

Investment Performance Summary

As of 6/30/2024

| Investment Mix Options | YTD | 1 Month | 3 Months | 1 Year | 3 Years | 5 Years | 10 Years |
|---|--------------|--------------|-------------|--------------|--------------|--------------|--------------|
| Domestic Equity Benchmark | 13.58 | 3.14 | 3.25 | 23.17 | 7.91 | 14.07 | 12.11 |
| Domestic Equity Pool TR | 13.58 | 3.15 | 3.25 | 23.22 | 7.94 | 14.08 | 12.12 |
| S&P 500 TR USD | 15.29 | 3.59 | 4.28 | 24.56 | 10.01 | 15.05 | 12.86 |
| International Equity Pool TR | 4.98 | -1.10 | 0.49 | 10.79 | 0.45 | 5.86 | 4.20 |
| International Equity Benchmark | 5.02 | -0.55 | 0.47 | 11.32 | 0.32 | 5.67 | 4.14 |
| MSCI ACWI Ex USA NR USD | 5.69 | -0.10 | 0.96 | 11.62 | 0.46 | 5.55 | 3.84 |
| Intermediate-Term Fixed Income Pool TR | -0.30 | 0.99 | 0.32 | 3.36 | -2.55 | 0.23 | 1.65 |
| Intermediate-Term Fixed Income Benchmark | -0.30 | 1.04 | 0.30 | 3.51 | -2.45 | 0.29 | 1.75 |
| Short-Term Fixed Income Pool TR | 0.81 | 0.75 | 0.77 | 4.42 | -0.37 | 0.92 | 1.39 |
| Short-Term Fixed Income Benchmark | 0.81 | 0.75 | 0.77 | 4.52 | -0.28 | 1.02 | 1.49 |
| Money Market Pool TR | 2.42 | 0.39 | 1.20 | 4.85 | 2.40 | 1.67 | 1.12 |
| USTREAS T-Bill Auction Ave 3 Mon | 2.75 | 0.45 | 1.37 | 5.61 | 3.43 | 2.32 | 1.62 |

Individual investment options allow donors to recommend a custom allocation strategy, which can include one or more Investment Pools.

*The Domestic Equity TR, the International Equity TR, the Domestic Equity Benchmark and the International Equity Benchmark have an inception date of 6/30/19: performance prior to that date is pro-forma.

| Investment Mix Options | YTD | 1 Month | 3 Months | 1 Year | 3 Years | 5 Years | 10 Years |
|-------------------------------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|
| Aggressive Mix TR | 8.62 | 1.68 | 2.06 | 15.94 | 4.42 | 9.37 | 8.27 |
| Aggressive Mix Benchmark | 8.64 | 1.80 | 2.06 | 16.10 | 4.42 | 9.36 | 8.27 |
| Moderately Aggressive Mix TR | 6.91 | 1.48 | 1.79 | 13.39 | 3.49 | 7.64 | 6.78 |
| Moderately Aggressive Mix Benchmark | 6.93 | 1.57 | 1.79 | 13.55 | 3.55 | 7.67 | 6.82 |
| Moderate Mix TR | 4.91 | 1.25 | 1.46 | 10.37 | 2.31 | 5.45 | 5.01 |
| Moderate Mix Benchmark | 4.94 | 1.31 | 1.47 | 10.56 | 2.44 | 5.53 | 5.10 |
| Conservative Mix TR | 2.94 | 0.95 | 1.13 | 7.30 | 1.17 | 3.22 | 3.20 |
| Conservative Mix Benchmark | 3.00 | 1.00 | 1.15 | 7.55 | 1.42 | 3.39 | 3.36 |
| Short-Term Mix TR | 1.38 | 0.63 | 0.92 | 4.59 | 0.61 | 1.19 | 1.30 |
| Short-Term Mix Benchmark | 1.49 | 0.65 | 0.98 | 4.92 | 1.02 | 1.48 | 1.54 |
| Risk Averse Mix TR | 2.42 | 0.39 | 1.20 | 4.85 | 2.40 | 1.67 | 1.12 |
| USTREAS T-Bill Auction Ave 3 Mon | 2.75 | 0.45 | 1.37 | 5.61 | 3.43 | 2.32 | 1.62 |

Investment Mix options offer a simple, one-stop approach to an investment strategy that best reflects your charitable goals. Donors recommend one option, which the Community Foundation rebalances.

