GRANT STREET ASSET MANAGEMENT, INC.
QUARTERLY LETTER
2nd QUARTER 2024
JULY 15, 2024

The narrative of the last ninety days or so was very similar to that of the first ninety days of 2024. The Federal Reserve continues to observe macroeconomic data points and remains front and center as investors try to predict the start of rate cuts. The labor market is working its way back to a state of equilibrium and consumers continue to spend confidently, fueling growth. Financial markets, more specifically mega-cap technology company stocks, have enjoyed substantial returns as artificial intelligence becomes more of a reality to creating more efficient businesses. Grant Street's investment committee remains committed to its active approach in managing client portfolios in this evolving economic landscape.

At the beginning of 2024, investors estimated the number of interest rate cuts by The Federal Reserve Bank ("The Fed") this year would be about six. That estimate current stands between one and two. This shift in consensus has put some restraint on certain aspects of the economy but overall has not had the effect many anticipated. As a refresher, The Fed Funds rate influences all other market interest rates, from U.S. Treasury bonds to mortgages and car loans. The Fed Funds target rate now sits between 5.25-5.50%, a range in which The Fed has held steady for over a year. We are in the midst of the second-longest pause in the history of the Fed and at a rate level that most market analysts expected to cause a drastic recession. However, much of the macroeconomic data continues to trend in a direction that is still supportive of sustainable growth:

- A closely tracked inflation measure, the Consumer-Price-Index (CPI), recently reflected a year-over-year increase of 3.3%. This reading indicates a slowdown from May 2023, when the measurement came in at 4.1%. The most recent CPI number more closely aligns with the 50-year average of 3.8%, yet The Fed remains convinced that more definitive data is needed before they elect to reduce the Fed Funds rate.

- The U.S. Labor market remains strong, although it has shown some moderation in the past few months. While the unemployment rate increased in April and May to its highest level since January 2022, the rate still stands at only 4.0%. The current streak of thirty consecutive months with an unemployment rate at 4% or less is second to only the streak of four years reached in the late 1960's. The rate of employees quitting their jobs to pursue other roles has tapered, as the number of job openings sank to 8.1 million, down 1.8 million from a year ago and the lowest level since February 2021. Openings are now down more than 30% in a two-year span. Although slowing, the labor market remains stable and resilient, which is supportive of consumers and the economy overall.

- The average U.S. household net worth is over 40% higher than it was pre-2020, at least on paper. A large portion of the increase in net worth has come from an increase in home equity. Current homeowners, who likely have a mortgage rate below 4%, are less inclined to sell their home and take on a higher mortgage rate. This has fueled cash-offers, suppressed inventory of existing homes for sale and pushed the most recent median home sale price to a record high of $419,300, up nearly 20% from the median price three years ago in May 2021.

- Consumers have continued to spend. Although the level of spending varies across demographics, the overall level of spending has remained strong. The spending has propelled overall economic and corporate profit growth in recent quarters. Travel will continue to be a large contributor to spending this summer. Nearly three million travelers passed through U.S. airports on the Friday before Memorial Day, surpassing the previous single day record set last fall. Of the ten busiest travel days on record, five occurred in May of this year.
- Corporate capital expenditures have been driven by investments related to AI (artificial intelligence). One data point suggests that more than one quarter of all non-residential spending so far this year has been related to new data centers for AI operations. This accelerated investment has offset slower investment in other sectors of the economy and contributed to GDP stability. While we are already invested in this trend, our Investment Committee continues to explore related opportunities for client portfolios.

As shown in the table below, equities continue to be the driver of return across portfolios. In the second quarter, the S&P 500 finished its 12th best first half start since 1950, thanks to continued strength among the largest companies. Last year, seven companies dubbed the "Magnificent Seven" accounted for more than half of the total return of the S&P 500. This narrow market trend continued in the second quarter and has persisted for most of 2024, as that same group of seven companies has accounted for more than 60% of the S&P 500 return in the first six months of this year.

