

STUDENT OF THE MARKET

# Market Outlook

**Q3 2024**



# Market Outlook

Today's market moves.

## What to know about markets right now

**1**

MARKETS

**U.S. stocks  
continue to  
lead the way**

**2**

ECONOMY

**Moderating,  
but still positive,  
growth**

**3**

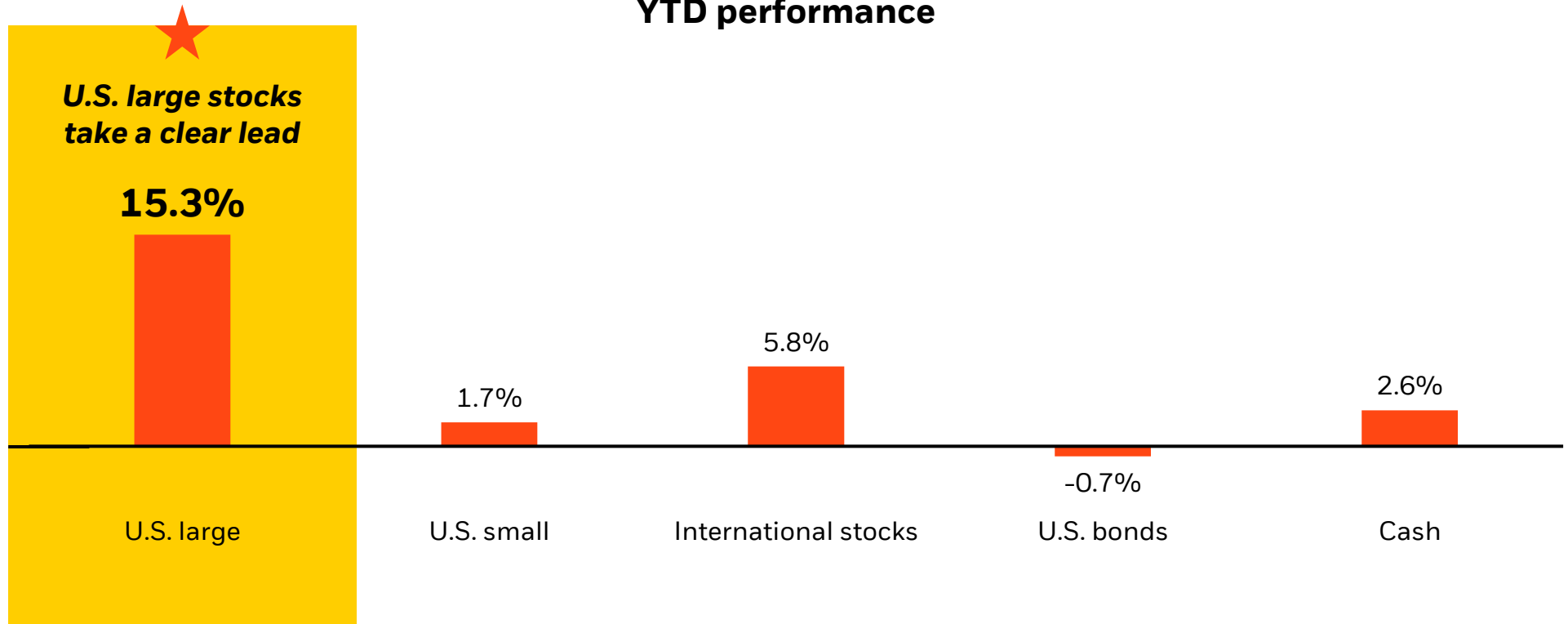
THE FED

**Fed may cut later  
this year, but will  
keep rates  
relatively high**

**What it means for portfolios**

# Markets so far: U.S. stocks continue to lead the way

YTD performance



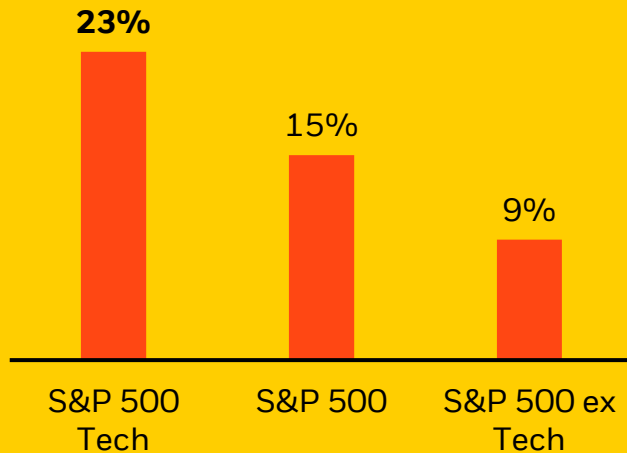
**High rates continue to differentiate between winners and losers.**  
High quality U.S. large caps have continued to do well in this environment.

# Top tech names drive markets higher

Performance has been driven by top names, whose strong earnings have outpaced their smaller brethren. We prefer an overweight to large cap quality growth and tech names, as this environment could continue.

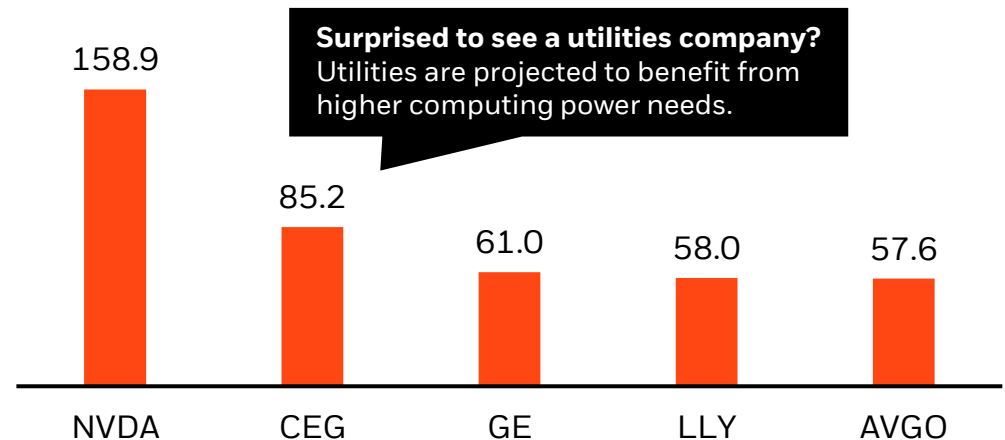
## Tech has been carrying S&P performance

Breakdown of S&P 500 YTD performance as of 6/30/24<sup>1</sup>



## But top performers span across sectors

YTD performance of top five S&P 500 stocks by performance (%), as of 6/30/24<sup>2</sup>



### Did you know?

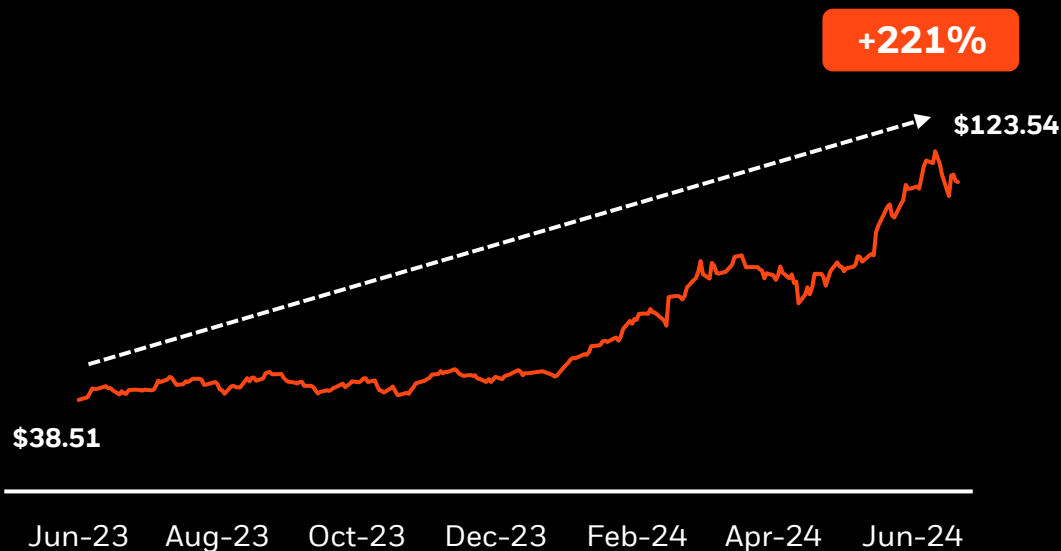
The top tech names – Nvidia, Microsoft, Apple, Amazon, Meta and Alphabet – have driven **73%** of S&P 500 performance YTD.

# Stocks may seem expensive, but they may not be as pricey as you think. We remain bullish.

A common misconception is that when stocks generate big returns, it must always mean they're more expensive. But earnings matter too: when they rise alongside price, it could indicate that high valuations are justified. Nvidia is a great example of this and why we maintain our preference for stocks, particularly large cap quality.

