Investment Update

Fall 2024

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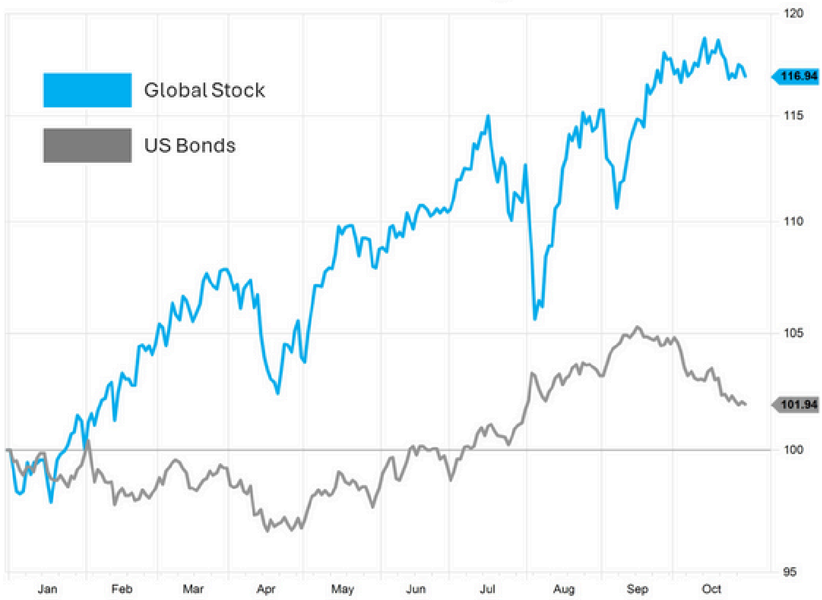
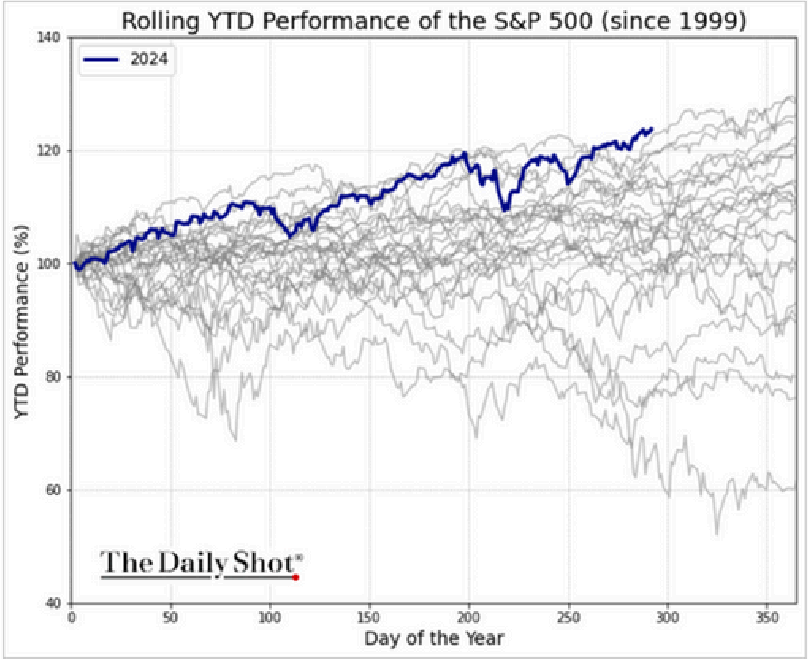
The Market

2024 has been another strong year for financial markets. Global stocks returned close to 17% through 10/30 led by US technology and AI enthusiasm. Meanwhile US bonds have returned close to 2% as interest rates have fallen and spreads have compressed (the extra yield investors need to compensate for default risk).

