

Quarterly Commentary

Q2 2024



Summary and Implications

- As both private and public debt to climb to record levels, continued high interest rates may suppress economic growth and corporate profitability, with increased market volatility expected.
- Strong economic fundamentals and robust consumer spending support GDP growth projections of 2.5% in 2024.
 - Investors are advised to focus on quality investments and monitor Federal Reserve policies and economic indicators.
 - Portfolio diversification can have an even larger impact on investors as the market navigates the divide between slowing fundamentals and the potential economic reacceleration post-Fed action.

Investment Summary and Outlook

Following a strong cycle of post-pandemic spending from U.S. consumers, businesses, and the government, is the U.S. about to hit the pause button on economic growth?

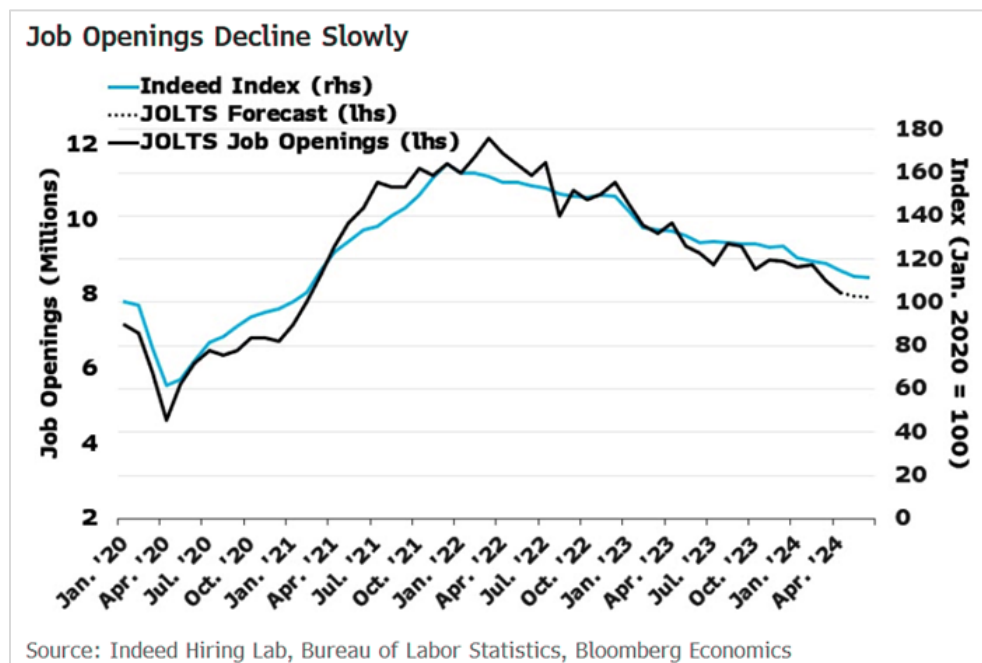
As U.S. equity indices advance to new highs and equity volatility remains low, burgeoning signs of softening economic growth are causing some concern. Second quarter economic releases covering personal spending, jobless claims, and home sales have disappointed, along with rising uncertainty over the electoral landscape and fiscal spending, raising doubts about the sustainability of the post-pandemic recovery. Companies with weak balance sheets have underperformed, while equal-weighted stock benchmarks continue to lag capitalization-weighted indices due to the dominance of technology market leaders.

The outsized contribution of U.S. technology growth stocks continues to widen the divide between U.S. equity markets, notably large caps, versus the rest of the world. The rush to build out generative artificial intelligence capabilities through data centers has led to a surge in capital spending for computer hardware and cloud computing services. But beyond the unfettered capital spending over blue sky expectations for growth and productivity gains from artificial intelligence, the overall capital spending environment looks more muted based on regional Federal Reserve business surveys and U.S. durable goods releases. Political uncertainty and tighter borrowing conditions are expected to slow capital spending to 1% growth in the 2nd half of the year (Bloomberg economic forecast).

The Fed is maintaining its anti-inflationary stance by holding rates higher for longer than what had been anticipated at the start of the year. Bloomberg Economics projects that the effects of the Fed's rate hikes will become more evident as the year progresses, despite the economy's current resilience. Growth and inflation are anticipated to decelerate, indicating that the Fed's tightening measures are becoming effective even with a longer delay than a typical rate cycle before cutting rates. Real Gross Domestic Product (GDP) growth is forecasted to decelerate, with average quarterly annualized growth dropping to 1.3% in the second half of 2024, compared to the estimated 1.7% in the first half. This slowdown, coupled with Okun's Law, suggests the unemployment rate could rise to 4.5% by year-end.

Even though corporate credit markets continue to perform well, showing few signs of stress, higher rates have tightened borrowing conditions for both smaller businesses and lower income consumer cohorts, as less well-heeled segments of the U.S. economy are struggling to weather higher rates even if credit remains widely available. Bifurcation in both business and consumer spending is producing a widening divide between favored 'haves' and 'have-nots,' including technology-focused themes for business spending and consumer segments favored by high income cohorts such as luxury goods and global travel.

With increasing uncertainty, investors are flocking to the safe-haven segments of the market exemplified by companies with strong balance sheets, dominant market positions, and growth clarity, and are willing to pay ever higher valuation premiums to own perceived growth certainty. If unemployment rises sharply over the summer, we could see the Fed cut rates before the November election, as anticipated by Fed Funds futures pricing. Early signs of slowing labor market conditions are showing up in fewer job openings and slower payroll growth.



Should the Fed successfully ease policy preempting an economic downturn, then the economic soft landing could be achieved, which could prove to be a robust environment for risk-based assets such as stocks, corporate credit, and pro-cyclical sectors such as industrials and commodities. Easier monetary policy would also be more conducive for small and mid-cap companies, where the capital cost disadvantage versus their large cap brethren would be reduced.

Domestic Fixed Income Markets

With increasing signs of disinflation and slowing economic activity, U.S. fixed income markets were up marginally for the quarter, as the Fed reaffirmed its outlook to hold rates steady until there are more tangible signs of further disinflation and cooling labor markets. The quarter saw rates spike sharply as U.S. non-farm payrolls came in stronger than expected while higher commodity prices and sticky shelter costs resulted in elevated inflation readings.

However, slower consumer spending and industrial activity (outside of technology-fueled data center spending around artificial intelligence) helped ease bond market anxiety, bringing down long-term rates throughout the rest of the quarter. Towards the end of the quarter, U.S. fixed income came under pressure following the first U.S. presidential debate as the bond market started to discount greater fiscal deficit spending, which is already well above pre-pandemic levels, and further de-globalization with the threat of higher import tariffs.

The Fed is maintaining its tighter-for-longer stance, holding rates at the 5.25%-5.50% target rate, while pushing out its timeline for the first rate cut, now expected after the November elections. The Fed updated its Summary of Economic Projections (SEP) to account for higher nominal economic growth, inflation, and unemployment, as they forecast an environment of slowing economic conditions but with further delays in core inflation dropping to their long-term targets. The Fed's preferred inflation measure, core personal consumption expenditures (PCE), dropped to 2.57% year-over-year through June and is on track to meet the Fed's year-end forecast assuming further progress on monthly inflation readings.