Returns for periods greater than 1 year are compound annual returns.
TR = Total Return

| Current Investment Mix Allocations | Domestic Equity Pool | Int'l Equity Pool | Inter-Term Fixed Income Pool | Short-Term Fixed Income Pool | Money Market Pool |
|------------------------------------|----------------------|-------------------|------------------------------|------------------------------|-------------------|
| Aggressive | 55% | 22% | 10% | 10% | 3% |
| Moderately Aggressive | 43% | 17% | 10% | 25% | 5% |
| Moderate | 29% | 11% | 15% | 35% | 10% |
| Conservative | 14% | 6% | 18% | 42% | 20% |
| Short Term | 0% | 0% | 0% | 65% | 35% |
| Risk Averse | 0% | 0% | 0% | 0% | 100% |

Estimated Investment Management Fees for the Investment Mix Options

| | |
|-----------------------|-------|
| Aggressive | 0.05% |
| Moderately Aggressive | 0.06% |
| Moderate | 0.07% |
| Conservative | 0.08% |
| Short Term | 0.11% |
| Risk Averse | 0.14% |

Performance is presented net of all investment management fees, brokerage, consulting and other transaction costs but gross of Long Beach Community Foundation administrative fees.

Customer Service

If you wish to request a change to your investment mix, or have any questions about your fund, information on the pools, including their component funds and blended benchmarks, the Board of Directors Investment Committee, or the Investment Policy Statement please contact LBCF at (562) 435-9033 or Info@longbeachcf.org.

Domestic Equity Pool

As of 6/30/2024

Trailing Returns

| Domestic Equity Pool & Benchmark | YTD | Quarter | 1 Year | 3 Years Annualized | 5 Years Annualized | 10 Years Annualized |
|----------------------------------|--------------|-------------|--------------|--------------------|--------------------|---------------------|
| Domestic Equity Pool TR | 13.58 | 3.25 | 23.22 | 7.94 | 14.08 | 12.12 |
| Domestic Equity Benchmark | 13.58 | 3.25 | 23.17 | 7.91 | 14.07 | 12.11 |
| S&P 500 TR USD | 15.29 | 4.28 | 24.56 | 10.01 | 15.05 | 12.86 |
| Russell 3000 TR USD | 13.56 | 3.22 | 23.13 | 8.05 | 14.14 | 12.15 |

Trailing Returns

| Equity Pool Holdings & Benchmarks | YTD | Quarter | 1 Year | 3 Years Annualized | 5 Years Annualized | 10 Years Annualized |
|--|--------------|-------------|--------------|--------------------|--------------------|---------------------|
| Vanguard Instl Ttl Stk Mkt Idx InstlPIs | 13.59 | 3.25 | 23.23 | 7.95 | 14.09 | 12.14 |
| CRSP US Total Market TR USD | 13.58 | 3.25 | 23.17 | 7.91 | 14.07 | 12.11 |

Purpose

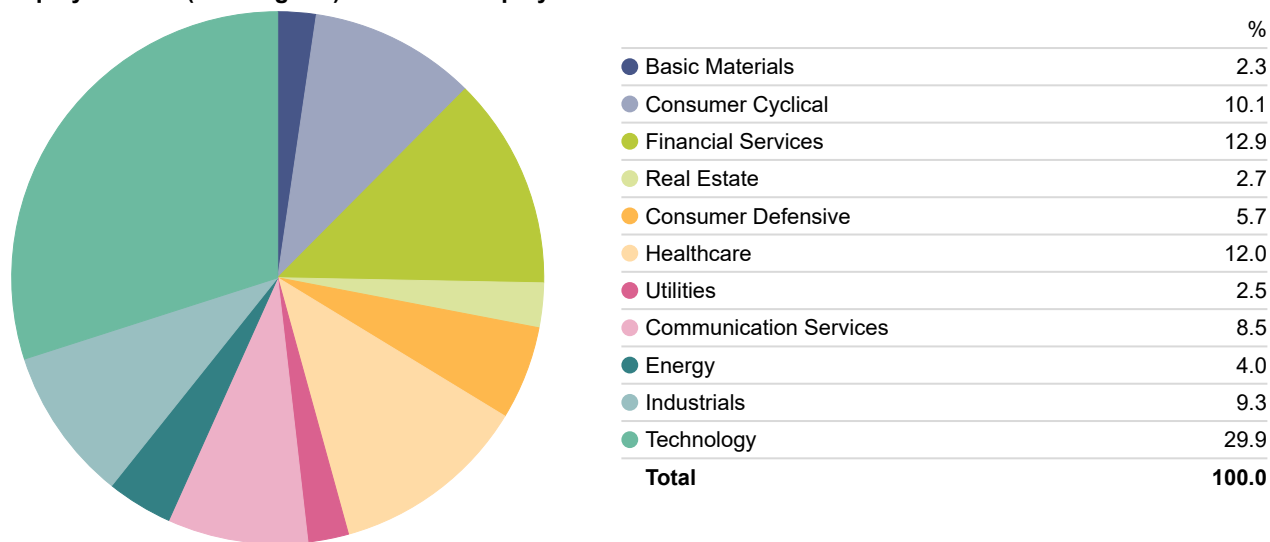
The purpose of the Domestic Equity Pool is to facilitate the funding of current and future charitable needs of participating charitable funds and organizations. The long term investment objective of the Equity Pool is to obtain broad equity market exposure utilizing a passive, cost effective approach that is diversified across market capitalizations and regions. A secondary objective is to provide cash flows to fund distributions and to preserve the purchasing power of the funds to meet charitable needs now and in the future.

