HCR WEALTH ADVISORS

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June 30, 2024

Market Commentary

- Growth remains positive and core inflation moderated from 3.8% to 3.3% during the quarter. The current market environment has provided room for the Federal Reserve to reduce the Fed Funds rate. This sentiment fueled the equity market and "riskier" segments of fixed income, such as high yield. Valuations have moved higher on the back of strong price movement, however this shift was mostly attributed to the concentrated top constituents.

- The labor market is still strong, but unemployment increased to 4.1%, the highest level since November 2021. The current level is now above the 12-month moving average, a cautionary signal historically. Meanwhile, climbing delinquencies in credit cards, auto loans, and resuming student loan payments could weigh on future consumer spending and GDP growth.

- The U.S. economy has remained resilient, but cracks are beginning to surface. Services PMI fell below 50 during the quarter and, for the first time in over a year, both services and manufacturing sit below 50, a level that has historically been associated with economic weakness.

Fixed Income

- The U.S. yield curve shifted modestly higher during the second quarter as market expectations for the timing of a first Fed rate cut this year waivered. The Fed has indicated there has been further progress made toward its 2% inflation target, but remains data driven on future actions in an effort to remain balanced in its dual mandate. The Bloomberg U.S. Agg Bond Index returned 0.1% in the second quarter. All-in yields remain attractive across fixed income sectors with many in-line with the prior year. Spread compression and strong performance from high yield over the last twelve months have pushed yields slightly lower.

- Less rate-sensitive spread sectors, such as high yield, generally outpaced core markets during the quarter. The corporate bond market continues to perform well and credit spreads have moved below longer-term averages; the Bloomberg U.S. Corporate High Yield index gained 1.1%. A resilient economy, favorable corporate fundamentals and strong demand have been supportive of the sector. Foreign bonds fell primarily due to negative currency impact and a strong U.S. Dollar.

Equity

- While earnings growth has been positive, price movement continued to drive multiple expansion. Relative valuations of non-U.S. equity continue to look attractive compared to U.S. markets. The S&P 500 continued its climb with another strong quarter, returning 3.6%. Results were driven by the technology and communications sectors as concentrated leadership remains.

- Major economies around the globe saw mixed results during the quarter with the MSCI EAFE returning -0.4% and MSCI EM returning 5.0% during the quarter. Japan had a weak quarter as investors continued to assess whether the BOJ will continue to raise interest rates on mixed inflation and wage data. Uncertainty around economic trends and political elections in Europe moved markets lower. China increased on upbeat inflation data and renewed optimism.

Real Assets

- Commodities, overall, were positive in the second quarter at 2.9%, but underlying results were mixed. Metals and energy led the way, as geopolitical unrest and supply chain disruption in the Middle East put upward pressure on prices. However, the move higher in interest rates was a broad headwind for the REIT sector, returning 0.1%. Underlying components experienced varied returns. Sectors with longer average lives such as lodging, industrial, and office were the primary detractors.

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- **Bloomberg Aggregate Bond Index** covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.
- **Bloomberg US Corporate High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.
- **S&P 500 Index** is a capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
- **Russell 2000 Index** consists of the 2,000 smallest U.S. companies in the Russell 3000 index.
- **MSCI EAFE Index** is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country.
- **Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification.
- **FTSE Nareit Equity REITs Index** contains all Equity REITs not designed as Timber REITs or Infrastructure REITs.

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- **Fixed Income securities** are subject to interest rate risks, the risk of default and liquidity risk. U.S. investors exposed to non-U.S. fixed income may also be subject to currency risk and fluctuations.
- **Domestic Equity** can be volatile. The rise or fall in prices take place for a number of reasons including, but not limited to changes to underlying company conditions, sector or industry factors, or other macro events. These may happen quickly and unpredictably.
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