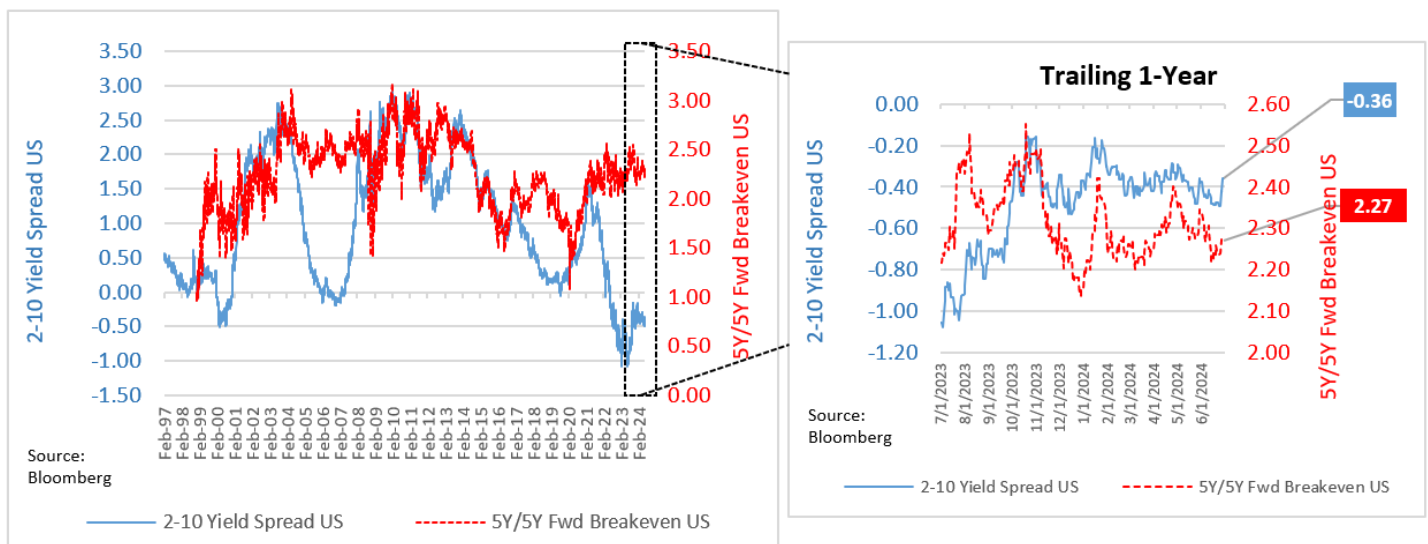
The Fed's base case remains a soft landing as Fed officials noted that unusual seasonal factors during the 1st quarter continue to influence near-term inflation readings, but they expect these seasonal factors to recede in influence. Fed Funds futures still anticipate two rate cuts throughout the rest of 2024, with the first cut anticipated at the September meeting.

The below U.S. investment-grade sector continues to outperform the broader investment-grade segments, as the former is benefiting from lower interest rate sensitivity and narrower risk premiums demanded by investors relative to U.S. government debt. The short end of the government bond curve continues to outperform, benefiting from high short-term rates, while longer maturity segments suffered from a rise in rates. The 10-Year Treasury ended the 2nd quarter at 4.40%, up from 4.20% at the beginning of the quarter. Investment grade corporates narrowly outperformed as corporate credit continues to benefit from lower borrowing spreads.

US Treasury Performance	2Q2024	YTD 2024	Fixed Income Performance	2Q2024	YTD 2024
USTREAS T-Bill Cnst Mat Rate 1 Mon	1.32	2.71	Bloomberg Municipal TR USD	-0.02	-0.40
USTREAS T-Bill Cnst Mat Rate 3 Mon	1.31	2.66	ICE BofA US Corporate TR USD	0.09	0.01
USTREAS T-Bill Cnst Mat Rate 2 Yr	0.95	1.38	Bloomberg Treasury 7-20 Yr TR USD	-0.69	-2.53
USTREAS T-Bill Cnst Mat Rate 10 Yr	-0.24	-1.83	Bloomberg US Treasury 20+ Yr TR USD	-2.16	-5.90
USTREAS T-Bill Cnst Mat Rate 30 Yr	-1.77	-5.84	Bloomberg US Corporate High Yield TR USD	1.09	2.58
Benchmark: Bloomberg US Treasury Bills TR USD	1.32	2.61	Bloomberg US Convertible Comp TR USD	-0.21	1.87
			Benchmark: Bloomberg US Agg Bond TR USD	0.07	-0.71

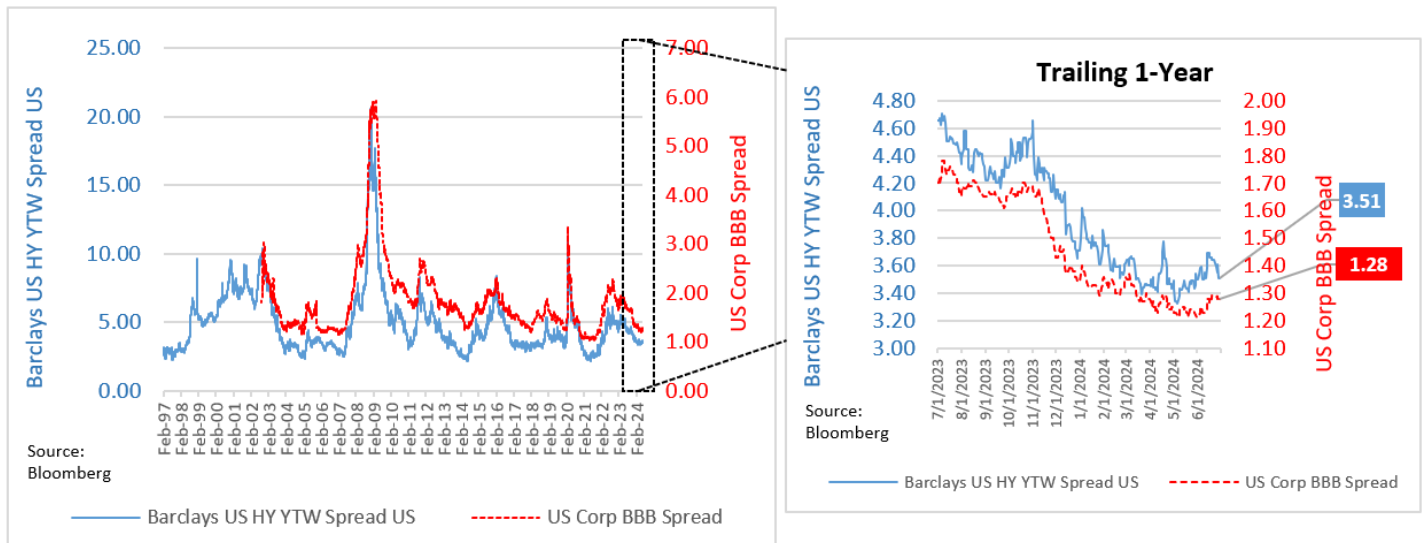
Source: Morningstar Direct

Even as nominal and inflation-adjusted (real) rates remain elevated, long-term inflation expectations, implied by the breakeven spread between long-term TIPS versus nominal Treasuries, have steadily declined throughout the year and remain well-anchored in the 2.00-2.50% range. The 2-10 Year spread in the Treasury yield curve remains inverted with long-term rates lower than short-term rates; however, the spread narrowed through the end of the quarter as long rates rose relative to short rates. This implies that the market expects the Fed to eventually ease gradually but that long-term rate normalization could be higher than the rate environment that prevailed pre-pandemic.