Top Holdings - Domestic Equity Pool

Portfolio Date: 6/30/2024

| Total Market Value: \$587,095,402 | Market Value (mil) | Portfolio Weighting % |
|---|--------------------|-----------------------|
| Vanguard Instl Ttl Stk Mkt Idx InstlPIs | \$ 587.1 | 100.0% |

Equity Sectors (Morningstar) - Domestic Equity Pool



| Equity Benchmark | Current |
|----------------------------|---------|
| CRSP US Total Stock Market | 100% |

Source: Morningstar Direct

Top Stock Holdings

1. Microsoft Corp
2. Apple Inc
3. NVIDIA Corp
4. Amazon.com Inc.
5. Meta Platforms Inc Class A
6. Alphabet Inc Class A
7. Alphabet Inc Class C
8. Berkshire Hathaway Inc Class B
9. Eli Lilly and Co
10. Broadcom Inc

Trailing Twelve Month Dividend Yield: 1.58%

Performance is presented gross of administrative fees but net of all investment management fees, brokerage, consulting and other transaction costs.

Estimated Pool Investment Management Fee: .04%

International Equity Pool

As of 6/30/2024

Trailing Returns

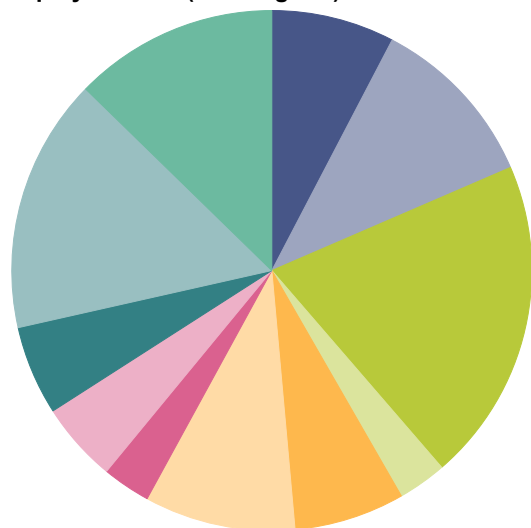
| Equity Pool & Benchmark | YTD | Quarter | 1 Year | 3 Years Annualized | 5 Years Annualized | 10 Years Annualized |
|-------------------------------------|-------------|-------------|--------------|--------------------|--------------------|---------------------|
| International Equity Pool TR | 4.98 | 0.49 | 10.79 | 0.45 | 5.86 | 4.20 |
| International Equity Benchmark | 5.02 | 0.47 | 11.32 | 0.32 | 5.67 | 4.14 |
| FTSE Global All Cap ex US TR USD | 5.45 | 0.99 | 12.03 | 0.81 | 6.19 | 4.43 |

Performance for the International Equity Pool prior to 06/30/2019 is pro-forma based on the experience of the previous Equity Pool

Trailing Returns

| International Equity Pool Holding & Benchmark | YTD | Quarter | 1 Year | 3 Years Annualized | 5 Years Annualized | 10 Years Annualized |
|---|-------------|--------------|--------------|--------------------|--------------------|---------------------|
| Vanguard Developed Markets Index Instl | 4.35 | -0.75 | 10.60 | 1.82 | 6.54 | 4.53 |
| FTSE Developed ex US All Cap NR USD | 4.16 | -0.85 | 10.79 | 1.56 | 6.29 | 4.19 |
| Vanguard Emerging Mkts Stock Idx Instl | 7.31 | 5.31 | 11.92 | -3.69 | 3.79 | 3.04 |
| FTSE Emerging NR USD | 8.24 | 5.73 | 13.46 | -3.53 | 3.73 | 3.30 |

