond Index is a total return performance benchmark for fixed income securities having a maximum quality rating of Ba1.