MARKET INSIGHT MONTHLY

June Update

MONTHLY COMMENTARY

As we approach mid-2024, it’s essential to review our past and consider how it may guide our future. The Federal Reserve has been unwavering in its commitment to reducing inflation to 2%. Since March 2022, the Fed has consistently communicated this goal to investors, analysts, asset managers, and economists. Despite no recent rate increases, the Fed's policy stance and objectives have remained unchanged. This certainty has allowed investors to shift assets into equities, confident that interest rates will likely remain stable. While the ultimate outcome of these measures is unknown, it's clear that inflation is no longer the threat it was two years ago, and current interest rates are not significantly hindering economic growth, despite remaining higher than in recent years.

S&P 500 corporate earnings have been consistently strong. After the economic downturn in 2020 due to Covid, record-setting earnings were reported in 2021, 2022, and 2023, despite higher operating costs caused by increased rates. In first quarter 2024, 78% of companies reported higher-than-expected earnings, and second-quarter earnings are forecasted to be the highest ever recorded for a single quarter. Full-year 2024 earnings are expected to grow by 11%, with a current estimate of nearly 14% growth for 2025. Barring any unexpected shocks, it's unlikely that institutional investors will be net equity sellers, given the expanding earnings and revenues. Although valuations are somewhat high, it's also unlikely that they will contract, especially with rates likely to be lower in the coming months or years.

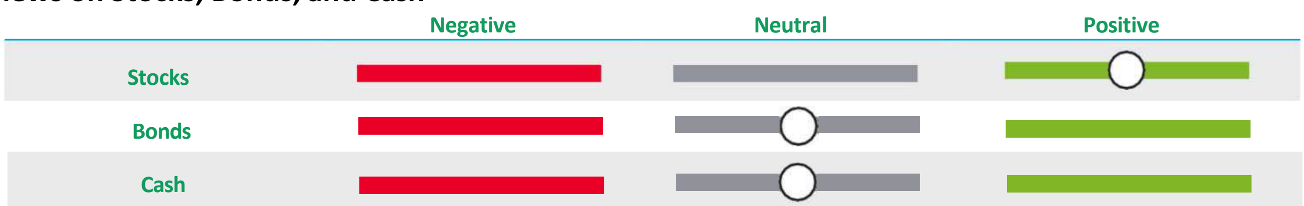
U.S. employment data is also a key indicator of future economic output. Employers are currently striving to meet consumer demand by hiring more people. The unemployment rate remains low at 4%, with over 8 million available jobs and around 5.5 million job seekers. The first five months of 2024 have seen the creation of over 276,000 new jobs per month, a 30% increase from the last six months of 2023. While we do not anticipate the economy becoming overstimulated by lower rates in the future, we also do not foresee it suddenly contracting anytime soon.

INVESTMENT TAKEAWAYS

- The equity market correction was brief in duration and minor in magnitude, lasting less than four weeks and retracing only 6% of its value. As suggested previously, United felt this correction would not be severe and would find stability in short order. Part of the catalyst for this correction can be attributed to worrisome inflation concerns that were not only stubborn, but perhaps severe enough for the Federal Reserve to raise rates even further. Investors needed reassurance this would not happen, which started to arrive in late April with stable PCE (Personal Consumption Expenditures) figures reported for March. In mid-May, better than anticipated April CPI (Consumer Price Index) figures were reported, and in late May, encouraging PCE figures were announced for the month of April.
- Fixed-income investors also became more confident, purchasing bonds across the intermediate and long part of the curve. Worries that the Fed would need to increase rates were largely forgotten. Currently, the Fed is expected to start rate reductions in Q3. With Canada and the ECB having recently lowered rates by 25 basis points, the Fed may consider taking a similar action sooner than expected. It should be noted the U.S. economy had only marginal expansion in Q1 2024 but grew much more rapidly in 2023 than either the Eurozone or Canada. Thus, on a relative basis, the need for reduced rates to stimulate the U.S. economy is less urgent.
- Like in 2023, many mega-cap technology and communications companies are performing well and carrying indexes to all-time highs. However, this year, more companies are participating in the rally and market breadth is healthier. Large-cap stocks remain in favor, but mid-caps have shown positive momentum. Small-caps have yet to establish themselves due to the “higher for longer” rate environment, but our research shows it is only a matter of time until they improve. Although value stocks are performing well, growth stocks continue to thrive.
- We maintain our commitment to risk-managed portfolios and protecting asset values in times of uncertainty and volatility. We believe a global economic transition will continue to develop that ultimately favors technological advancement. This universal trend will impact and advance all corporate enterprises. To this end, we have adjusted our allocations and now slightly favor growth companies in our domestic mid-cap and small-cap allocations, as well as our international developed allocation. In our large-cap segment, we increased exposure to growth, but maintained a very modest value overweight. This growth adjustment has been beneficial thus far for all of our managed portfolios containing equities.
- International developed equity markets continue to outperform emerging markets through May. Much like 2023, the U.S. economy is still outperforming those of almost every other developed nation. The dollar has been range-bound, nullifying any pronounced trend, but has shown recent strength due to reduced rates internationally. We expect developed markets will continue to be preferred over emerging markets. Our emerging market ex-China position implemented in 2023 has proven timely. The Chinese market has recovered of late but is almost entirely driven by internal domestic buying, as political rhetoric is unchanged and new foreign investment is minimal.
- Inflation will continue to decrease over time but not in a linear fashion. We do not believe interest rates will experience significant upward bias. It is possible the Fed will feel some additional pressure to reduce rates given the recent actions by the ECB and Canada. The current yield curve is favorable for a well-balanced, moderate-duration position. We favor intermediate maturities with some exposure to shorter-term maturities and the high-yield segment.