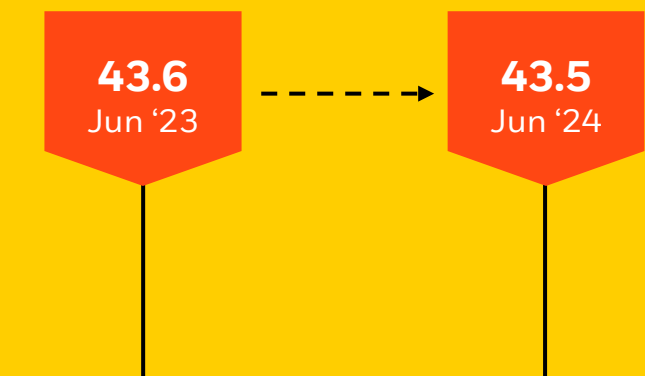
## Nvidia has delivered triple digit returns over the last year...

Nvidia stock price performance (%), 6/30/23-6/30/24<sup>1</sup>



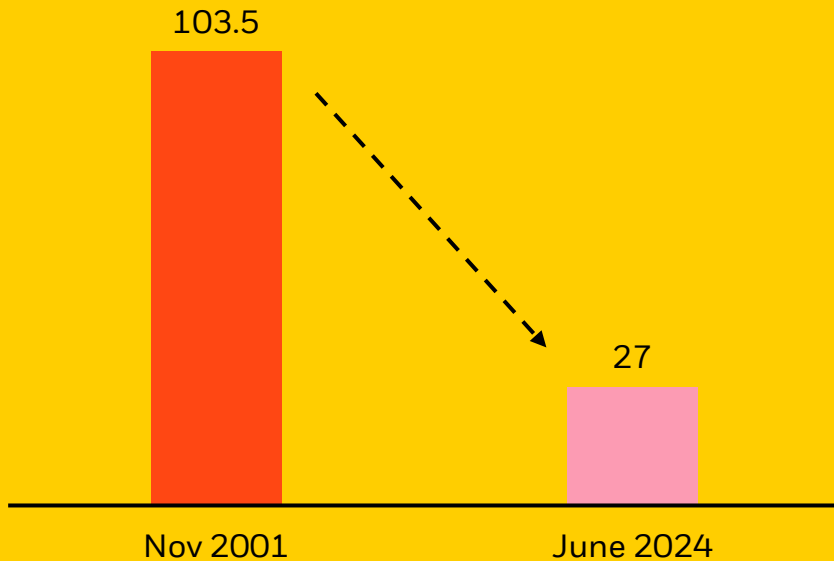
## ...but valuations are roughly the same as a year ago while expected earnings rose

Forward P/E<sup>2</sup>

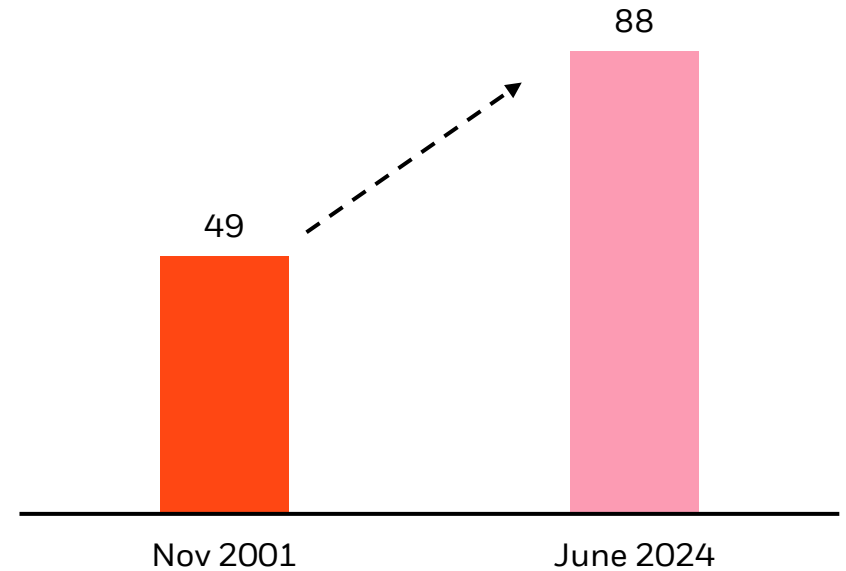


# Another tech run-up, but not a bubble

**Tech stocks are much cheaper today than in 2001**  
P/E ratios<sup>1</sup>



**And yet, more companies are profitable today**  
Percentage of Nasdaq 100 companies with positive earnings<sup>2</sup>



Source: 1: Bloomberg as of 6/30/24, based on Nasdaq 100. 2: Bank of America as of 6/28/24.

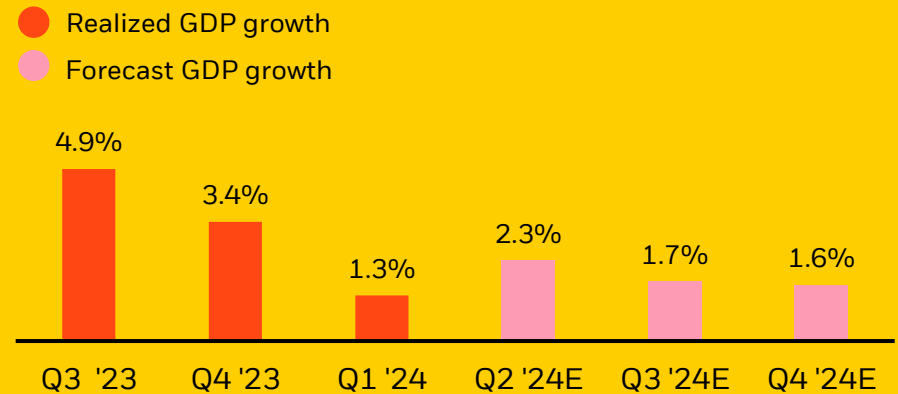
# Moderating, but still healthy growth

U.S. GDP has moderated from last year's elevated levels, but is projected to remain resilient. The healthy, but not overheating, economy may support stock performance while still allowing for Fed rate cuts later this year.

## 1 U.S. GDP growth projected to moderate, but stay positive

Quarterly U.S. real GDP growth<sup>1</sup>

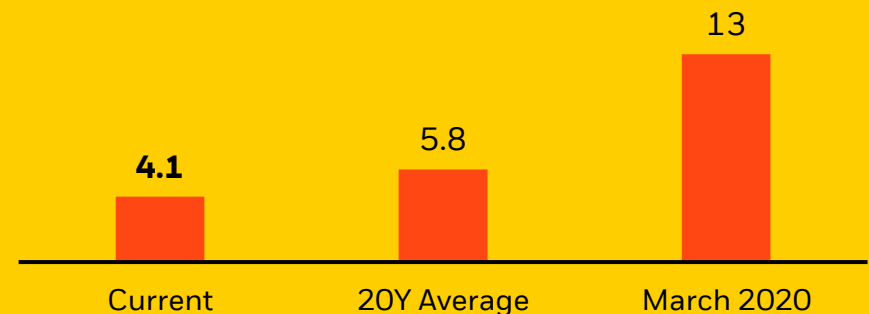
Economic growth has moderated, but remains at healthy levels.



## 2 Unemployment sits at a healthy level, well below recessionary levels

Unemployment rate<sup>2</sup>

Unemployment has risen, but is still **1.7%** below its 20-year average.



<sup>1</sup> Sources: St. Louis Fed, FRED. Q2, Q3, and Q4 GDP growth estimates from Bloomberg, as of 6/21/24.

<sup>2</sup> Source: Bloomberg as of 7/5/24.

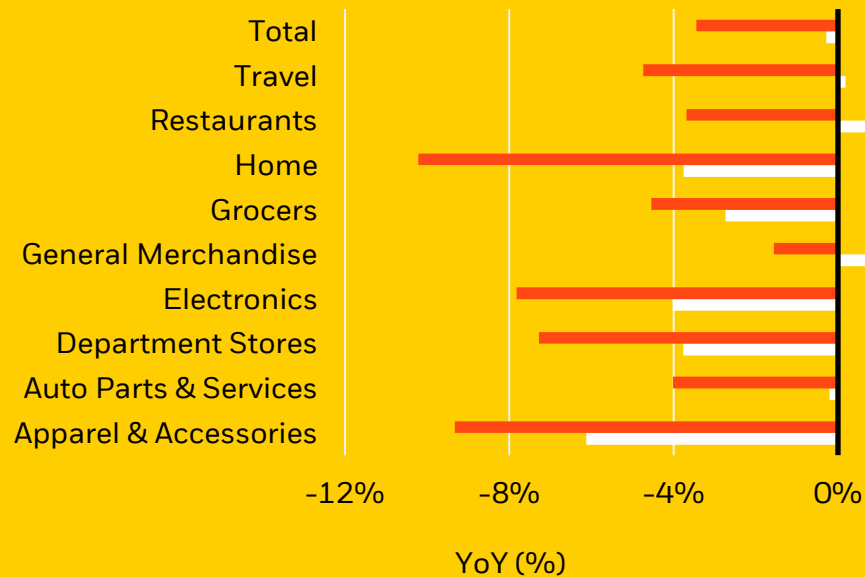
# Keeping an eye on the consumer

High rates have impacted consumers differently. Higher income cohorts have benefited from higher yields on their investments, while lower income cohorts have borne the brunt of them.