Total Return through 10/30



Global stocks have returned ~17% YTD



The S&P 500 is shaping up to have its best year since 1999 (through 10/21)

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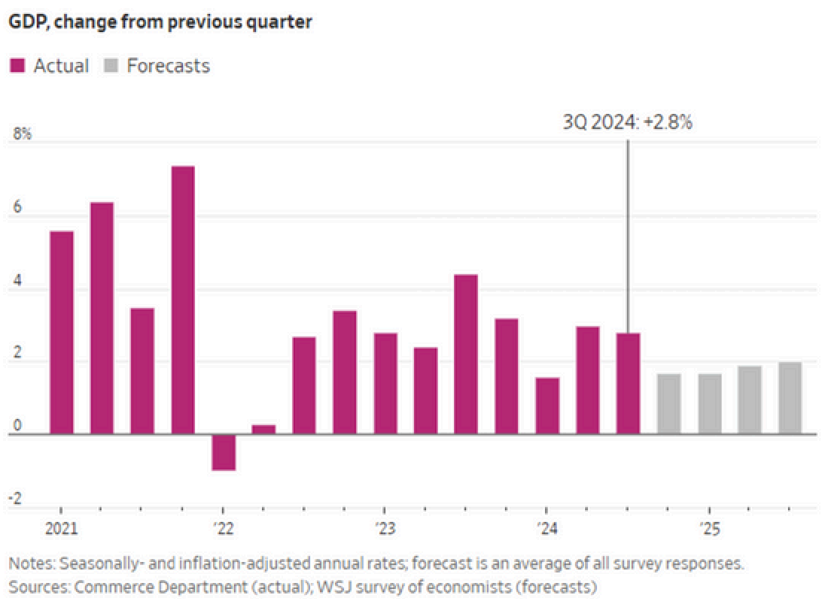
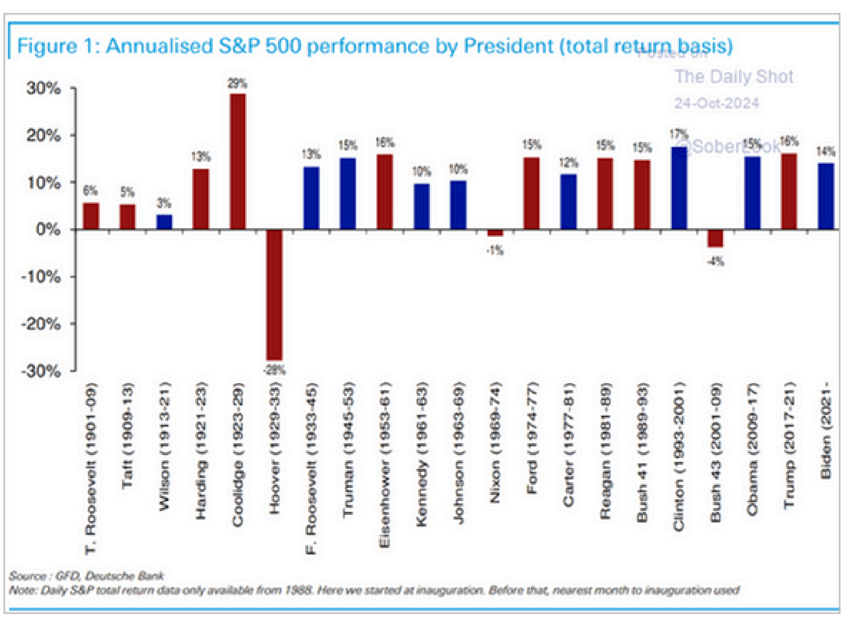
Global Stocks references Vanguard Total World Stock ETF (VT)
US Bonds references iShares Core US Aggregate Bond ETF (AGG)

The old wall street adage says “markets climb a wall of worry.” This describes a tendency for stock prices to rise despite economic uncertainty. It’s almost as if the market is ignoring the coming election. We would argue instead that markets are well aware of the election and are doing their best to price realistic outcomes. All the partisanship has overshadowed an extremely strong US economy which is ultimately supporting risky assets such as stocks. Overall, the labor market is strong, consumers are spending, and companies are making and investing record profits. And as we’ve repeated in previous newsletters, history has shown returns to be fairly stable regardless of which party is in the white house.