Agency Mortgage-Backed Securities (MBS) remain an attractive option for income generation with minimal credit risk, buoyed by an implicit government guarantee. Option-adjusted spreads remained steady throughout the quarter despite the rise in long-term interest as implied rate volatility (the uncertainty of prepayment risk) only saw a moderate rise. Valuations remain attractive relative to other investment grade spread sectors, such as corporate bonds, as both sectors performed similarly this quarter. Despite borrower pressures across industrial offices and multi-family, AAA-rated Commercial Mortgage-Backed Securities (CMBS) also remain attractive as post-2008 GFC structures are more conservatively underwritten with less financial leverage and more creditor protections.

Corporate credit spreads traded in a tight range throughout the quarter, as fixed income investors remain comfortable with corporate fundamentals, underpinned by robust balance sheets and minimal refinancing requirements. Corporate borrowers look to take advantage of investor appetite for higher yields as high-grade new issuance has soared 24% this year topping \$1 trillion. The high-yield bond sector, despite inherent risks, continues to demonstrate resilience and income-generation capacity, even in the face of an economic slowdown. Only a handful of high yield sectors (CCC-rated, media/telecom, transportation) are showing signs of stress.



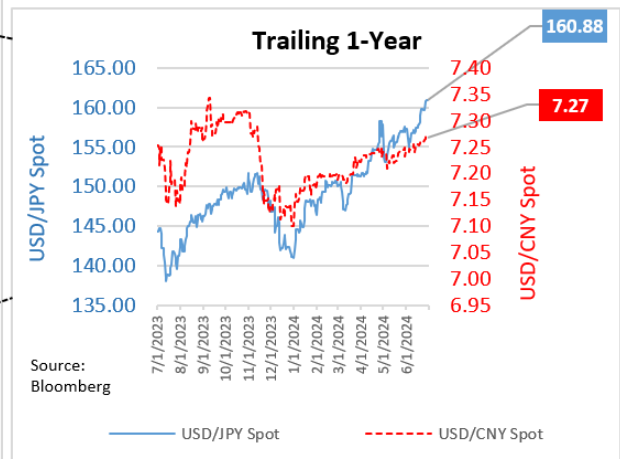
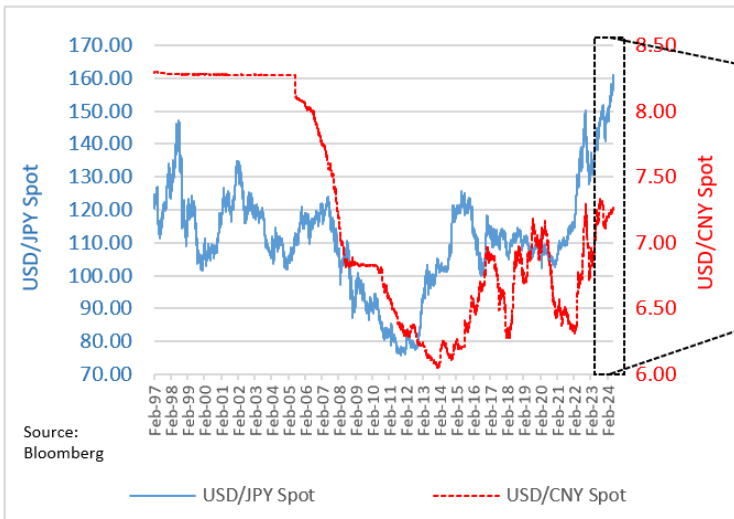
International Fixed Income Markets

Geopolitical risk entered the global bond market, first with European Parliament and Mexico and India elections that resulted in the loss of establishment political party influence and the rise in populist party popularity, threatening to upend fiscal discipline in favor of even greater profligacy. Heightened political risks and election surprises are causing increased volatility in foreign debt market currencies and debt. Following the surge in popularity and vote share for France’s National Rally party (populist party headed by Marine Le Pen), French sovereign bond spreads spiked sharply versus German bonds, putting downward pressure on the euro versus U.S. dollar.

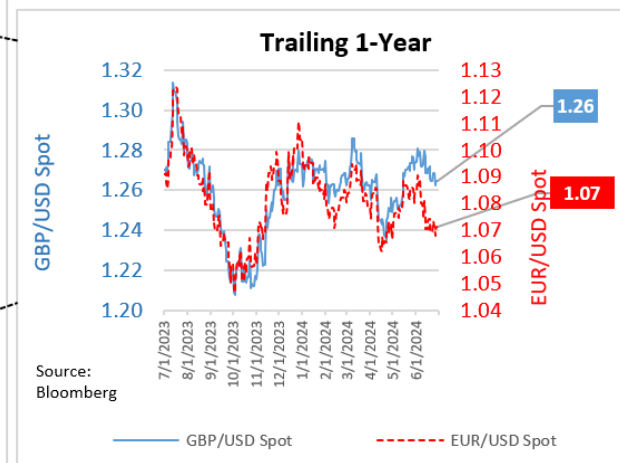
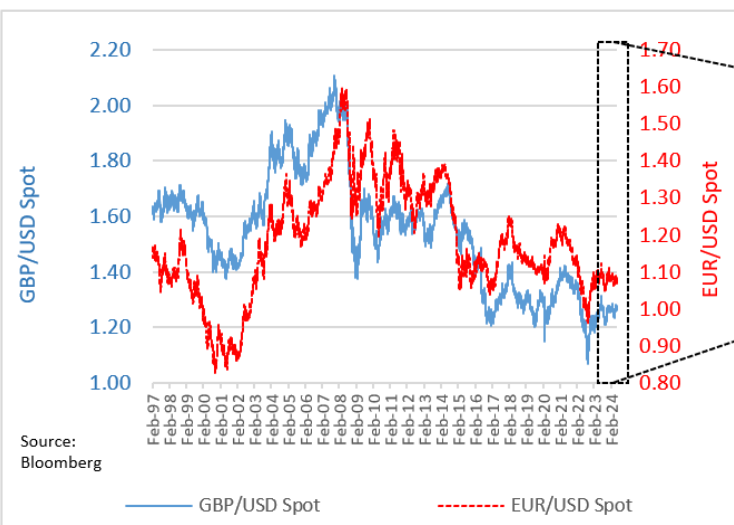
Elections in Mexico and India also led to markets and currencies coming under pressure. Claudia Sheinbaum, the candidate from the MORENA party, won the Mexican presidential election with a historic margin, securing 60% of the votes. Investors have expressed concerns over MORENA’s proposed constitutional reforms, including subjecting the judiciary to elections, as well as aggressive social spending proposals. India’s election results surprised investors as Prime Minister Modi’s Bharatiya Janata Party failed to secure a majority and will have to rely on coalition partners to govern.

Barclays’ market analysts noted that political risks, including election surprises in South Africa, Mexico, and India, have heightened emerging market currency volatility versus the U.S. dollar. In Kenya, President William Ruto’s concession to protests and withdrawal of a finance bill weakened its bond market, while in Bolivia, a coup attempt led to military intervention and subsequent retreat.