## Lower income consumers have reduced spending meaningfully

Spending by income cohort<sup>1</sup>

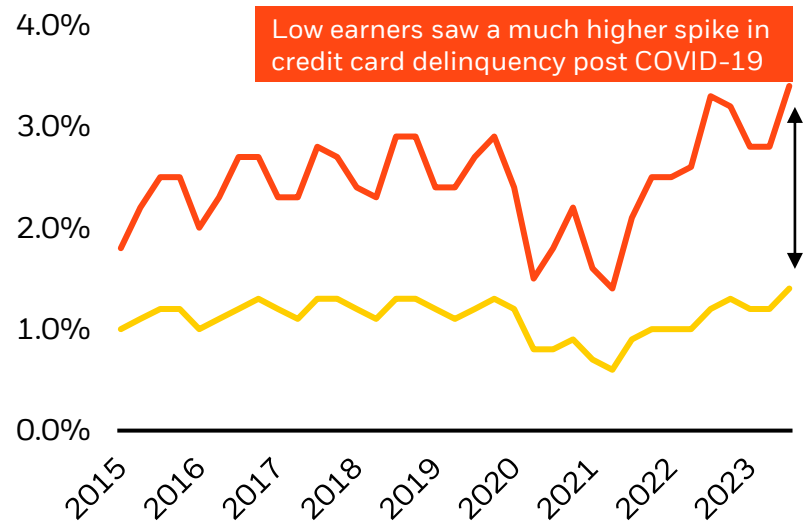
■ Low Income: <\$49K   ■ High Income: \$145K+



## Credit card delinquency rates have been rising among the lowest income borrowers

Credit card delinquency rates by income quartile<sup>2</sup>

— Lowest   — Highest

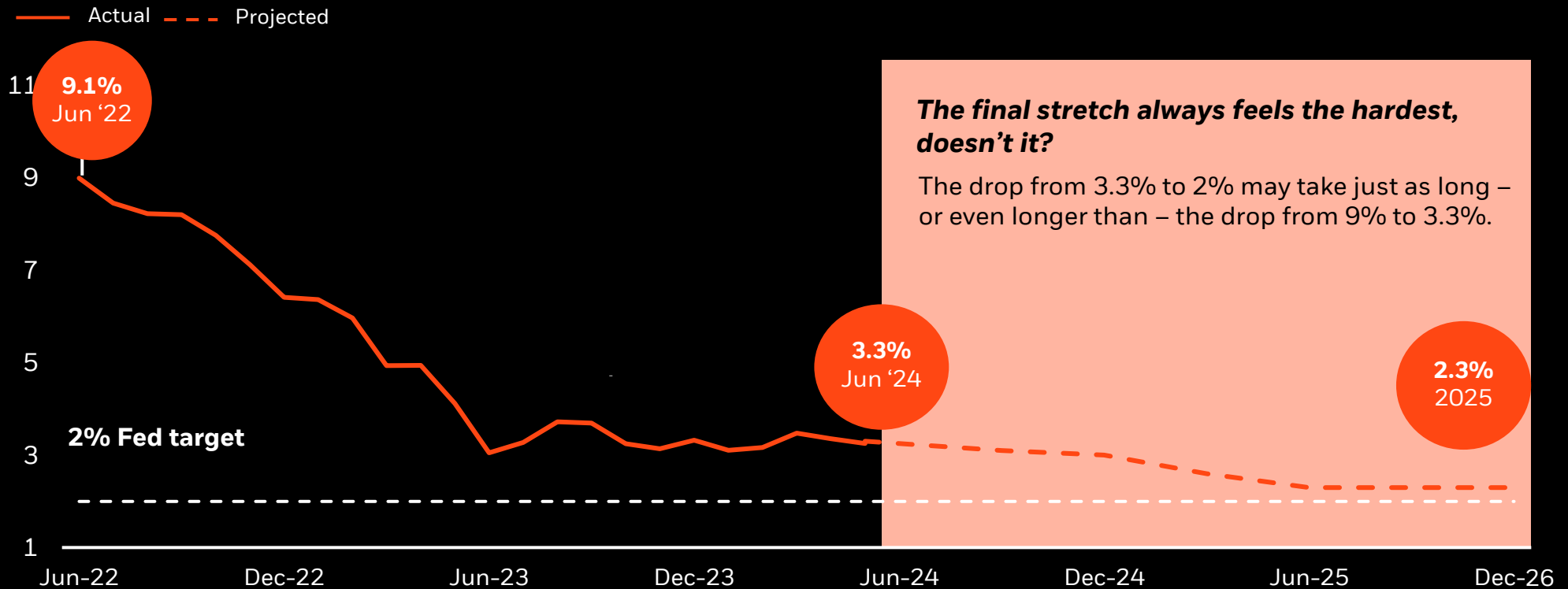


<sup>1</sup> Source: Earnest Analytics, as of April 30, 2024. <sup>2</sup> Source: NY Federal Reserve (NY Fed), as of September 30, 2023.



# Inflation is trending down, but economists aren't projecting it to hit target until 2026

## 12-month change in inflation rate (%)<sup>1</sup>



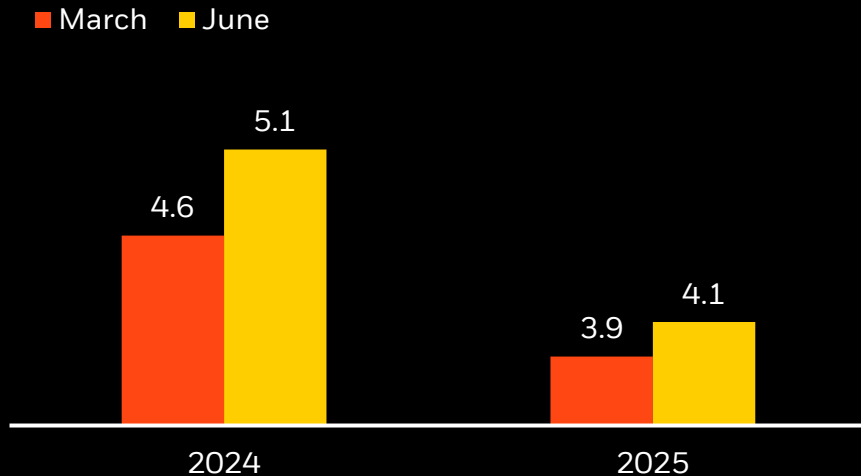
<sup>1</sup> Source: St. Louis Fed, FRED Economic data, LSEG Datastream. "Projected" refers to the Reuters median forecast for headline CPI, as of 6/28/24.

# Looking for a first Fed cut in Sept. or later

The strong economy has tempered the need for drastic rate cuts, but the Fed has indicated that it could still cut rates this year...as long as inflation continues showing progress towards target.

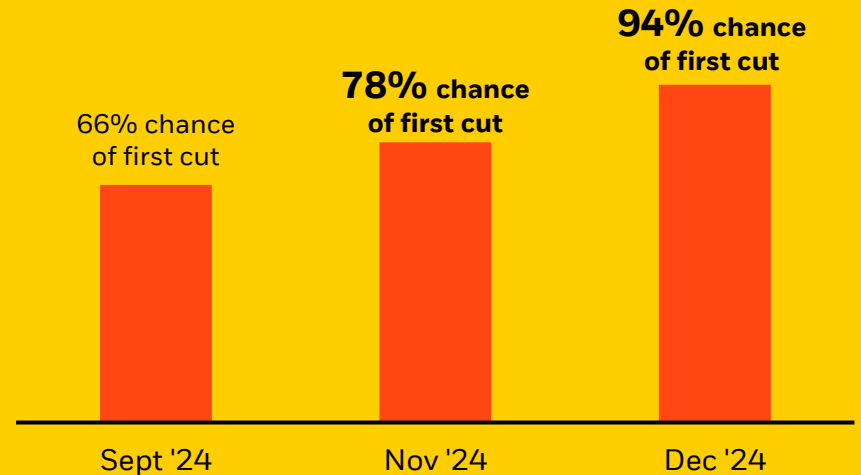
## The Fed revised up its interest rate expectations, suggesting just one rate cut in 2024

FOMC projections as of March and June<sup>1</sup>



## Markets expect a high likelihood of the first Fed cut to happen in Q4

Likelihood of cuts at Fed monthly meetings<sup>2</sup>



<sup>1</sup> Source: U.S. Federal Reserve as of 6/12/24. <sup>2</sup> Source: CME FedWatch, as of 6/27/24.

# What it means for portfolios

1

## Get your stock allocation right

We're overweight stocks, and prefer **high quality stocks** at the core.

We also see opportunity in exposures that may benefit from **artificial intelligence**.

2

## Don't overreact to the election - stay invested

History shows that the most important thing to do in an election year is to **stay invested**.

We see opportunities in infrastructure and AI regardless of the winner, and are watching for policy updates.

3

## Diversification remains critical

Make sure to build diversification into your portfolio, avoiding individual stock concentration.

**Diversifying alternatives** have delivered uncorrelated returns, and **core bonds** may be able to help protect against big sell-offs.