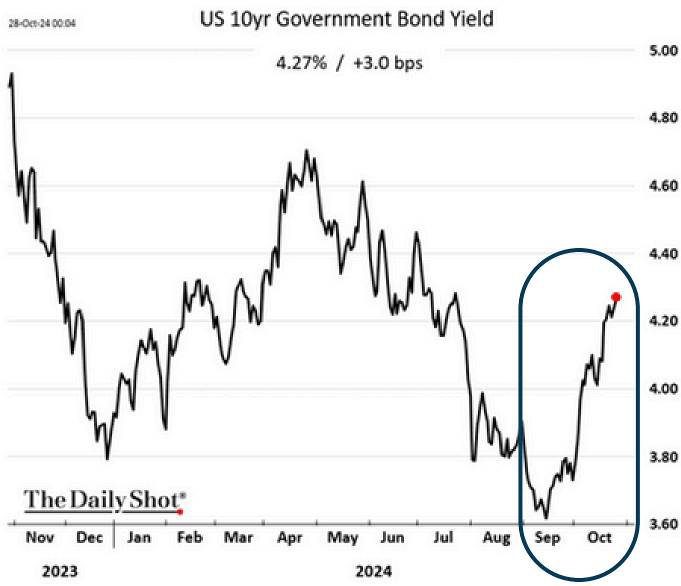


The US economy is strong - Q3 Real GDP increased by 2.8%



Market returns are stable no matter which party is in office

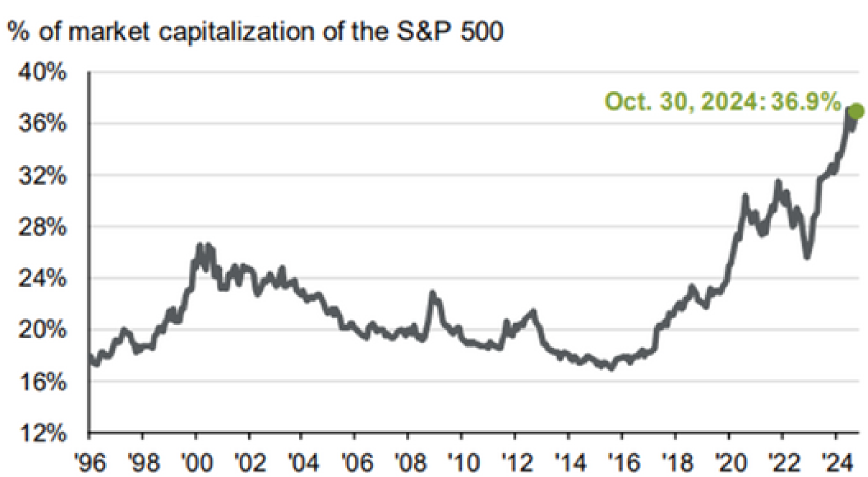
Government spending and record debt issuance are important factors driving this strong economy and ultimately the roaring stock market. Both parties do seem to agree that they will continue these policies and reduce taxes for most people despite record peacetime deficits. Central banks are adding further fuel to fire by easing monetary policy without an economic recession. Growth and spending can be inflationary, which is causing bonds yields to increase (yields rise when prices fall).



Bond yields have rapidly increased

Extreme market concentration in just a few large stocks is also unique to this environment. These companies have driven the bulk of the market returns this year. The top ten stocks in the S&P 500 comprised 36.9% of the index as of 10/30. No doubt these companies are extremely profitable and fast growing, but a less diversified portfolio is more risky.

Weight of the top 10 largest weights in the S&P 500



J.P. Morgan Asset Management Guide to the Markets 10.30.24

Our Portfolios

We continue to be patient as the strong economy and ebullient markets have been on quite a tear. It is not a time to get too far over our skis in terms of risk, but it is not a time to sit on the sidelines either.

We used the late summer swoon to return to our neutral stock positioning after being underweight risk since 2022. We own stocks to their index weights which has kept our equity portfolio growing in line with the market. Within bonds, we have remained up in terms of quality, and earned some extra yield by owning non-benchmark exposures through active managers. Our private market investments continue to provide a diversified source of risk and return (update to be sent separately in November to participating investors). We think these exposures complement a portfolio of concentrated public equity markets and bonds should returns moderate from their current pace.

Overall, our current objective is to keep up with a rapidly rising and dynamic market while developing our capabilities for potential investments in the future. It all comes back to building portfolios to align with investor goals and financial plans.