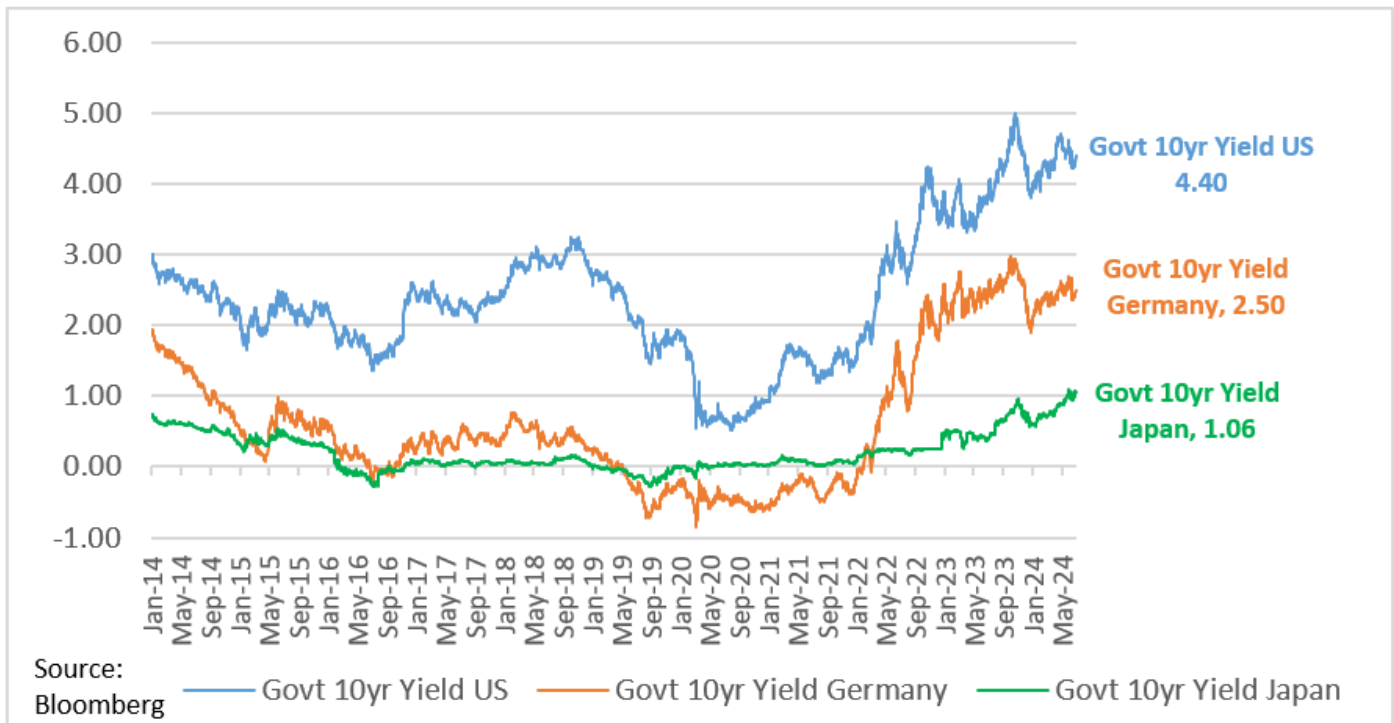
Asian currencies, notably Japan, remain under pressure as global economic growth and central bank policy stances continue to lag the U.S., along with the threat of further de-globalization through the implementation of import tariffs across developed markets. The Bank of Japan announced plans to reduce purchases of debt securities, such as Japanese Government Bonds (JGBs), while incrementally raising rate caps (so-called Yield Curve Control) to keep up with developed market bond yields. Ongoing purchases of JGBs have put further pressure on the Japanese yen even as such purchases help keep a lid on JGB yields. The Japanese yen depreciated against the U.S. dollar, surpassing the key technical 160 USD/Yen, a multi-decade low, while the Chinese yuan remains under pressure due to depressed local property market conditions and lackluster domestic consumption.



European currencies came under pressure due to further economic weakness (Germany business and consumer sentiment) and political uncertainty following the European Parliament elections and France’s decision to call for snap elections at the end of June as well as upcoming U.K. parliamentary elections. As of the time of this writing, the French National Rally party won the first round of elections but less than expected and with a narrow road to a National Assembly majority, leading to a relief rally across European markets and currencies.



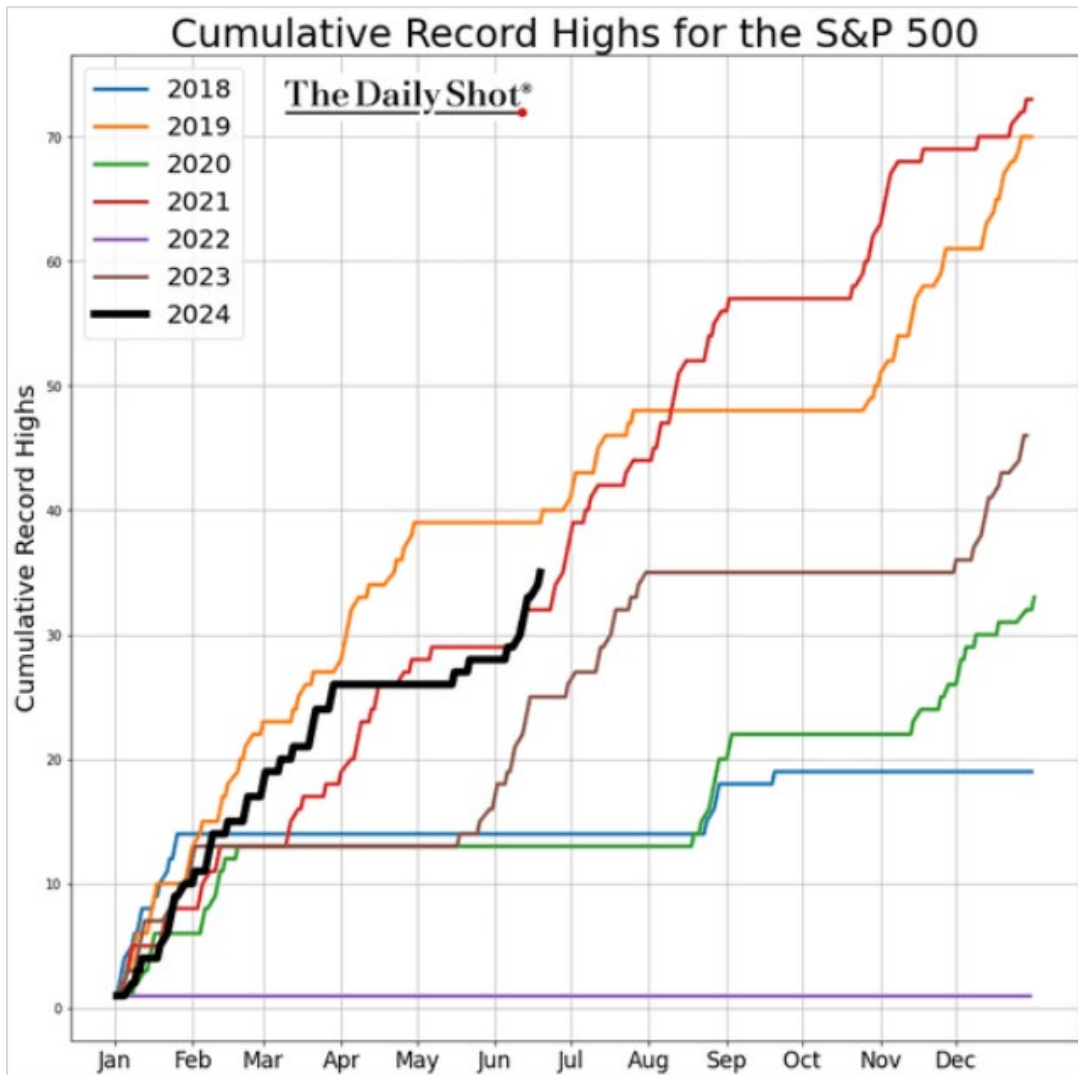
The Bloomberg Global Aggregate ex-US Index returned -1.10% in U.S. dollar terms, underperforming the U.S. Aggregate, as currency depreciation continues to weigh on relative performance. Developed sovereign bond yields are moving in tandem with each other, even as the economic divide between the U.S. and the rest of the world widens.