# Seek quality at the core of your portfolio

We continue to see opportunity in the mega-cap quality companies that have been driving markets forward. These companies have historically been resilient to high interest rates and done well when growth is moderating.

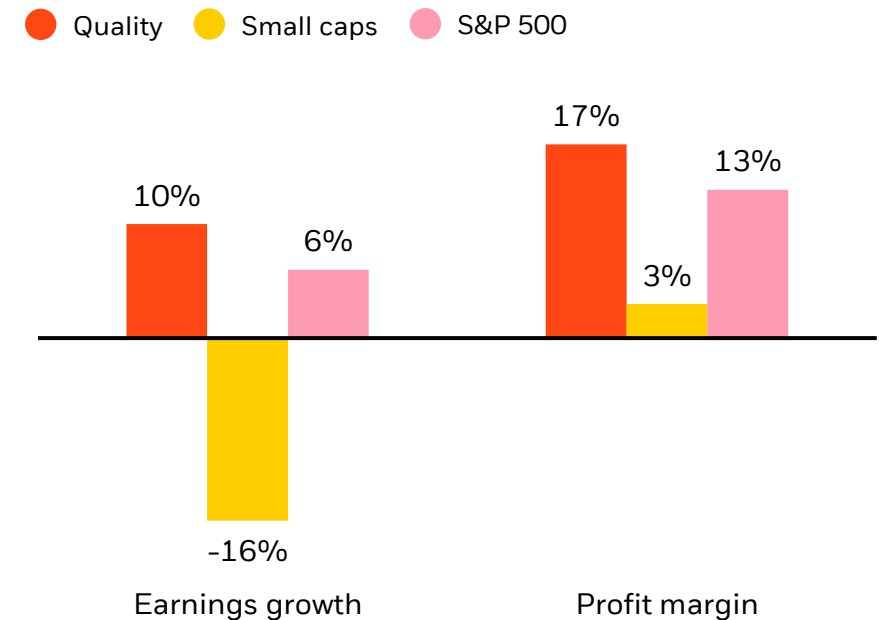
## What is quality?

**Companies with...**

<b>Positive earnings</b>	<b>Stable cash flows</b>
<b>Healthy balance sheets</b>	<b>Consistent and growing dividends</b>

## High quality companies have been growing, protected by strong balance sheets

Year-over-year % growth<sup>1</sup>

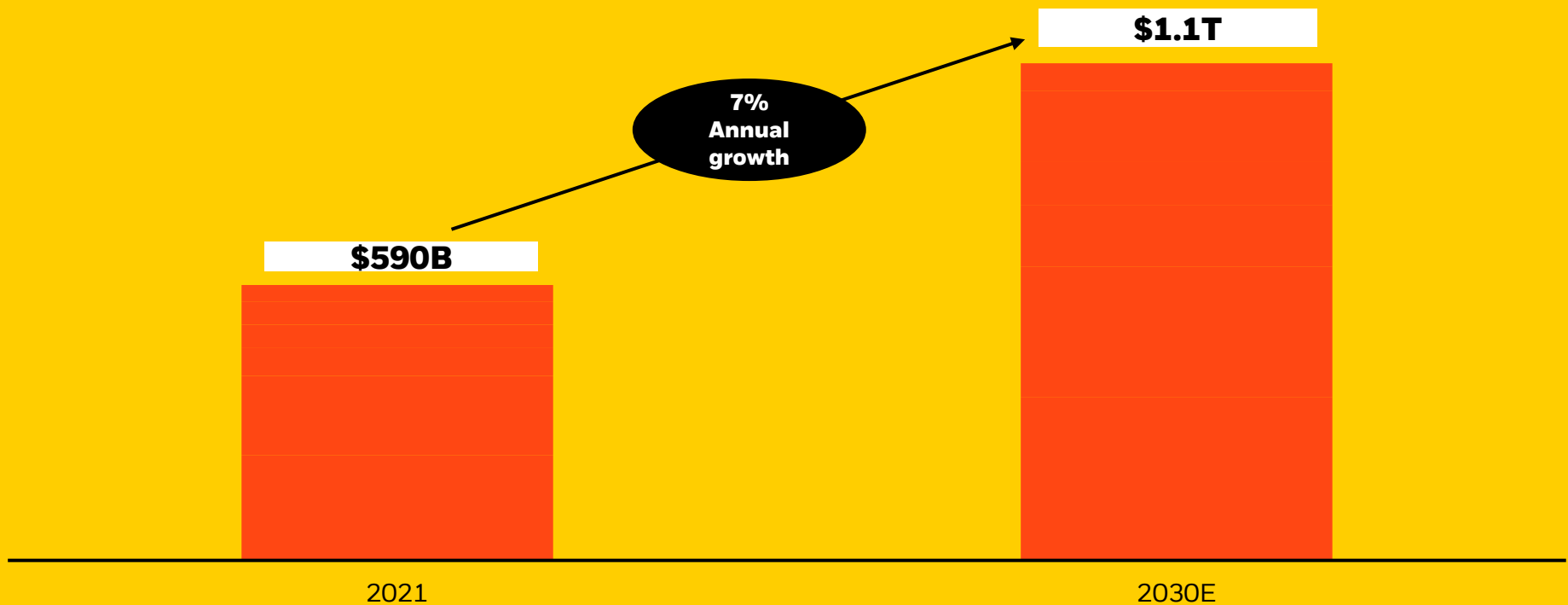


Source 1: Bloomberg as of 5/21/24 (based on Q1 2024 data. "Quality" is represented by the MSCI USA Sector Neutral Quality Index and Small caps by the Russell 2000 Index. Index characteristics are shown for illustrative purposes only. It is not possible to invest directly in an index.

# Opportunity in AI: semiconductors

**The global semiconductor industry is projected to reach \$1 trillion in revenue by 2030**

Global semiconductor market value



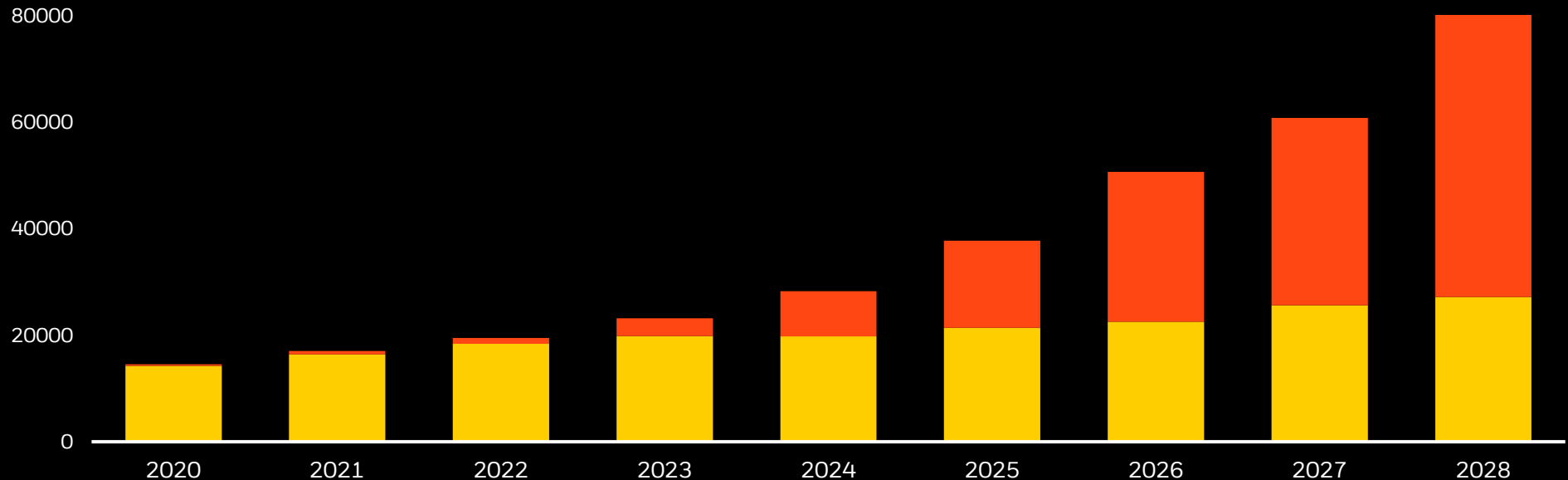
# AI power needs create investing opportunity

Infrastructure, energy, and utilities companies may also benefit from the build-out of AI technology.