Equity Sectors (Morningstar) - International Equity Pool



| | % |
|------------------------|--------------|
| Basic Materials | 7.7 |
| Consumer Cyclical | 10.9 |
| Financial Services | 20.2 |
| Real Estate | 3.0 |
| Consumer Defensive | 6.9 |
| Healthcare | 9.4 |
| Utilities | 3.0 |
| Communication Services | 5.0 |
| Energy | 5.6 |
| Industrials | 15.8 |
| Technology | 12.7 |
| Total | 100.0 |

| International Equity Benchmark | Current |
|--------------------------------|---------|
| FTSE Developed ex US All Cap | 80% |
| FTSE Emerging Markets | 20% |

Source: Morningstar Direct

Purpose

The purpose of the International Equity Pool is to facilitate the funding of current and future charitable needs of participating charitable funds and organizations. The long term investment objective of the International Equity Pool is to obtain broad international equity market exposure utilizing a passive, cost effective approach that is diversified across market capitalizations and regions. A secondary objective is to provide cash flows to fund distributions and to preserve the purchasing power of the funds to meet charitable needs now and in the future.

Top Holdings - International Equity Pool

Portfolio Date: 6/30/2024

| Total Market Value: \$195,872,290 | Market Value (mil) | Portfolio Weighting % |
|--|--------------------|-----------------------|
| Vanguard Developed Markets Index Ins Pls | \$ 156.7 | 80% |
| Vanguard Emerging Mkts Stock Idx Instl | \$ 39.2 | 20% |

Top Stock Holdings

- Taiwan Semiconductor Manufacturing Co Ltd
- Novo Nordisk A/S Class B
- ASML Holding NV
- Nestle SA
- Toyota Motor Corp
- Samsung Electronics Co Ltd
- Shell PCL
- AstraZeneca PCL
- Novartis AG Registered Shares
- Tencent Holdings Ltd

Trailing Twelve Month Dividend Yield: 3.30%

Performance is presented gross of administrative fees but net of all investment management fees, brokerage, consulting and other transaction costs.

Estimated Pool Investment Management Fee: .07%

Intermediate-Term Fixed Income Pool

As of 6/30/2024

Trailing Returns

| Int-Term Fix. Inc. Pool & Blended Benchmark | Year To Date | Quarter | 1 Year | 3 Years Annualized | 5 Years Annualized | 10 Years Annualized |
|---|--------------|-------------|-------------|--------------------|--------------------|---------------------|
| Intermediate-Term Fixed Income Pool TR | -0.30 | 0.32 | 3.36 | -2.55 | 0.23 | 1.65 |
| Intermediate-Term Fixed Income Benchmark | -0.30 | 0.30 | 3.51 | -2.45 | 0.29 | 1.75 |

Purpose

The purpose of the Intermediate-Term Fixed Income Pool is to provide capital preservation and current income to help meet spending requirements of donor portfolios. The Pool will utilize a passive, cost effective approach with a secondary objective to provide broad exposure to U.S. income markets. The Pool is diversified across U.S. Treasury notes and bonds, corporate bonds, bank loans, mortgage-backed securities, and U.S. Treasury Inflation-Protected Securities. The average effective duration and interest rate risk of the Pool will be commensurate with broad fixed income benchmarks such as the Barclays US Aggregate Bond index.

Trailing Returns

| Short-Term Fix. Inc. Pool Holdings & Benchmarks | Year to Date | Quarter | 1 Year | 3 Years Annualized | 5 Years Annualized | 10 Years Annualized |
|---|--------------|-------------|--------------|--------------------|--------------------|---------------------|
| Vanguard Interm-Term Bond Index I | -0.50 | 0.26 | 3.12 | -3.04 | 0.10 | 1.77 |
| Bloomberg US 5-10 GovCredit FIAdj TR USD | -0.51 | 0.23 | 3.25 | -2.99 | 0.12 | 1.81 |
| Vanguard Mortgage-Backed Secs Idx Instl | -0.75 | 0.19 | 2.41 | -2.80 | -0.71 | 0.82 |
| Bloomberg US MBS TR USD | -0.98 | 0.07 | 2.12 | -2.92 | -0.76 | 0.89 |
| Vanguard Shrt-Term Infl-Prot Sec Idx Ins | 2.29 | 1.43 | 5.35 | 2.14 | 3.13 | 2.00 |
| Bloomberg US TIPS 0-5 Year TR USD | 2.26 | 1.41 | 5.37 | 2.15 | 3.16 | 2.03 |
| SPDR® Portfolio High Yield Bond ETF | 2.63 | 1.16 | 10.49 | 1.87 | 4.09 | 4.05 |
| ICE BofA US High Yield TR USD | 2.62 | 1.09 | 10.45 | 1.65 | 3.73 | 4.21 |