Rising political and fiscal uncertainty will likely weigh on international bond markets and currencies, exacerbated by political uncertainty within the U.S. that could lead to further de-globalization. Investors are flocking to the U.S. dollar given the strong outperformance of U.S. assets and the broader economy along with expectations of additional import tariffs. Unless U.S. economic fortunes were to suddenly turn, forcing a pivot in U.S. rate setting, expect international fixed income and currencies to remain under pressure.

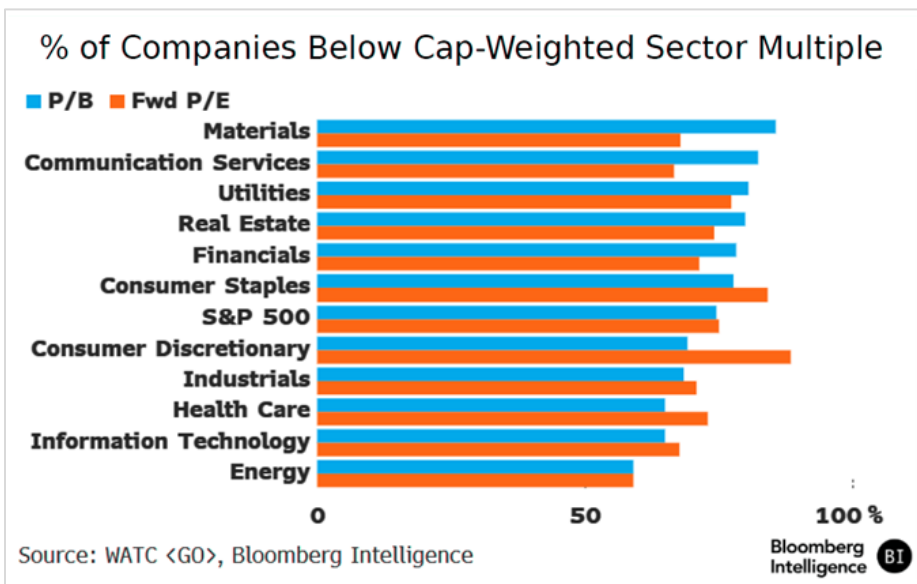
U.S. Equity Markets

The U.S. equity markets displayed remarkable strength throughout the first half of 2024, with the S&P 500 achieving 30 record highs. Large-cap stocks, especially those within the "Magnificent 7"—Apple, Microsoft, Amazon, Google, Tesla, Nvidia, and Meta—predominantly drove this surge. These companies benefited from robust earnings, substantial investments in artificial intelligence, and strong investor sentiment.

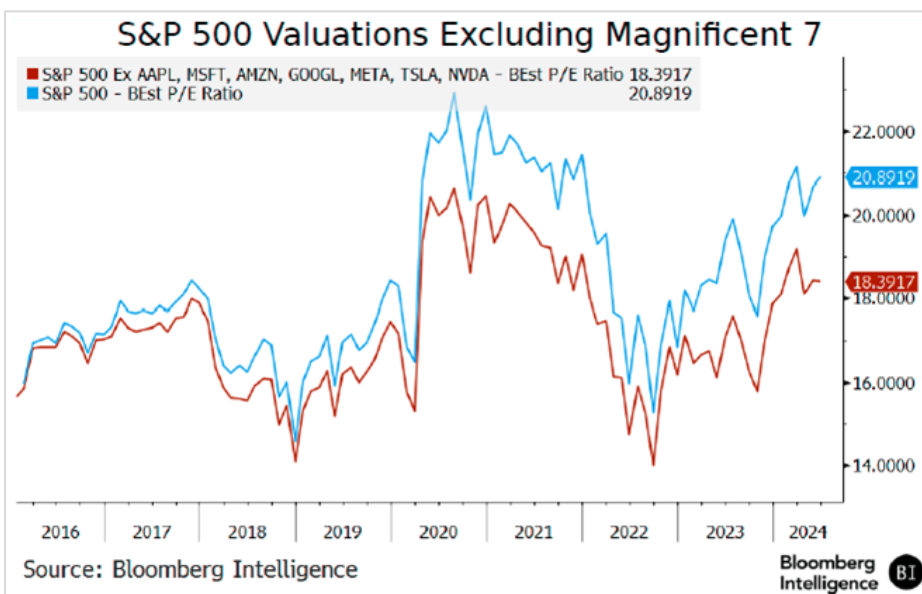


Source: <https://us10.campaign-archive.com/?e=6d1da53387&u=451473e81730c5a3ae680c489&id=97b58484e3#Equities>

Large-cap stocks significantly outperformed in the first half of 2024, with the Magnificent 7 leveraging their market dominance and technological advancements to achieve substantial gains. These companies experienced considerable revenue and profit growth due to aggressive investments in AI and other cutting-edge technologies. The expensive valuations of the largest stocks have concealed the discounts of many stocks below the surface of the S&P 500. According to Bloomberg roughly 74% of S&P 500 equities trade below the market cap weighted index on a price to book (P/B) ratio of 7.1, 75% carry forward price to earnings (P/E) multiples lower than the index, and 54% of those are below their pre-pandemic averages. The sectors with the greatest percentages of discounts to the broad index on a price-to-book basis are Materials, Communications, and Utilities. Meanwhile Discretionary, Staples, and Utilities have the largest discounts on a Forward P/E basis.



Valuations for the S&P 500 excluding the Magnificent Seven are closer to their average since 2015.



In contrast, small-cap stocks faced a more challenging environment. Represented by the Russell 2000 Index, small caps significantly underperformed the S&P 500 Index by nearly 15 percentage points in the first half of 2024, marking the worst start to a year for small caps relative to large caps. Key reasons for this underperformance include difficulties raising capital due to higher interest rates, which impact earnings growth, and greater sensitivity to economic conditions. Many small-cap companies are also heavily indebted, including a significant number of "zombie stocks" that cannot cover interest payments on their debt. Despite these struggles, there is potential for a turnaround if lower inflation rates lead the Fed to cut interest rates, benefiting small caps. However, the Russell 2000's exposure to economically sensitive sectors like energy, financials, and industrials may continue to pose challenges.

Equity Style Box Returns (%)

		2nd Quarter 2024			YTD (01/01/2024 - 06/30/2024)		
		Value	Core	Growth	Value	Core	Growth
Size	Large	-2.2	3.6	8.3	6.6	14.2	20.7
	Mid	-3.4	-3.3	-3.2	4.5	5.0	6.0
	Small	-3.6	-3.3	-2.9	-0.8	1.7	4.4

Source: Morningstar Direct

*Returns are presented for Value, Core, and Growth styles from the Russell 1000, Russell Mid Cap, and Russell 2000.

The technology sector was the standout performer, driven by the Magnificent Seven and other tech companies capitalizing on AI and digital transformation trends. The Consumer Discretionary and Communication Services sectors also experienced notable gains, bolstered by strong consumer demand and innovative service offerings. The Financial sector had a mixed performance. While rising interest rates benefited banks by improving their net interest margins, higher borrowing costs and economic uncertainty posed challenges for other financial institutions. Industrials showed resilience, supported by steady demand and infrastructure investment, although the sector faced headwinds from fluctuating input costs. Healthcare remained steady, driven by consistent demand for medical services and products. However, large-cap pharmaceutical companies faced revenue pressures due to expiring patents and regulatory challenges under the Inflation Reduction Act.