## The use of power toward AI data centers is expected to grow rapidly

Global data center critical IT power (Megawatts-MW)

● AI Data Center Critical IT Power ● Non-AI Data Center Critical IT Power

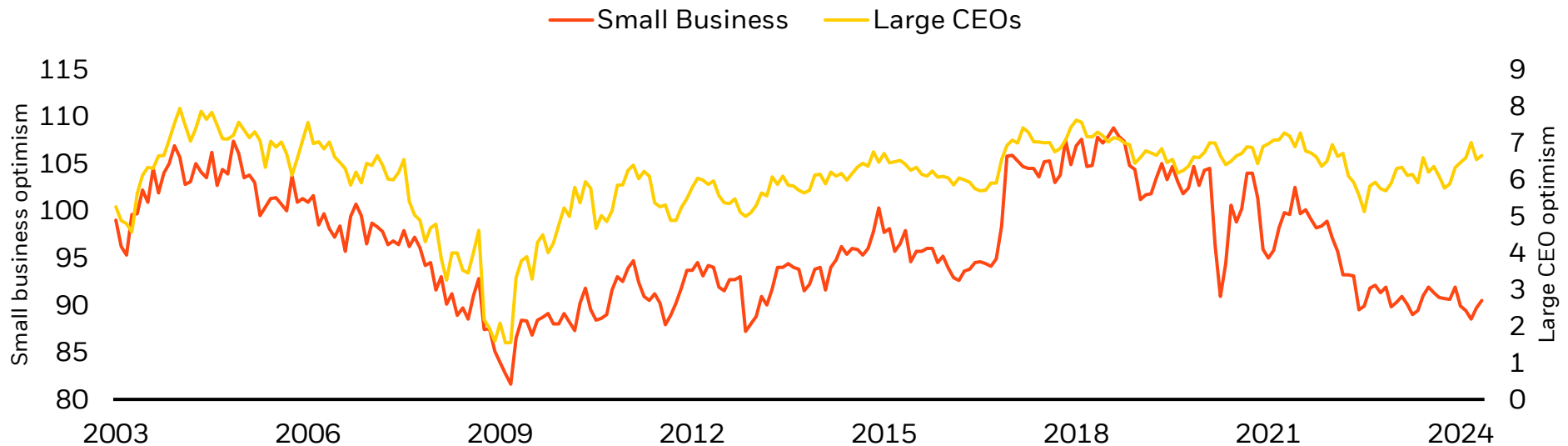


# Small caps may remain challenged

Small businesses have been hit disproportionately by the challenges of the recent years: COVID, inflation, and high interest rates. As economic growth moderates, the outlook for smaller cap companies may remain challenged.

## Small business optimism has suffered post-COVID, while large company CEOs remain optimistic

Optimism levels reported by small business owners vs. large company CEOs<sup>1</sup>



### Small caps are much more sensitive to high interest rates

85% of small cap debt is either floating rate or maturing in the next few years.

In contrast, most larger cap companies were able to lock in lower rates and have longer to go until maturity.<sup>2</sup>

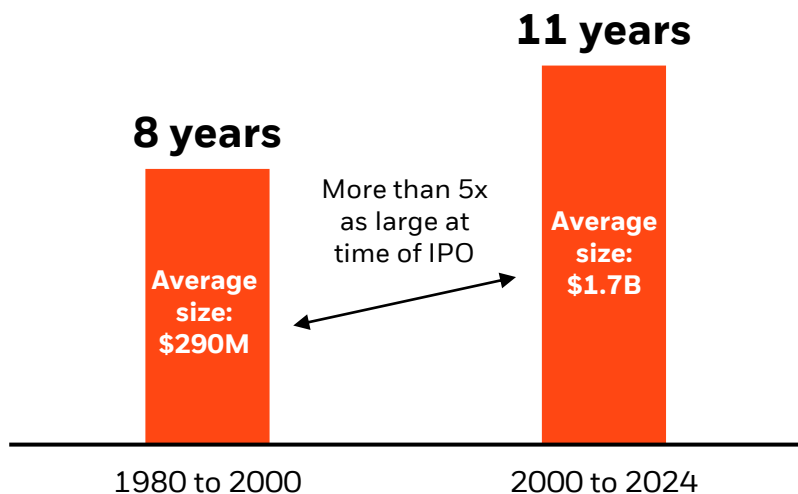
1: Source: Bloomberg as of 5/31/24. "Small business" represented by the NFIB Small Business Optimism Index; "Large CEOs" represented by CEOCINDX CEO Confidence Index. 2: Source: Compustat, FactSet, FTSE Russell, NBER, J.P. Morgan Asset Management as of 1/31/24. Large caps represented by S&P 500 ex financials, small caps represented by Russell 2000 ex financials.

# Private equity: the new “small caps”?

With companies staying private for longer, private equity may be a better way to access the size premium that many are used to getting from small caps. Add in an illiquidity premium, and we see greater opportunity in private equity.

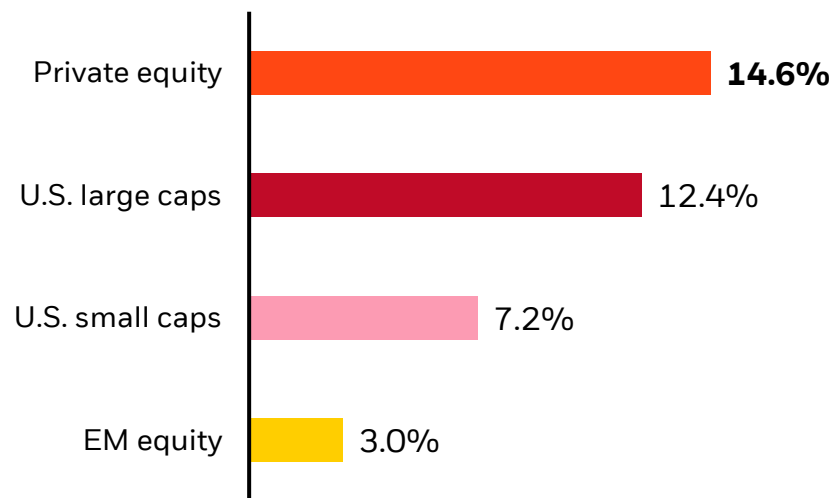
## Companies are staying private for longer, and going public at higher valuations

Median age for IPOs<sup>1</sup> and average valuation<sup>2</sup>



## Private equity has delivered outsized returns

Average annual returns, last 10 years (%)<sup>3</sup>



<sup>1</sup> Source: University of Florida, Warrington College of Business, “Initial Public Offerings: Updated Statistics”, Table 4: Median Age and Fraction of IPOs with VC- and Buyout-Backing, 1980-2023, as of 5/10/24. Median IPO age for 1980 to 2000 is the median of the consolidated median ages of the time periods before 2000 that are listed at the bottom of table 4. <sup>2</sup> Source: University of Florida, Warrington College of Business, “Initial Public Offerings: Updated Statistics”, Table 4d: VC-banks IPOs, U.S.-headquartered Companies Only, 1980-2023, as of 5/10/24. “Average size” is defined as the average market cap at first market price for each time period. <sup>3</sup> Morningstar, Burgiss as of 4/30/24. “Private Equity” represented by the Burgiss Private Equity Index as of 12/31/23. “U.S. Large Caps” represented by the S&P 500 TR Index, “U.S. Small Caps” represented by the Russell 2000 TR Index and EM equity by the MSCI EM NR Index as of 4/30/24. **Past performance does not guarantee or indicate future results.** Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index.



STAY INVESTED FOR THE LONG TERM

# Stocks have continued higher regardless of party holding the presidency

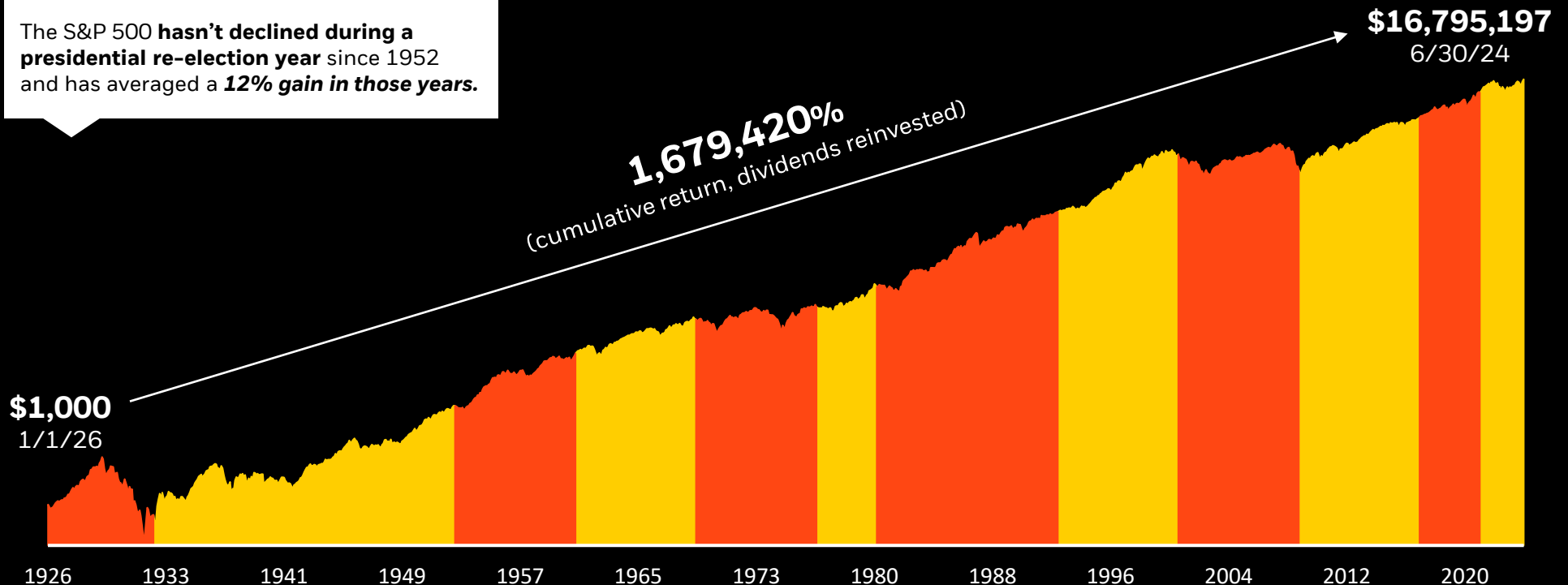
## Growth of \$1k since 1926

Cumulative returns, 1/1/26 – 6/30/24

Democrats

Republicans

The S&P 500 **hasn't declined during a presidential re-election year** since 1952 and has averaged a **12% gain in those years**.