BROAD ASSET CLASS VIEWS

Views on Stocks, Bonds, and Cash



EQUITY ASSET CLASSES

After a very strong first quarter and a minor retracement in April, investors responded favorably to softer interest rates by diving back into equities in May. Large-caps fared well and small-caps, for the first time since late 2023, also performed exceedingly well. The unexpected market-driven interest rate rise during the first quarter of the year caused investors to pause their advocacy for small-caps. With recent inflation reports showing some price stability, fixed income investors took the initiative by buying the long and intermediate end of the curve, moving these rates lower. By the same token, equity investors saw additional opportunity to add mid- and small-cap positions, which ordinarily benefit from rate reductions and lower cost of capital. In general, increasing equity prices across different styles, sizes, and geographies will typically indicate that the lower interest rate direction is confirmed. When combined with the last two months of 2023, the stock market has generated some of the best seven-month sequential returns in its history, with little volatility and minimal pull backs. The retracement to the lows in April was less than 6% from the highs in March. Although the market has now reversed course and continues higher, we are quite conscious of the powerful rally just mentioned. Much of the current and future earnings growth is already “in the market” and, to some degree, future rate reductions have also been priced in. While we remain positive and are optimistic higher equity prices will prevail, we also recognize that significant above-average gains may not further materialize given the extent to which prices have already risen. Market leadership is expanding and market breadth (*i.e.*, the cumulative number of stocks advancing vs declining) has recently set new highs. Most companies within the S&P 500 have reported first-quarter earnings, and 78% of them beat estimates. The future looks quite bright. Full-year 2024 earnings are now expected to grow 11% year-over-year. Calendar year 2025 earnings are expected to exceed that with a 14% growth rate. Although we have a small overweight position in small-caps, our largest allocation will remain in large-cap domestic companies, which have led performance over the last twelve months.

		View	Relative Trend	Rationale
Market Capitalization	Large-Caps			Through May, U.S. large-cap stocks are among the leading global equity performers. Growth companies, particularly mega-cap tech and communications companies, performed exceedingly well in 2023 and continue to do the same. After some recent profit-taking, which was expected given the significant rally that began last October, large-caps are rallying once again. Broad participation, or breadth, is expanding to other industries. This is healthy and increases a bull market’s longevity. Some tech companies may have difficulty attracting as much capital as they did in 2023 as valuations are stretched. We will maintain our large commitment to the large-cap segment.
	Mid-Caps			Mid-cap companies are having a solid year and rebounded quite nicely after their modest pullback in April. Similar to the large-cap segment, investors are showing a preference for the growth style, but leadership is broadening. Earnings are stable and valuations are reasonable. We expect more sustained gains as interest rate stability is restored. Earnings should be healthy in the second half of 2024.
	Small-Caps			The small-cap sector was disproportionately impacted by rising rates through the summer of 2023. Although small-cap companies performed exceedingly well as rates fell in late 2023, intermittent higher rate fears prevented complete small-cap advocacy. We have begun to see this change with lower inflation reports. Further gains will progress as these reports improve throughout the year. Earnings reports are encouraging, and valuations remain attractive.
Style	Growth			Much like 2023, large-cap growth companies led the way through April, though more companies are participating in the current upside move and more segments of the economy are being represented. Growth still remains dominant year-to-date, but investors are being rewarded for diversifying their growth holdings, as market performance is not as narrow as in 2023. United has recently increased our weighting to growth across all domestic segments.
	Value			Although United recently lowered our value exposure, we maintain a slight value overweight to protect portfolios from known and unknown risks. The companies held in our value-based Large Cap Dividend Strategy are known for their perennial healthy balance sheets and their favorable attitude towards investors. Value companies have attracted more attention lately due to attractive valuations and reliable earnings. We anticipate further gains in 2024 as lower rates prompt a broadening expansion.
Region	United States			It is our continued position that better relative performance will be generated from the U.S. stock market than from international markets for the foreseeable future. The U.S. market has more consistent and predictable outcomes. However, due to the significant rally since last fall, valuations are only reasonable in the large-cap segment, despite quality earnings. Elevated large-cap growth valuations were subject to most of the recent pullback. Both mid- and small-cap companies remain attractive but are heavily dependent on interest rate movement. The strength of the U.S. employment environment has led to continued overall consumer health, and the May employment report was stronger than anticipated after some slight disappointment in the April figures.
	Developed International			Most developed countries have shown significant progress in battling inflation. Like the U.S., international central banks have been challenged by when to reduce rates. However, in a departure from U.S. policy, Canada and the ECB voted to reduce their short-term deposit rates by 25 basis points in early June. Government officials and bankers have been more concerned about lack of economic growth than inflation to a bare minimum. We maintain our baseline weight to international equity. We do feel that rate reductions are a progressive step.
	Emerging Markets			Although we foresee emerging market growth over the long term, uncertainties stemming from international conflicts create obstacles to consistency and predictability. Our removal of direct exposure to China was timely. We are encouraged by recent communications between the U.S. and China but are in no hurry to commit additional funds to this space. We continue to maintain our baseline weight.