US Sector	June	May	April	QTD	YTD
S&P Cmmncton Svces Select Sector TR USD	3.18	6.86	-4.63	5.16	18.58
S&P Cons Staples Select Sector TR USD	-0.19	2.38	-1.11	1.05	8.01
S&P Consumer Disc Select Sector TR USD	3.88	0.27	-4.64	-0.67	2.44
S&P Energy Select Sector TR USD	-1.33	-0.42	-0.89	-2.62	10.58
S&P Financial Select Sector TR USD	-0.89	3.16	-4.18	-2.03	10.17
S&P Health Care Select Sector TR USD	1.91	2.38	-5.08	-0.96	7.81
S&P Industrial Select Sector TR USD	-0.94	1.65	-3.58	-2.90	7.75
S&P Materials Select Sector TR USD	-3.03	3.22	-4.59	-4.50	4.14
S&P Real Estate Select Sector TR USD	2.02	5.08	-8.50	-1.91	-2.45
S&P Technology Select Sector TR USD	7.86	7.06	-5.81	8.76	18.01
S&P Utilities Select Sector TR USD	-5.51	8.97	1.65	4.66	9.44
Benchmark: S&P 500 TR USD	3.59	4.96	-4.08	4.28	15.29

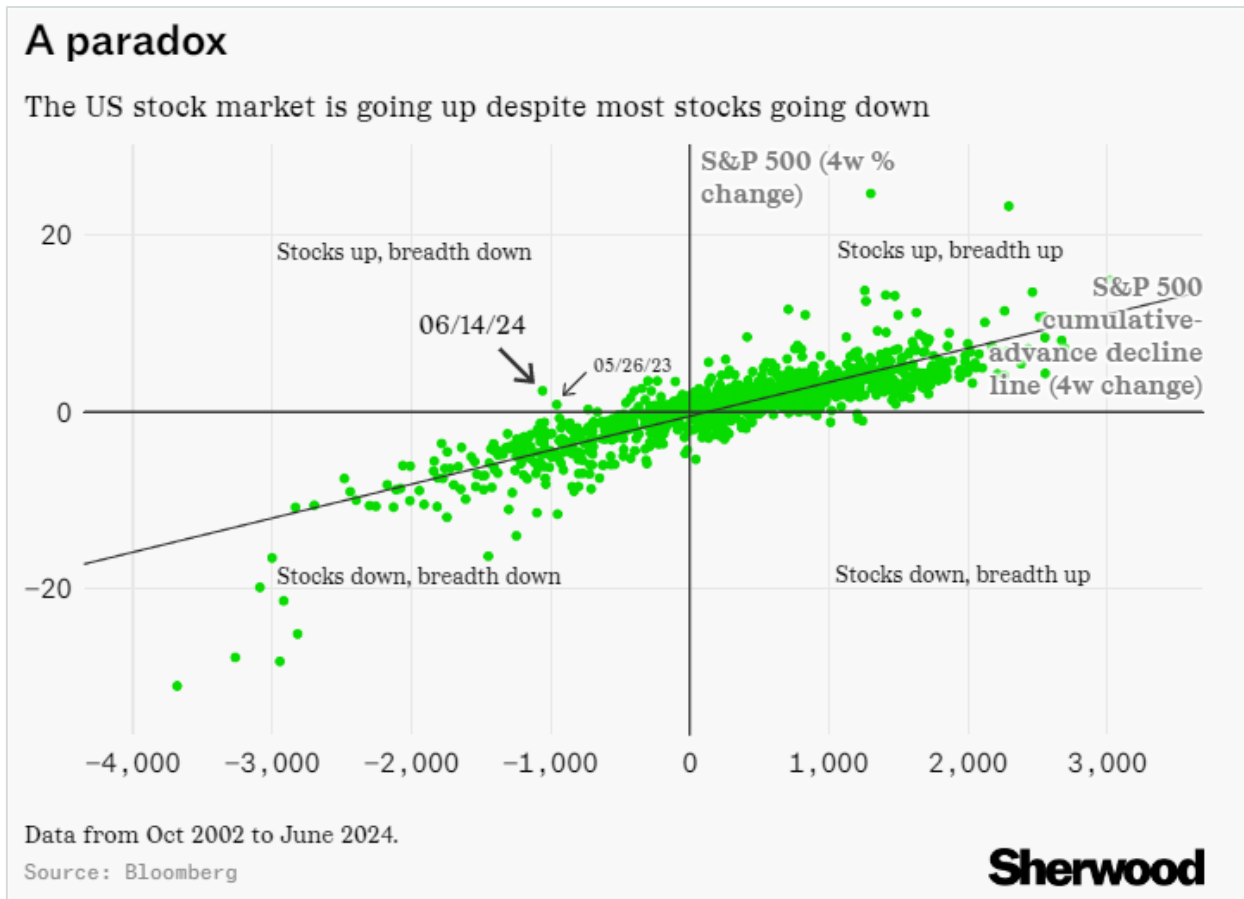
Source: Morningstar Direct

The equity market's performance in the first half of 2024 was heavily concentrated in the Magnificent 7. The dominance of these companies skewed market indices, masking the broader market's more tepid performance. This concentration poses a risk, as any adverse developments in these critical stocks could disproportionately impact the overall market. Regarding equity factors, low-volatility stocks provided a buffer against market fluctuations. In contrast, high-quality stocks, characterized by solid balance sheets and consistent earnings, continued to attract investors. Momentum stocks, driven by recent performance, were among the best performers, particularly in the technology sector. Despite lagging behind growth counterparts, value stocks showed resilience as investors sought out undervalued opportunities amid market volatility.

Factor-Based Equity	June	May	April	QTD	YTD
S&P 500 Dividend Aristocrats TR USD	-1.39	1.48	-4.66	-4.58	2.18
S&P 500 Low Volatility TR USD	-0.16	2.48	-3.04	-0.80	4.99
S&P 500 High Beta TR USD	1.77	1.53	-6.61	-3.51	3.17
S&P 500 Low Volatility High Div TR USD	-1.15	4.33	-2.03	1.03	6.88
S&P 500 Enhanced Value TR USD	-1.17	2.10	-4.08	-3.22	9.80
S&P 500 Momentum TR USD	7.62	7.13	-5.19	9.30	33.95
S&P 500 Quality TR USD	3.74	5.33	-3.50	5.44	18.33
S&P High Yield Dividend Aristocrats TR USD	-1.71	2.34	-3.19	-2.61	3.19
S&P 500 Equal Weighted TR USD	-0.45	2.82	-4.87	-2.63	5.08
DJ US Select Dividend TR USD	-2.03	4.26	-3.09	-1.01	5.03
Benchmark: S&P 500 TR USD	3.59	4.96	-4.08	4.28	15.29

Source: Morningstar Direct

Despite many individual stocks declining, the overall market's rise highlighted a stark divergence between market-cap-weighted and equal-weighted versions of the S&P 500. In the past month, while the S&P 500 rose 2.4%, the cumulative advance-decline (A/D) line fell by over 1000, a rare occurrence since 2002. Nvidia's performance, driven by the AI boom, was a significant factor in this trend. The Citi United States Citigroup Economic Surprise Index dropped significantly, indicating economic data falling short of expectations.



Source: https://sherwood.news/markets/us-stocks-low-breadth-explained/?utm_source=substack&utm_medium=email

Outlook for the Second Half of 2024

Looking ahead, several potential headwinds could impact equity returns. The Fed's ongoing efforts to combat inflation suggest that interest rates may remain elevated, potentially suppressing economic growth and corporate profitability. Additionally, market volatility is expected to increase as investors navigate these uncertainties. Despite these challenges, historical data indicates that equity markets often perform well during election years. Many analysts and strategists believe that the upcoming U.S. elections will not significantly impact investment decisions, with broader economic fundamentals playing a more critical role.