Morningstar as of 6/30/24. Stock market represented by the S&P 500 Index from 1/1/70 to 6/30/24 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

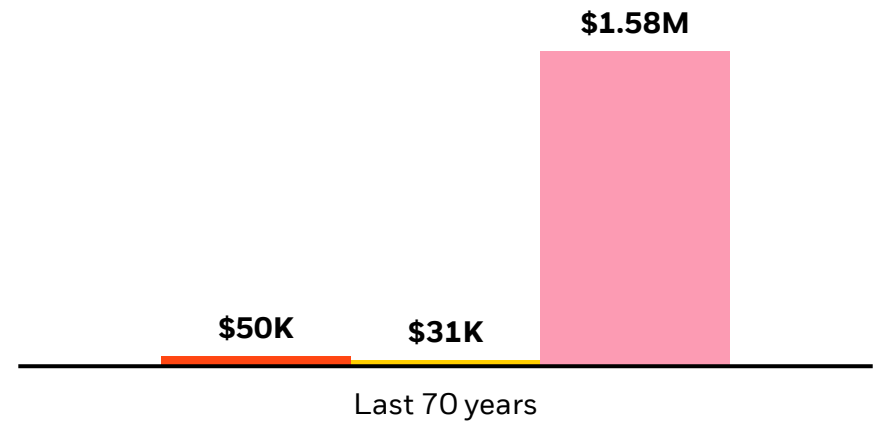
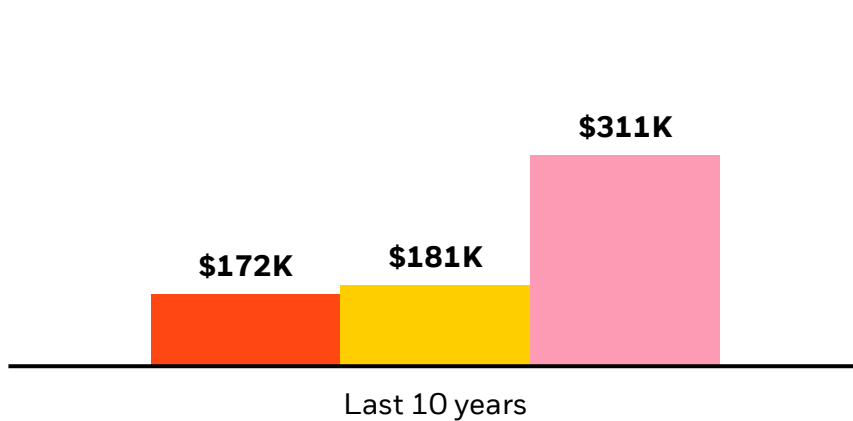
# It's time in the market that matters...not the president's political party

**Last 10 years, \$100,000 invested 12/31/2013, depending on which party held the presidency**

**Last 70 years, \$1,000 invested 12/31/1953, depending on which party held the presidency**

- Invested only for Democrats
- Invested only for Republicans
- Invested the entire time

- Invested only for Democrats
- Invested only for Republicans
- Invested the entire time



Morningstar as of 12/31/23. Stock market represented by the S&P 500 Index from 1/1/70 to 12/31/23 and IASBBI U.S. large cap stocks index from 1/1/54 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# U.S. stock sectors by president

## Key trends:

- 1** Technology has remained in the top 2 sectors for 4 of the past 5 presidencies.
- 2** Both Biden’s and Bush’s top performing sector was Energy.
- 3** The top 3 performing sectors were the same under Obama and Trump, as well as the worst (Energy).

## Sector performance

Average annual return for length of presidency, each sector of the S&P 500

Clinton	Bush	Obama	Trump	Biden
Info. Technology 30.3%	Energy 9.9%	Consumer Disc. 18.6%	Info. Technology 26.8%	Energy 42.5%
Financials 22.4%	Materials 6.6%	Info. Technology 16.4%	Consumer Disc. 18.6%	Info. Technology 24.9%
Health Care 21.8%	Cons. Staples 4.2%	Health Care 14.2%	Health Care 12.7%	Financials 17.1%
Industrials 18.5%	Utilities -0.1%	Cons. Staples 12.8%	Utilities 9.9%	Industrials 14.1%
Energy 16.0%	Industrials -1.0%	Industrials 12.7%	Materials 9.9%	Comm. Services 13.8%
Comm. Services 15.1%	Health Care -2.2%	Real Estate 12.7%	Comm. Services 9.1%	Health Care 11.3%
Consumer Disc. 14.0%	Consumer Disc. -2.3%	Utilities 10.9%	Industrials 8.5%	Materials 10.4%
Utilities 13.4%	Financials -4.4%	Materials 10.1%	Cons. Staples 7.4%	Cons. Staples 9.0%
Cons. Staples 13.0%	Comm. Services -5.1%	Comm. Services 9.5%	Financials 6.8%	Consumer Disc. 7.0%
Materials 6.6%	Info. Technology -8.7%	Financials 7.2%	Real Estate 6.5%	Real Estate 5.9%
		Energy 5.0%	Energy -16.4%	Utilities 4.8%

Source: Morningstar as of 6/30/24. Technology represented by the S&P 500 information technology sector index, Health care represented by the S&P 500 health care sector index, Financials represented by the S&P 500 financial sector index, Industrials represented by the S&P 500 industrial sector index, Materials represented by the S&P 500 materials sector index, Consumer discretionary represented by the S&P 500 consumer discretionary sector index, Communication services represented by the S&P 500 communication services sector index, Real estate represented by the S&P 500 real estate sector index, Energy represented by the S&P 500 energy sector index, Utilities represented by the S&P 500 utilities sector index and Consumer staples represented by the S&P 500 consumer staples sector index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index. Clinton period is from 11/4/1992 to 12/13/2000, Bush time period from 12/14/2004 to 11/4/2008, Obama time period from 11/5/2008 to 11/8/2016 and Trump time period from 11/9/2016 to 11/3/2020. Biden period is from 11/4/2020 to 6/30/2024.

# Policies we're watching

1

## Immigration policy

- ▶ Tighter immigration policy could increase the cost of labor, driving inflation higher.

**Higher inflation could keep pressure on the Fed to keep policy rates high.**

2

## Trade policy

- ▶ Higher tariffs on international goods could drive goods prices up, driving inflation higher.

**Consider building inflation protection into your portfolio... we like stocks for this.**

3

## Fiscal policy

- ▶ Higher budget deficits could drive investors to demand greater compensation for the risk of holding long-term treasuries.

**Consider taking an active approach to bond selection.**

# Be careful chasing individual stock performance: diversification can be safer

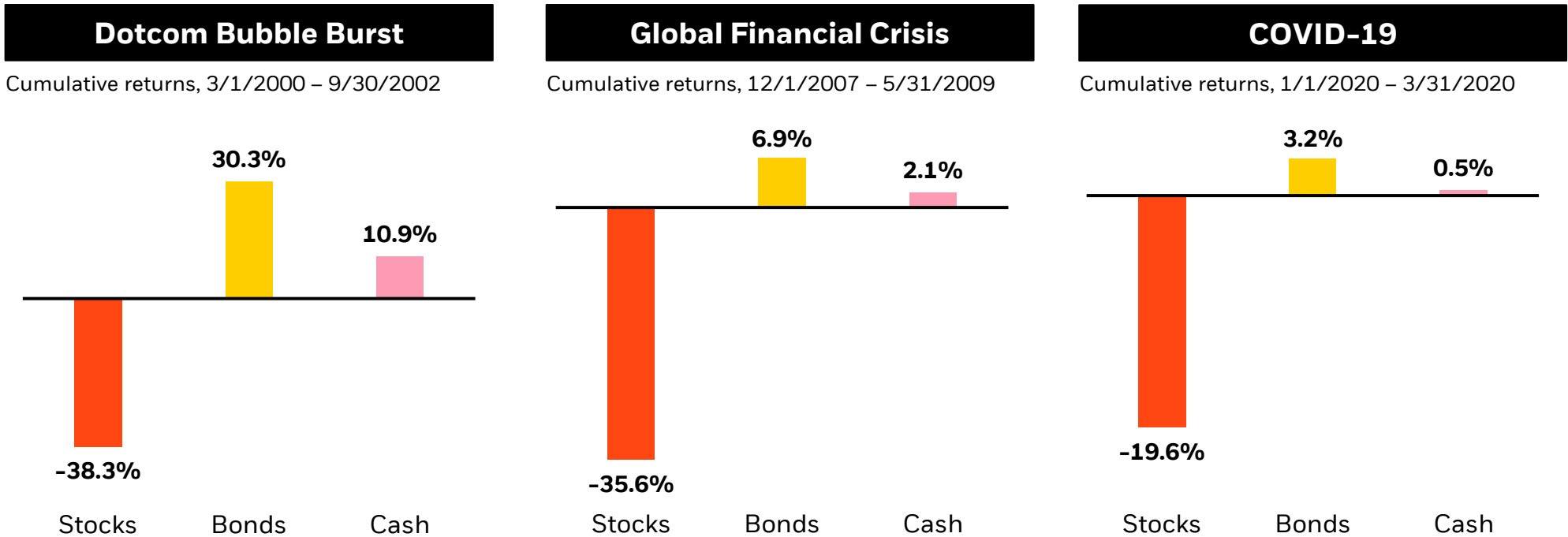
## Mutual funds and ETFs are less likely to lose money than individual stocks

Percentage of investments that made or lost money, last 5 years  
Cumulative returns, 2019 – 2023



# Core bonds can provide protection in stressed markets

Don't count out core bonds: while they may have had a tough few years, they have historically done a good job of providing protection when it really counts.