Intermediate-Term Fixed Income Pool Holdings

Portfolio Date: 6/30/2024

| | Market Value (mil) | Portfolio Weight % |
|--|--------------------|--------------------|
| Total Market Value: \$164,002,439 | | |
| Vanguard Interm-Term Bond Index Ins Plus | \$ 115.9 | 70.7% |
| Vanguard Mortgage-Backed Secs Idx Instl | \$ 34.0 | 20.7% |
| SPDR® Portfolio High Yield Bond ETF | \$ 7.1 | 4.3% |
| Vanguard Shrt-Term Infl-Prot Sec Idx Ins | \$ 7.1 | 4.3% |

Intermediate-Term Fixed Income Benchmark Weights

Percent

| | |
|---|------|
| Barclays US 1-5Y GovCredit FIAdj TR USD | 70% |
| Barclays US MBS Float Adjusted TR US | 21% |
| Barclays U.S. Treasury TIPS 0-5Y TR USD | 4.5% |
| S&P/LSTA U.S. Leveraged Loan 100 TR USD | 4.5% |

Inception Date: January 1, 2014

Performance is presented gross of administrative fees but net of all investment management fees, brokerage, consulting and other transactions costs.

Estimated Pool Investment Management Fee: 0.07%

Fixed Income Pool Statistics

| | |
|-----------------------------|------------|
| Average Yield to Maturity | 4.30% |
| Average Effective Duration | 5.67 years |
| Trailing Twelve Month Yield | 3.76% |

Short-Term Fixed Income Pool

As of 6/30/2024

Trailing Returns

| Short-Term Fix. Inc. Pool & Blended Benchmark | Year To Date | Quarter | 1 Year | 3 Years Annualized | 5 Years Annualized | 10 Years Annualized |
|---|--------------|-------------|-------------|--------------------|--------------------|---------------------|
| Short-Term Fixed Income Pool TR | 0.81 | 0.77 | 4.42 | -0.37 | 0.92 | 1.39 |
| Short-Term Fixed Income Benchmark | 0.81 | 0.77 | 4.52 | -0.28 | 1.02 | 1.49 |

Purpose

The purpose of the Short-Term Fixed Income Pool is to provide capital preservation and current income to help meet spending requirements of donor portfolios. The Pool will utilize a passive, cost effective approach with a secondary objective to provide broad exposure to U.S. income markets. The Pool is diversified across U.S. Treasury notes and bonds, corporate bonds, bank loans, mortgaged-backed securities and U.S. Treasury Inflation-Protected Securities. The Pool will have a lower average effective duration than broad fixed income market benchmarks such as the Barclays U.S. Aggregate Bond Index, hence limiting overall interest rate risk.

Trailing Returns

| Short-Term Fix. Inc. Pool Holdings & Benchmarks | Year to Date | Quarter | 1 Year | 3 Years Annualized | 5 Years Annualized | 10 Years Annualized |
|---|--------------|-------------|-------------|--------------------|--------------------|---------------------|
| Vanguard Short-Term Bond Idx I | 1.01 | 0.84 | 4.61 | -0.23 | 1.00 | 1.38 |
| Bloomberg US 1-5Y GovCredit FIAdj TR USD | 0.97 | 0.83 | 4.66 | -0.20 | 1.02 | 1.42 |
| Vanguard Mortgage-Backed Secs Idx Instl | -0.75 | 0.19 | 2.41 | -2.80 | -0.71 | 0.82 |
| Bloomberg US MBS Float Adjusted TR USD | -0.76 | 0.12 | 2.38 | -2.69 | -0.63 | 0.90 |
| Vanguard Shrt-Term Infl-Prot Sec Idx Ins | 2.29 | 1.43 | 5.35 | 2.14 | 3.13 | 2.00 |
| Bloomberg US TIPS 0-5 Year TR USD | 2.26 | 1.41 | 5.37 | 2.15 | 3.16 | 2.03 |
| Invesco Senior Loan ETF | 3.66 | 1.90 | 9.50 | 4.75 | 3.95 | 3.14 |
| Morningstar LSTA US LL100 Index TR USD | | | | | | |