The economic backdrop remains strong, bolstered by easy financial conditions and robust consumer spending. The Bloomberg U.S. Financial Conditions Index has risen since the Fed's pivot in late 2023, indicating favorable corporate profits and GDP growth conditions. Despite rate hikes, CEOs maintain a bullish outlook, and the labor market and

inflation remain robust. Analysts expect U.S. GDP growth to reach 2.5% in 2024, surpassing the consensus view of 2% at the start of the year.

Consumer spending is projected to remain strong, driven by increased household wealth, rising stock and house prices, and improved fixed-income cash flows. Despite the risks of a hard landing, the significant rise in household wealth suggests that consumer spending will continue to fuel economic growth.

Inflation, currently between 3% and 3.5%, remains a concern. The Fed is committed to its 2% target and will likely keep interest rates high to achieve this goal. Recent trends indicate persistent pressure from services and housing, with energy prices and manufacturing rebounds potentially increasing goods inflation. Interest rates remain a focal point, with the market pricing in potential cuts in 2024, which could catalyze more activity in advisory boutiques while supporting robust restructuring efforts. Despite macro concerns, strong earnings growth and strategic stock selection present opportunities for alpha generation in the U.S. equity markets.

While the U.S. equity markets showed robust performance in the first half of 2024, driven by large-cap technology stocks, the second half of the year may face increased volatility and economic headwinds. Investors should focus on quality investments and remain attentive to the Fed's monetary policy and broader economic indicators to navigate the potential challenges ahead. The growth over value trend could be upended if mega-cap tech is not able to keep up with the ever-increasing earnings expectations. A reversal in the trend of beating analyst earnings expectations may cause valuations for growth and value to narrow and value to catch up as growth disappoints. Despite the potential headwinds, the combination of strong economic fundamentals, robust consumer spending, and strategic corporate investments positions the U.S. equity markets for continued growth.

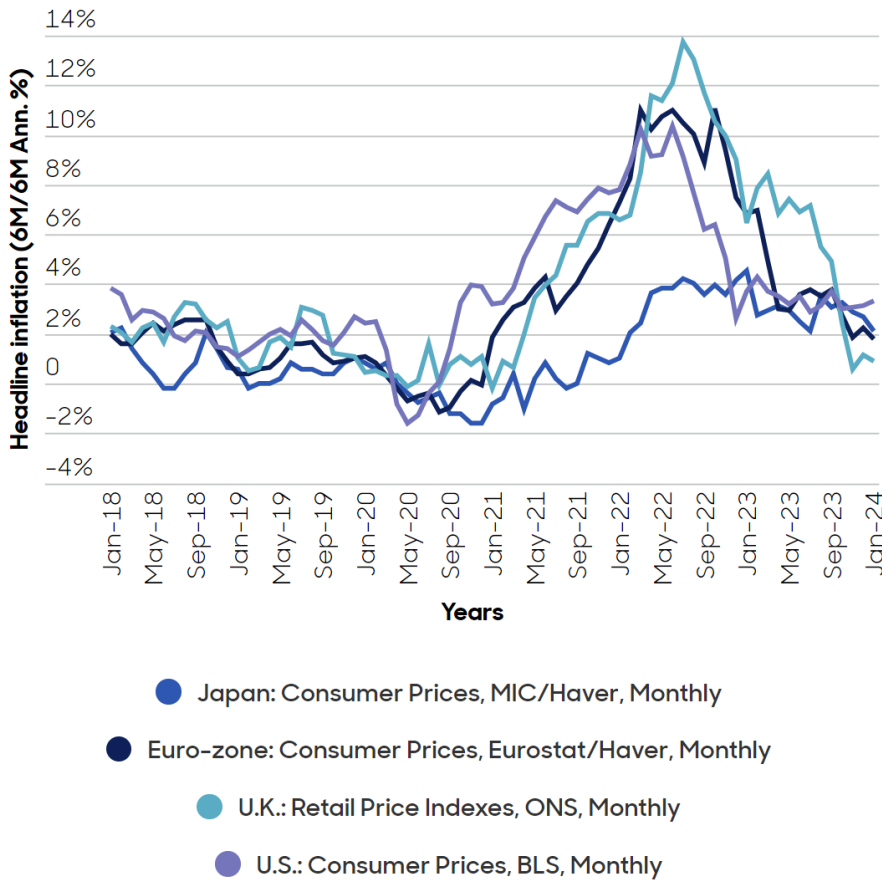
International Equity Markets

The eurozone showed promising signs of an economic rebound in the second quarter. The Eurozone Composite PMI (Purchasing Managers Index) indicated a rapid expansion in business activity, the fastest in 11 months, primarily driven by the service sector. Despite a minor setback in the manufacturing PMI, a decline in output has been less severe, and business confidence has hit a two-year high. Record low unemployment rates, strong nominal wage growth, and significant disinflation have provided substantial boosts to consumer incomes, which are expected to support domestic consumption and further expansion in the service sector. Additionally, a stabilizing Chinese economy is likely to aid Germany, the eurozone's largest economy, in overcoming its manufacturing downturn.

Earnings fundamentals have shown improvement, with earnings upgrades outpacing downgrades for the first time in ten months as the region's economic recovery continues. This is reflected in Q1 earnings beats, which were stronger than Q4 and above the historical average due to resilient profit margins. If positive economic momentum continues, there is the potential for greater upside surprises in the coming quarters.

The European Central Bank (ECB) has signaled a shift towards a more accommodative policy stance. Eurozone inflation, which peaked higher and later than in the US, has made significant progress toward the ECB's target. Core inflation dropped from 7.5% in March 2023 to 2.8% in April 2024. This has led to strong indications that rate cuts will begin in June, with economists projecting a total of 100 basis points of cuts this year. With a dovish ECB and steady global demand, a meaningful economic rebound is anticipated in the second half of the year, supporting an earnings recovery.

Chart 1. Inflation has declined but last-mile risks



Source: Haver, abrdrn, March 2024.

Source: <https://www.abrdn.com/en-us/investor/insights-and-research/global-economic-outlook-the-last-mile-us>

Eurozone equity valuations have become more expensive compared to the previous year, with the market reaching all-time highs and outperforming the S&P 500 year-to-date. However, the market's forward P/E ratio (13.8x) remains below its 10-year average (14.8x), and relative to US equities, eurozone equities are trading at a 15% greater discount than the historical average. Given the prospect of monetary easing and continued positive economic momentum, these valuations may have room for further expansion.