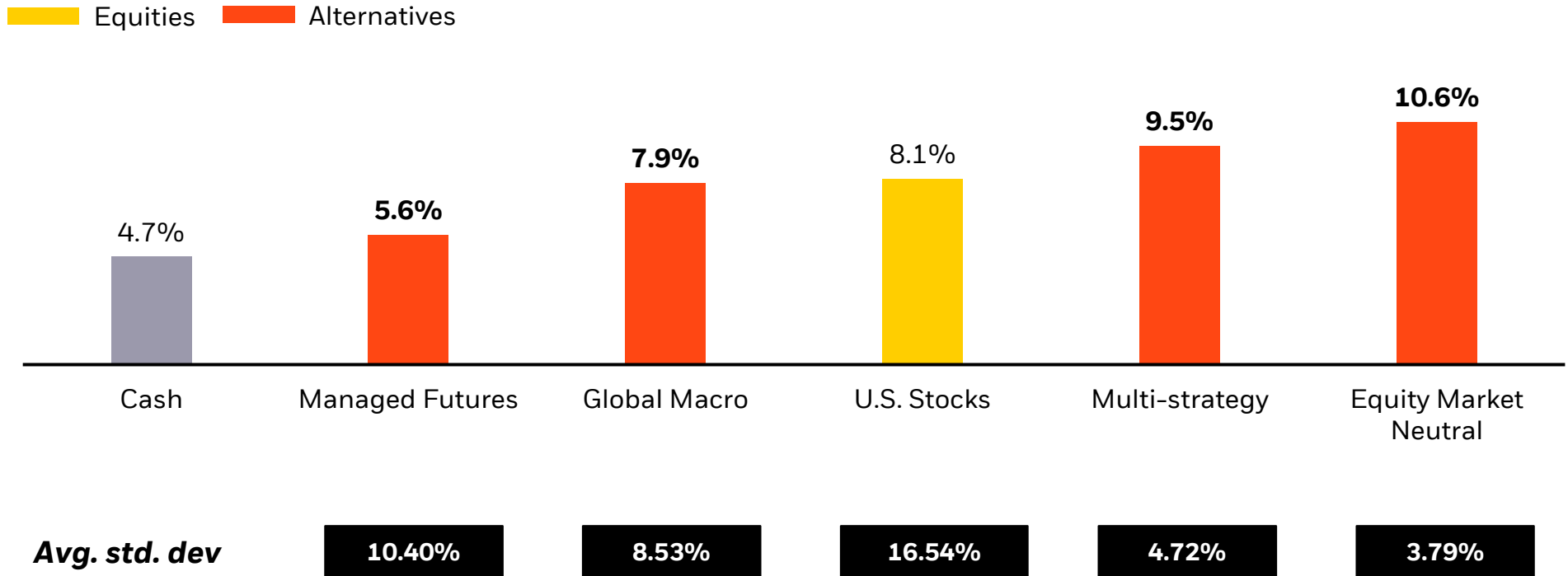
Source: Morningstar as of 6/30/24. "Stocks" are represented by the S&P 500 TR Index, "Bonds" by the Bloomberg US Agg Bond TR Index, and "Cash" by the Bloomberg US Treasury Bill 1-3M TR Index. Past performance does not guarantee or indicate future results. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index

# Alternatives have done well when rates are high

Interest rates are forecasted to stay high through the end of the year. History shows that alternative strategies have done well in this environment, delivering competitive performance with much lower volatility than stocks.

## Many alternatives have kept up with stocks... with less risk

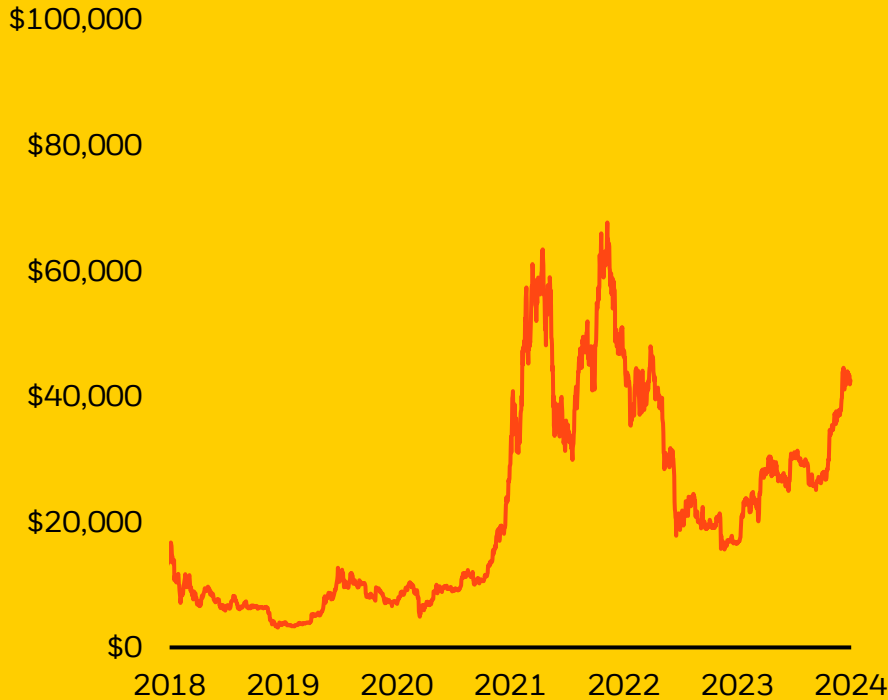
Average annual returns & standard deviation during periods of 3%+ FFR, Last 25+ years (1/1/99 to present)



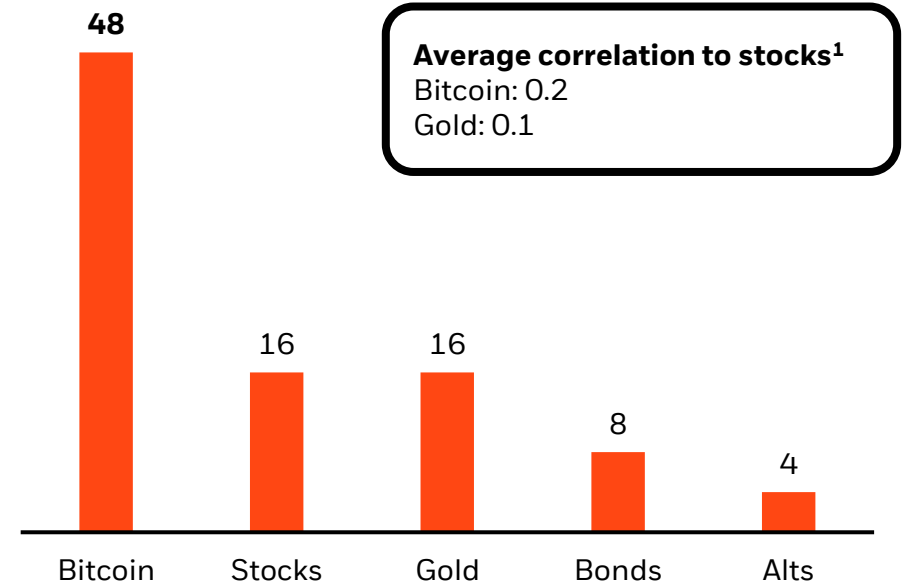
Source: Morningstar as of 5/31/24. "Cash" is represented by IA SBBI US 30 Day Tbill TR Index. "U.S. Stocks" represented by the S&P 500 TR Index. All others represented by their respective Credit Suisse Index of the same name, in USD. Analysis includes the following 3 periods since 1999 where the Federal Funds Rate was at a minimum of 3% for longer than 24 months: 1/1/99 to 10/2/01, 5/4/05 to 3/18/08 and 9/22/22 to 5/31/24. **Past performance does not guarantee or indicate future results.** Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index.