Equity Index	**2Q 2024**	**Last 12-months**
S&P 500 (Large Companies)	4.3%	26.1%
Nasdaq 100 (Technology-heavy)	8.1%	32.9%
S&P 400 (Mid-sized Companies)	-3.5%	14.3%
Russell 2000 (Small-sized Companies)	-3.3%	10.5%
MSCI EAFE (Europe, Australia & Far East)	-0.4%	12.5%
MSCI Emerging Markets	5.0%	12.9%
MSCI ACWI (All Country World Index)	2.3%	19.5%

Source: Morningstar Direct

The S&P 500 index has reached thirty-one all-time highs thus far in 2024, which is the most in a year since it reached seventy in 2021. The current level of the index has led some investors to question whether it can move higher. If we look back on the last decade or so of the S&P 500, since March of 2013, the index has reached three hundred and seventy-one new all-time highs. During that time frame, the average length of time between record highs for the index was just eleven days. This data shows that when a new high is reached, the momentum typically continues to run. Investors may be hesitant to continue adding additional funds into equities, but market data for the last thirty-five years reinforces that investing new money on a day when the S&P 500 reaches a new high tends to result in better performance versus investing on any random day. Grant Street's philosophy is based on fundamentals rather than technical market movements, however it's worth noting that market history shows that trying to time a market high results in lesser reward.

A large portion of the S&P 500 performance since 2013 can be attributed to the technology sector. The tech sector has been the largest sector in the index for seventeen consecutive years, and currently accounts for more than a third of the entire index. The technology sector is now up nearly 30% year-to-date and is the only sector that has outperformed the S&P 500 over the last five years, returning 27% on an annualized basis. This is no surprise when considering a few of the largest companies within the tech sector, such as Microsoft, Apple, and Nvidia, the latter of which has contributed about one-third of the year-to-date performance of the S&P 500.

The current valuations of the technology sector remain elevated, and therefore the S&P 500 and Nasdaq overall also look historically expensive. For investors concerned about the all-time highs being reported on the news, our investment committee is finding many opportunities across market segments that are far off of their recent highs. One only has to look to the other 490 stocks within the S&P 500 index to find them trading at or below long-term historical averages. The same can be said for many mid-cap, small cap and international stocks. We believe diversification is especially important in today's environment.

Referencing the table below, fixed income continues to offer modest returns relative to other investment opportunities, although the benefit of volatility reduction is evident. The yield curve between the 10-year and the 2-year U.S. treasury bonds has been inverted for nearly two years, the longest on record, and yields have slightly increased from where they stood at the end of 2023. With the increase in intermediate term yields over the past quarter, prices have fallen slightly, offsetting income and resulting in stagnant total return bond performance for the quarter.

Fixed Income Index	**2Q 2024**	**Last 12-months**
Morningstar US Core Bond	0.2%	2.9%
U.S. 10-year Treasury	-0.3%	-0.5%
ICE BofA 1-3 Yr. U.S. Treasury	0.9%	4.6%
U.S. 3-month T-Bills	1.3%	5.5%
ICE BofA U.S. High Yield	1.1%	10.8%
ICE BofA 7-10 Yr. Municipal Bond	-0.9%	2.2%

Source: Morningstar Direct

Since inflation has not been reduced to a level satisfactory to The Fed, it has not reduced the target rate, which has delayed any potential rate cuts and subsequent appreciation in bond prices. The positive performance in the fixed-income realm for 2024 has been limited to high-yield and short-term bonds. High yield bonds are lower in quality relative to treasury bonds, which are backed by the U.S. government. Defaults on high yield bonds have begun to slowly increase, but the aggregate default rate currently remains well below historical levels. Short-term bonds are less affected by interest rate swings and continue to pay a respectable yield.

Grant Street's most recent portfolio shifts in the first half of the year have been additive to performance thus far. In February, we increased the equity allocation within our balanced strategies and reduced fixed income. The increase in equities was allocated to a U.S. large-cap growth strategy focusing on companies with substantial long-term growth forecasts, many related to AI. The shift capitalized on a tech-fueled sector that continues to grow earnings and reach new records.

The outlook for equities and fixed income over the next six and twelve-month timeframes is perhaps surprisingly positive. Fixed income will likely prove additive to portfolio performance over the next twelve months as The Fed feels that the battle with inflation has diminished and it votes to lower rates accordingly. Lower rates should also promote broader performance in the equity market among companies that are smaller in terms of market capitalization. Historically, markets have also been consistently positive in Presidential election years, regardless of which party wins. Grant Street's investment committee continues to examine macro-economic data trends and company fundamentals to ensure our portfolios are appropriately aligned with our best thinking. As always, we value your trust and confidence in the Grant Street team, and we thank you for allowing us to serve you.