Short-Term Fixed Income Pool Holdings

Portfolio Date: 6/30/2024

| | Market Value (mil) | Portfolio Weight % |
|--|--------------------|--------------------|
| Total Market Value: \$322,712,985 | | |
| Vanguard Short-Term Bond Idx InstlPIs | \$ 227.7 | 70.5% |
| Vanguard Mortgage-Backed Secs Idx Instl | \$ 67.0 | 20.8% |
| Invesco Senior Loan ETF | \$ 14.1 | 4.4% |
| Vanguard Shrt-Term Infl-Prot Sec Idx Ins | \$ 14.0 | 4.3% |

Short-Term Fixed Income Benchmark Weights

| | Percent |
|---|---------|
| Barclays US 1-5Y GovCredit FIAdj TR USD | 70% |
| Barclays US MBS Float Adjusted TR US | 21% |
| Barclays U.S. Treasury TIPS 0-5Y TR USD | 4.5% |
| S&P/LSTA U.S. Leveraged Loan 100 TR USD | 4.5% |

Inception Date: January 1, 2014

Performance is presented gross of administrative fees but net of all investment management fees, brokerage, consulting and other transactions costs.

Estimated Pool Investment Management Fee: 0.10%

Fixed Income Pool Statistics

| | |
|-----------------------------|------------|
| Average Yield to Maturity | 5.37% |
| Average Effective Duration | 3.05 years |
| Trailing Twelve Month Yield | 3.37% |

Money Market Pool

As of 6/30/2024

Purpose

The purpose of the Money Market Pool is to provide liquidity for participating charitable funds and organizations in funding grant making and payment of fees and administrative costs while providing desired principal stability. The long term investment objective of the Money Market Pool is to seek a competitive market return to preserve and grow the portfolio, provide cash flows to meet charitable needs now and those in the future. As such, the Money Market Pool is highly liquid, which enables donors to access funds for grants in a timely manner. The Money Market Pool invests in bank deposits and obligations of the United States government and its agencies.

Money Market Trailing Returns

| Time Period | Money Market Pool | 90 Day Treasury Bills |
|--------------|-------------------|-----------------------|
| Year to Date | 2.42% | 2.75% |
| 3 Months | 1.20% | 1.37% |
| 1 Year | 4.85% | 5.61% |
| 3 Years | 2.40% | 3.43% |
| 5 Years | 1.67% | 2.32% |
| 10 Years | 1.12% | 1.62% |

*Performance periods greater than 12 months are annualized.
Performance is net of investment management fees but not the
Foundation's administrative fees.*

Current Month Return Annualized: 4.98%

Investment Commentary

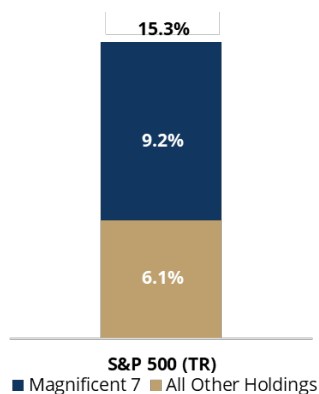
June 30, 2024

As the calendar turns and the first half of 2024 is in the books, markets continued to advance higher, nearing all-time highs as measured by broad-market indices, including the S&P 500, which has now gone over 340 trading days without a decline of more than 2%, the longest stretch in decades. Investors continued to shrug off mixed economic signals, signs of slowing growth, and sticky inflation metrics and remain laser-focused on the Federal Reserve's (the "Fed's") path forward for interest rates. As inflation continues to be somewhat elevated, market expectations for the anticipated timing of rate cuts have been pushed out. The most recent Consumer Price Index measures still note inflation above 3%, exceeding the Fed's long-term targets. As such, the policymakers' latest "dot plot" (a quarterly chart noting their projections for short-term interest rates) indicates only one rate cut between now and the end of the year, a significantly more hawkish projection as compared to the beginning of the year.

As measured by the S&P 500 Index, domestic equity markets gained +4.3% during the second quarter and are up +15.3% for the year. Interestingly, of the 11 sectors in the index, less than half were positive for the period, and only three had positive returns above 1%. Technology stocks posted gains of +13.8% for the quarter and have been the best-performing sector over the course of the year (+28.2% year-to-date; "YTD"), followed closely by communications services, which were up +9.4% for the period (+26.7% YTD). Materials, industrials, and energy were the worst-performing sectors during the second quarter, all posting negative returns (-4.5%, -2.9%, and -2.4%, respectively). On a year-to-date basis, all 11 sectors are positive except for real estate (-0.8% for the period and -1.9% YTD), as higher interest rates have continued to put pressure on the sector. Like previous periods, equity market leadership has been concentrated within mega-cap technology and communication services companies that the market expects to be beneficiaries of artificial intelligence. At the end of the quarter, the top 10 stocks in the S&P 500 Index represented a staggering 37% of the overall index market capitalization. The smaller subset known as the "Magnificent Seven" accounted for over 60% of the index return YTD, highlighting the low level of market breadth. Said differently, if the constituent companies in the S&P 500 Index were weighted equally rather than by market capitalization, the index return would be +5.1% versus +15.3% YTD.