FIXED INCOME

Steady, Stable, and not Surprising

Interest rates were modestly higher during the first quarter and continued to rise through April. However, May brought some modest relief as inflation reports showed progress in stabilizing energy and agricultural prices. The short end of the yield curve has been constant for nearly a full year, as its movement is almost exclusively tied to Federal Reserve activity. The rest of the yield curve has remained elevated as investors digest consistently healthy economic figures with little additional inflation progress. As inflation reports have not suggested worsening inflation, the intermediate to long end of the curve has been reasonably stable. In a major policy departure from recent norms, both the Canadian central bank and the European Central Bank (ECB) reduced their key lending rate by 25 basis points. This indicates a potential shift in focus from combatting the significantly subdued inflationary threat to addressing economic weaknesses. It is possible the Fed will take note and perhaps begin the long-awaited rate reductions to better align with our global partners. United anticipates the yield curve will remain stable over the foreseeable future, experiencing only marginal variance. Our decision to extend duration in early October 2023 was timely and remains profitable. We generally returned portfolios to "average" duration. However, we kept a slight bias to short-term securities as a precaution against a strong economy and inflation that might not fall as rapidly as hoped, which has been the case. Unless another dramatic global event triggers additional inflationary fears, we do not anticipate a change in the future lower inflation/lower rate environment. Still, it is taking more time to achieve than the Fed likely anticipated. Rate cuts by the FOMC in 2024 should not be as significant as had been estimated at the year's start. We currently recommend a blend of high-quality, intermediate-term bonds in all fixed income portfolios with appropriate exposure to the shorter-end. Quality companies and municipalities continue to perform well across the quality and size spectrum. High-yield bonds issued by stable but growing entities continue to be a productive use of fixed income capital. We remain committed to a modest high-yield position in both corporate and municipal bonds. In tax-sensitive accounts, we favor municipal bonds, as infrastructure spending, strong state revenues, and the potential for higher personal tax rates provide support to municipal markets.

Positioning		Low Medium High	Rationale
	Credit Quality		To protect asset values, United prefers fixed income portfolios dominated by high-quality bonds. Credit spreads have normalized despite higher rates.
		Short Int. Long	
	Duration		United believes short-term rates are stable, near their peak, and locked into place due to Fed policy. Longer rates are range bound with minor variance.

COMMODITIES

Despite their efforts, even world powers such as Russia and China cannot control commodity prices for an extended period. Though they may aim to destabilize specific countries and regions, global investors tend to prevail over the long term based on the levels of supply and demand. Despite ever-changing world events and continual threats to the supply-chain, commodity prices have been relatively stable in 2024. West Texas Intermediate and Brent Crude Oil prices have retreated from their highs and are up just under 10% for the year. Gold, which has been heavily purchased by the central banks of Russia and China, is up less than 13% year to date. With the S&P 500 and several growth benchmarks faring as well or better, it raises the question: "Are gold and other precious metals truly a better investment in times of uncertainty?" Broad commodity benchmarks have increased about 7% through May, as most agricultural prices remain subdued. Last month we noted that copper prices had risen quite precipitously through April, possibly indicating stronger global economic conditions ahead. However, prices have fallen about 13% from their recent highs and are no longer signaling inflated demand.

CONCLUSION

As anticipated, the equity markets experienced a period of consolidation at the beginning of the second quarter. Institutional investors took advantage of the slight uptick in inflation uncertainty to secure equity gains earned from the rally that began last October. All markets require a period to assimilate after significant movement, whether up or down, to reassess conditions. The limited pullback has paved the way for another rally, facilitating gains that have extended through May. We continue to be encouraged by employment reports, as May figures showed another 272,000 new jobs were created despite the unemployment rate moving to 4.0%. At a very basic level, quality jobs and job growth are leading to sustainable spending across many industries and segments. As corporate revenues increase, the C-suites are managing bottom lines exceedingly well. Operating earnings are expected to grow 11% in 2024 and perhaps another 14% in 2025. With lower and not higher interest rates ahead, we expect continued equity gains for investors for the foreseeable future. We will continue to monitor global events closely, but we generally anticipate continued expansion of economic activity.

Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

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