Intl Equity	QTD	YTD
MSCI China NR USD	7.09	4.74
MSCI AC Asia NR USD	2.72	8.48
MSCI EM Asia NR USD	7.44	11.04
MSCI FM Asia NR USD	-6.49	-0.55
MSCI ACWI NR USD	2.87	11.30
MSCI World ex USA NR USD	-0.60	4.96
MSCI EAFE PR USD	-1.48	3.51
MSCI Europe NR USD	0.55	5.81
MSCI EM NR USD	5.00	7.49
MSCI EM Latin America NR USD	-12.20	-15.68
Nikkei 225 Average NR JPY	-1.84	19.12
Benchmark: MSCI ACWI Ex USA NR USD	0.96	5.69

UK & EU Select Country Returns	QTD	YTD
S&P Norway BMI NR USD	8.83	4.34
S&P Denmark BMI NR USD	7.19	23.08
S&P Portugal BMI NR USD	6.90	-7.39
S&P Austria BMI NR USD	4.97	3.82
S&P Netherlands BMI NR USD	4.11	20.13
S&P United Kingdom BMI NR USD	3.88	6.57
S&P Germany BMI NR USD	-1.88	3.86
S&P Italy BMI NR USD	-3.22	8.25
S&P France BMI NR USD	-7.52	-1.98
S&P Ireland BMI NR USD	-8.31	5.32
S&P Luxembourg BMI NR USD	-12.87	-16.84
Benchmark: MSCI ACWI NR USD	2.87	20.14

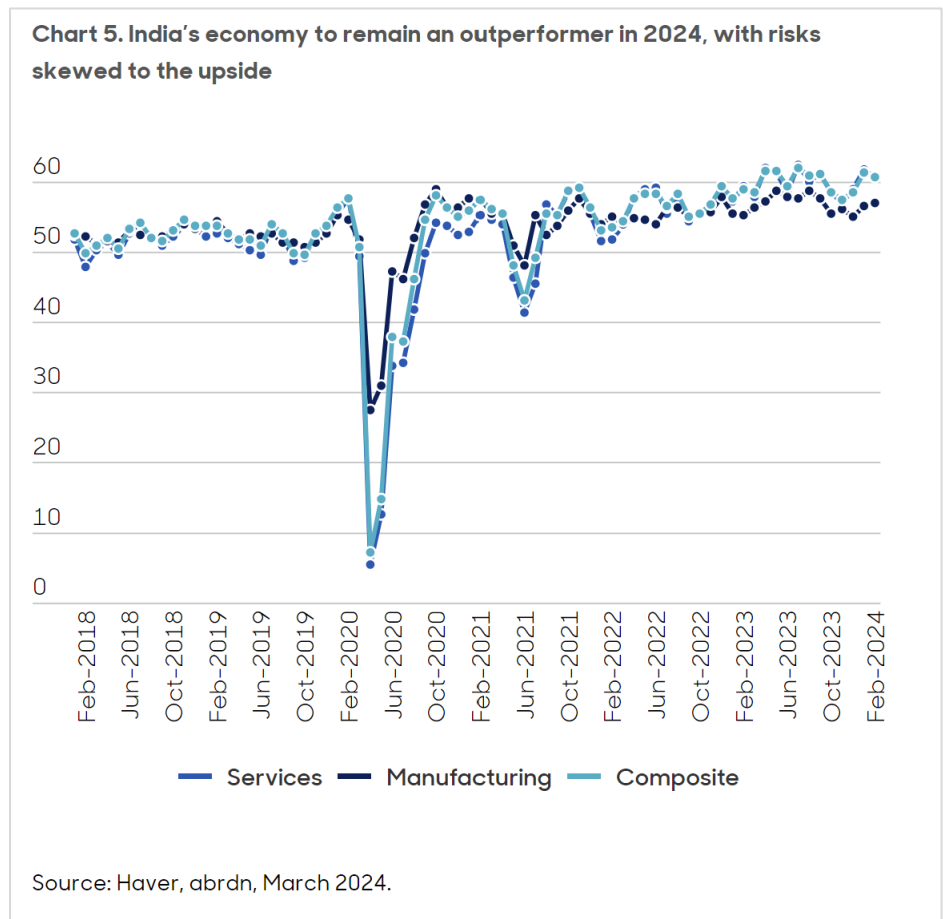
Source: Morningstar Direct

Chinese equities joined the global rebound in Q2 2024, driven by improved economic momentum and more fiscal policy easing. Depressed valuations and a recovery in parts of the economy contributed to this rebound. However, for Chinese equities to break out of their multi-year range, significant confidence in a domestic demand recovery is necessary, which appears unlikely this year due to limited demand-side stimulus and rising geopolitical tensions ahead of the US elections.

The Chinese government has taken steps to support the property market by allowing local governments to purchase excess inventory, which could alleviate stress on developers' balance sheets. Additionally, Chinese corporates have become more focused on governance and shareholder returns, with an increase in buyback announcements. Despite these positive developments, challenges such as weak consumer sentiment and geopolitical tensions remain.

Emerging market (EM) equities had a mixed performance in Q2 2024, influenced by post-election uncertainties and policy adjustments. The volatility of EM currencies persisted, exacerbated by renewed dollar strength and renminbi weakness. Country selection has become increasingly crucial due to diverging policy and economic outcomes among EM countries.

In the coming months, other Asian markets are expected to take the lead, with North Asian markets like South Korea and Taiwan benefiting from technology and AI-related growth. These countries are poised for strong earnings growth and market returns due to the upturn in the electronics cycle and AI-driven boosts in semiconductors. Indian equities are also anticipated to regain their footing following election uncertainties, with strong earnings growth fueled by robust economic momentum, supported by structural tailwinds and robust public infrastructure spending. Despite political uncertainties, India's economy is expected to continue outperforming its peers.



Source: <https://www.abrdn.com/en-us/investor/insights-and-research/global-economic-outlook-the-last-mile-us>

In Latin America, Brazil's policy decisions have stabilized investor sentiment, although high interest rates continue to weigh on equity valuations. The Brazilian economy has shown resilience, with inflation moderating and the central bank maintaining a tight monetary policy stance. However, political risks and tighter-than-expected monetary policy in Brazil and Mexico are constraints on their equity markets.

For the remainder of 2024, EM equities are likely to benefit from the broader adoption of AI technologies and improving economic conditions. However, geopolitical risks, particularly in relation to the US elections and potential trade policy changes, will continue to be significant factors influencing market performance. Investors should maintain a balanced approach, focusing on countries and sectors with strong earnings prospects and favorable policy environments.

Overall, global equity markets are poised for continued recovery in the second half of 2024. In the eurozone, positive economic momentum, dovish monetary policy, and attractive valuations provide a supportive backdrop for equities. Chinese equities will depend heavily on domestic demand recovery and geopolitical developments, while other emerging markets are expected to benefit from structural growth drivers and technology advancements.

Investors should remain vigilant of geopolitical risks and monetary policy shifts, particularly in the context of the upcoming US elections. Active management and careful country selection will be essential to navigate the varied economic landscapes and capitalize on growth opportunities in different regions.

Conclusion

The first half of 2024 witnessed a notable divergence in performance across global equity markets. The U.S. market, particularly large-cap technology stocks, continued to dominate, driven by robust earnings and significant investments in artificial intelligence. However, signs of softening economic growth and rising political uncertainties have raised concerns about the sustainability of the post-pandemic recovery. Meanwhile, eurozone equities benefited from improving economic fundamentals and a more accommodative policy stance by the ECB, although valuations have become more expensive. Chinese and other emerging market equities showed mixed performance, influenced by regional economic conditions and geopolitical risks.

As we progress into the second half of 2024, the outlook for global equity markets remains cautiously optimistic. In the eurozone, positive economic momentum and potential monetary easing are expected to support further earnings recovery. Chinese equities will rely heavily on domestic demand recovery and geopolitical developments, with policy measures aimed at stabilizing the property market and boosting corporate governance. Other Asian markets, particularly South Korea, Taiwan, and India, are poised for strong earnings growth driven by technology and AI-related advancements. Nonetheless, investors must remain cognizant of geopolitical risks, particularly those related to the upcoming U.S. elections and potential trade policy changes.

To navigate the complexities of the latter half of the year, investors should adopt a balanced approach. Monitoring geopolitical developments and monetary policy shifts will be critical for making informed investment decisions. The combination of strong economic fundamentals, robust consumer spending, and strategic corporate investments positions global equity markets for continued growth, albeit with potential volatility and headwinds.



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