S&P 500 (TR) Year-to-Date Performance: +15.3%

"Magnificent Seven" accounted for over 60% of the index return YTD.¹



| Name | Ticker | Index % | YTD Return | Sector |
|----------------------------|--------|---------|------------|------------------------|
| Microsoft Corp | MSFT | 7.3% | 19.3% | Technology |
| NVIDIA Corp | NVDA | 6.6% | 149.5% | Technology |
| Apple Inc | AAPL | 6.6% | 9.7% | Technology |
| Amazon.com Inc | AMZN | 3.9% | 27.2% | Consumer Cyclical |
| Meta Platforms Inc Class A | META | 2.4% | 42.7% | Communication Services |
| Alphabet Inc Class A | GOOGL | 2.3% | 30.5% | Communication Services |
| Alphabet Inc Class C | GOOG | 2.0% | 30.3% | Communication Services |
| Tesla Inc | TSLA | 1.7% | (20.4%) | Consumer Cyclical |

Index % weight in the S&P 500 Index.

From a style perspective, domestic growth stocks (+20.7% YTD) have continued to significantly outperform value stocks (+6.6% YTD), as measured by their respective Russell 1000 benchmark indices. Mid- and small-cap stocks have underperformed large caps for the second straight period. Small-cap stocks, as measured by the Russell 2000 Index, were negative during the quarter (-3.3%) and on a YTD basis are only up +1.7%,

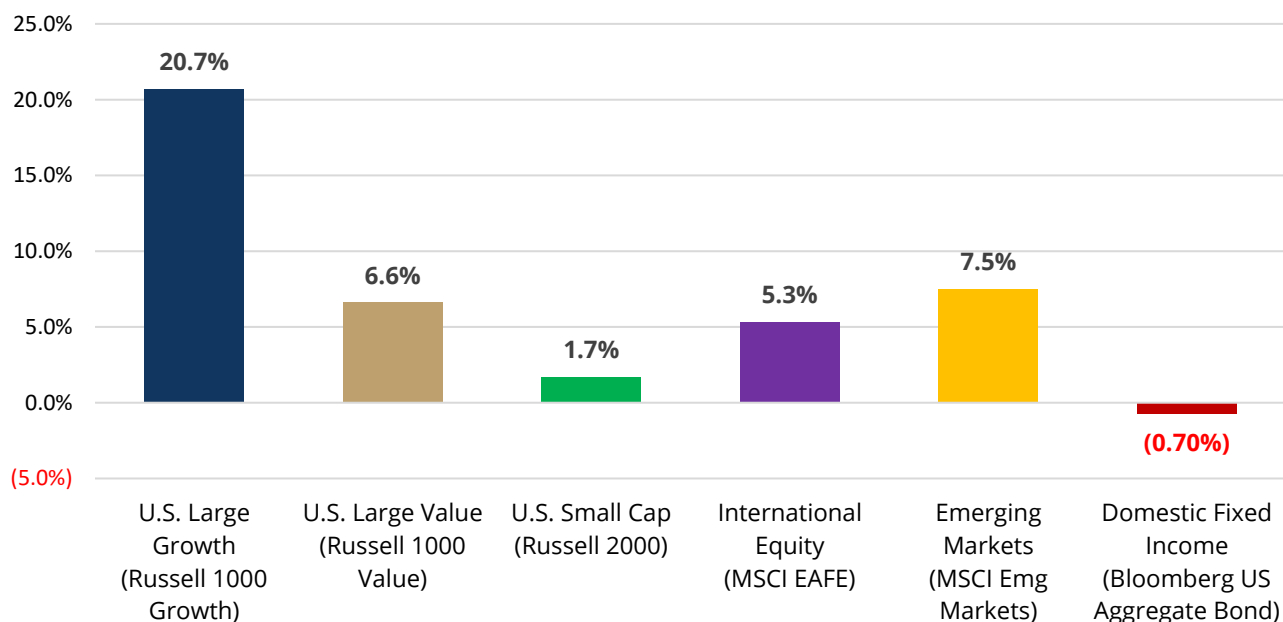
Investment Commentary

June 30, 2024

severely underperforming their large-cap counterparts. Outside of domestic markets, international developed stocks posted slightly negative returns for the quarter (-0.4%); however, they remain positive on the year (+5.3%) as measured by the MSCI EAFE Index. Emerging markets posted strong gains over the quarter, +5.0% as measured by the MSCI Emerging Markets Index in USD terms, and slightly outperformed domestic equity markets. Most emerging market economies are further along into interest rate cutting cycles, having started earlier, which has led to improving growth metrics. In addition, a rebound in Chinese equities also helped buoy returns.

After a challenging start to 2024, fixed income markets rebounded and finished the period slightly positive (+0.1%), although still negative on a YTD basis (-0.7%) as measured by the Bloomberg U.S. Aggregate Bond Index. Within the fixed income universe, short-dated investment grade corporate and high-yield bonds performed best as credit spreads tightened, whereas intermediate and long-dated U.S. Treasuries performed worst with slightly negative returns. The 10-year U.S. Treasury yield spiked approximately 40 basis points (i.e., 0.40%) in April before coming back down and ending the quarter at 4.4%. The yield curve continues to be inverted, with the 2-year U.S. Treasury yield ending the quarter at 4.7%. Commodities achieved modest gains over the period, with industrial and precious metals posting strong returns, whereas agriculture was the weakest component. The price of gold rose during the quarter, reaching an all-time high of over \$2,450 an ounce, before settling back down to \$2,326 at quarter-end. Oil prices were relatively flat over the period and the U.S. Dollar slightly appreciated versus a basket of foreign currencies.

Index YTD Performance: Equity and Fixed Income



Investment Commentary

June 30, 2024

Valuations are an important and closely studied metric for market participants. History and data have consistently shown very little correlation between current valuation metrics and short-term returns but a much higher correlation with intermediate and long-term returns. In other words, entry-point valuations have been a less meaningful predictor of returns in the short term but are very important over the long term. Today, at the headline level, valuations for the broader domestic equity market appear expensive or, at the very least, fully valued. At quarter-end, the S&P 500 Index was trading with a forward price to earnings (“P/E”) ratio of 21.0x versus its 30-year average of 16.7x, meaning that for every dollar of earnings generated by these 500 stocks, investors today are paying over 25% more than historical norms. Examining almost any other traditional valuation metric (price-to-book, price-to-cashflow, dividend yield, etc.) shows a similar conclusion.

The statistics may not look as discouraging to investors when diving a bit deeper. Within domestic large-cap equities (i.e., the S&P 500 Index), the top 10 stocks are trading at P/E ratios of 30.3x. Conversely, the remaining 490 stocks were trading at 17.6x – a number that is only slightly higher than long-term averages. The equally weighted S&P 500 Index was trading below long-term averages (16.3x at quarter-end). Given the concentration within the index, as well as the staggering performance of a small cohort of mega-cap technology stocks, the overall index valuation metrics may not tell the entire story.

Given their relative underperformance, valuations of mid- and small-cap stocks also provide an interesting data point, trading at approximately 15x and 14x earnings, respectively (as measured by the S&P 400 and S&P 600 indices), a historical divergence compared to large-caps. Just as small- and mid-cap stocks appear cheap versus large caps, a similar pattern exists with equity markets outside the U.S., where valuations appear cheap on an absolute and relative basis. The MSCI ACWI ex-U.S. Index finished the quarter with a forward P/E ratio of 13.5x. Although this is slightly above its long-term (20-year) average of 13.0x, the discount relative to U.S. stocks is approximately two standard deviations below its historic averages. In summary, for investors willing to look outside of the Magnificent Seven and mega-cap growth stocks, valuations appear to be much more reasonable in other areas of the market.

Although the overall environment has remained positive for markets and YTD headline returns have been strong, there appears to be an ever-widening divide between market performance and underlying economic reality. GDP growth has continued to be positive; however, economic data is softening, growth is slowing, and labor markets appear to be weakening. The consumer looks to be stretched thin, with troubling signs including falling retail sales and personal consumption expenditures and savings rates down nearly 90% from their pandemic-era peak. Interestingly, all of this is taking place when equities continue to hit a virtually uninterrupted sequence of all-time highs in a market that has almost never been as concentrated as it is today.

¹ Source: FactSet, Standard & Poor's. The Magnificent 7 positions include the A and C share class for Alphabet. Holdings attribution in the S&P 500 is based on the performance of the Magnificent 7 stocks, indexed to 100 on 1/1/2024. Data as of 6/30/24.