# Bitcoin: high returns have come with high risk

## Bitcoin returns have been high...



## ...but its volatility remains elevated relative to traditional asset classes



Past performance does not guarantee future results. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index.\*  
Start date reflects inception of CME bitcoin futures in the U.S. <sup>1</sup> Source: Bloomberg Bitcoin Spot Price, as of Aug. 2023

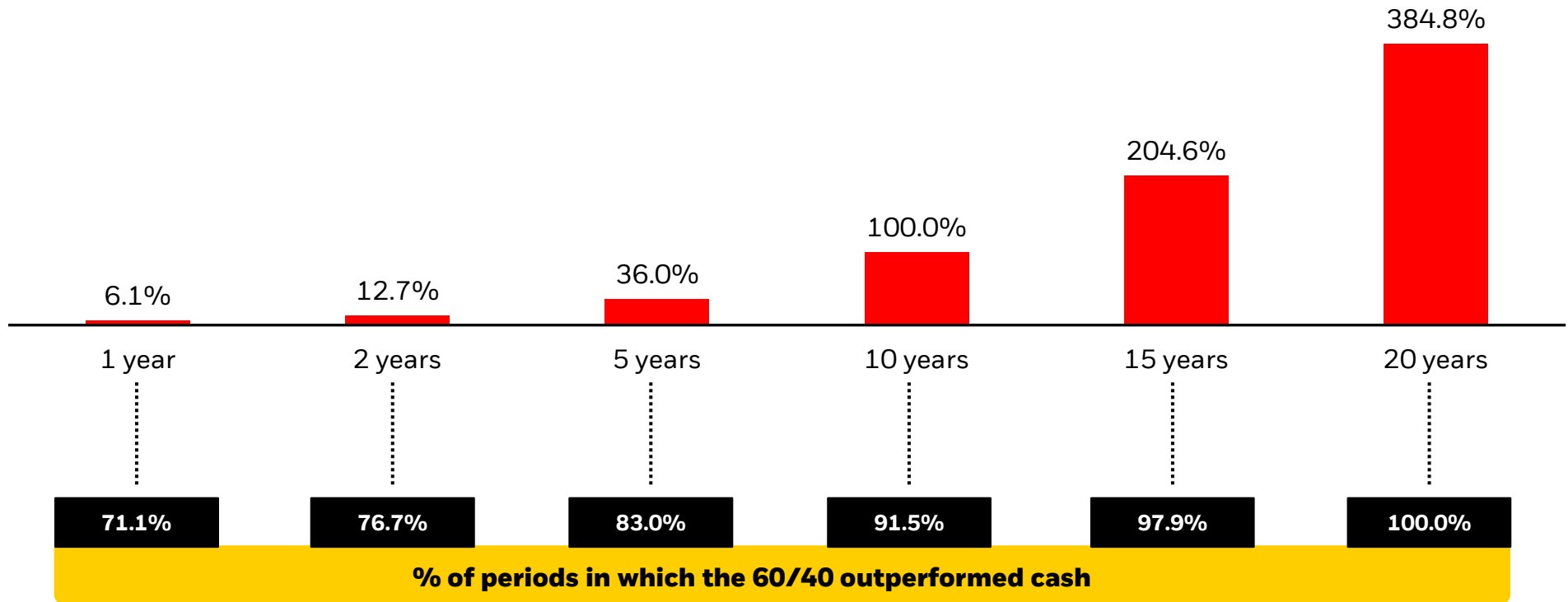


# Sitting on the sidelines can be costly

Cash yields have been high, but they still haven't kept up with the diversified portfolio. And over time, that difference in returns compounds.

## Excess return of a 60/40 portfolio over cash

Rolling returns, 1926-2024



# Bringing it all together

**1**

**U.S. stocks continue to lead the way**

**Get your stock allocation right.**

**2**

**Moderating, but still positive growth**

**Don't overreact to the election**

**3**

**Fed may cut later this year, but will keep rates relatively high**

**Diversification remains critical**

# Market Outlook: Q2 2024

Returns as of 6/30/24	Total Ret 1 Year	Total Ret 5 Years	Total Ret 10 Years
S&P 500 TR USD	24.56	15.05	12.86
Russell 2000 TR USD	10.06	6.94	7.00
MSCI EAFE NR USD	11.54	6.46	4.33
Bloomberg US Agg Bond TR USD	2.63	-0.23	1.35
Bloomberg US Treasury Bill 1-3 M TR USD	5.50	2.17	1.50
MSCI USA Sector Neutral Quality NR USD	27.66	14.56	12.49
MSCI EM NR USD	12.55	3.10	2.79
IA SBBI US Large Stock TR USD Ext	24.56	15.05	12.86
S&P 500 Sec/Commun Services TR USD	44.87	14.72	9.93
S&P 500 Sec/Cons Disc TR USD	13.08	10.54	12.24
S&P 500 Sec/Cons Staples TR USD	8.15	9.45	8.92
S&P 500 Sec/Energy TR USD	15.85	12.96	3.30
S&P 500 Sec/Financials TR USD	24.21	10.58	10.58
S&P 500 Sec/Health Care TR USD	11.68	11.53	11.07
S&P 500 Sec/Industrials TR USD	15.53	11.52	10.39
S&P 500 Sec/Information Technology TR USD	41.78	27.17	22.78
S&P 500 Sec/Materials TR USD	8.69	10.90	8.14
S&P 500 Sec/Real Estate TR USD	5.60	4.41	7.02
S&P 500 Sec/Utilities TR USD	7.82	6.11	8.04
IA SBBI US 30 Day TBill TR USD	5.44	2.04	1.40
Credit Suisse Managed Futures USD	9.69	7.58	4.90
Credit Suisse Global Macro USD	9.74	7.56	4.91
Credit Suisse Multi-Strategy USD	12.66	6.06	5.19
Credit Suisse Equity Market Neutral USD	10.97	4.15	2.24

# Index definitions

- The **S&P 500 TR Index** is an unmanaged index that is generally considered representative of the U.S. stock market on a total return basis. Included are the largest 500 stocks by market cap.
- The **IA SBBI IT US Large Stock TR Index** is an unmanaged index that is generally considered representative of the historical U.S. stock market on a price return basis prior to the inception of the **S&P 500 TR Index** in 1970.
- The **Russell 2000 TR Index** is an unmanaged index that is generally considered representative of the 2,000 largest stocks in the entire U.S. stock market on a total return basis.
- The **MSCI EAFE NR Index** is an unmanaged index that is generally considered representative of International (Ex-U.S. & Ex-Canada) Developed Market stocks on a net return basis.
- The **Bloomberg U.S. Agg Bond TR Index** is an unmanaged index that is generally considered representative of the U.S. bond market on a total return basis.
- The **Bloomberg U.S. Treasury Bill 1-3M TR Index** is an unmanaged index that is generally considered representative of the 1-3M U.S. Treasury market on a total return basis.
- The **MSCI USA Sector Neutral Quality NR Index** is an unmanaged index that is generally considered representative of U.S. stocks defined by the “quality” factor, on a net return basis, regardless of industry.
- The **Burgiss Private Equity Index as of 12/31/23** is an unmanaged index compiled by MSCI that tracks the performance of private investments focused on the Private Equity Market, as of the most recent update on 12/31/23.
- The **MSCI EM NR Index** is an unmanaged index that is generally considered representative of International Emerging Market stocks on a net return basis.
- The **IA SBBI US 30 Day TBill TR Index** is an unmanaged index that is generally considered representative of the historical U.S. 30-Day Treasury Bill market on a total return basis.
- The **S&P 500 Sec/Commun Services TR Index** is an unmanaged index that is generally considered representative of the Communication Services Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Cons Disc TR Index** is an unmanaged index that is generally considered representative of the Consumer Discretionary Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Cons Staples TR Index** is an unmanaged index that is generally considered representative of the Consumer Staples Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Energy TR Index** is an unmanaged index that is generally considered representative of the Energy Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Financials TR Index** is an unmanaged index that is generally considered representative of the Financials Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Health Care TR Index** is an unmanaged index that is generally considered representative of the Health Care Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Industrials TR Index** is an unmanaged index that is generally considered representative of the Industrials Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Information Technology TR Index** is an unmanaged index that is generally considered representative of the Information Technology Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Materials TR Index** is an unmanaged index that is generally considered representative of the Materials Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Real Estate TR Index** is an unmanaged index that is generally considered representative of the Real Estate Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **S&P 500 Sec/Utilities TR Index** is an unmanaged index that is generally considered representative of the Utilities Sector of the S&P 500 Index as defined by GICS on a total return basis.
- The **Credit Suisse Managed Futures USD Index** is an unmanaged index that is generally considered representative of U.S. Dollar-denominated Managed Futures investment strategies on a total return basis.
- The **Credit Suisse Global Macro USD Index** is an unmanaged index that is generally considered representative of U.S. Dollar-denominated Global Macro investment strategies on a total return basis.
- The **Credit Suisse Multi-Strategy USD Index** is an unmanaged index that is generally considered representative of U.S. Dollar-denominated Multi-Strategy investment strategies on a total return basis.
- The **Credit Suisse Equity Market Neutral USD Index** is an unmanaged index that is generally considered representative of U.S. Dollar-denominated Equity Market Neutral investment strategies on a total return basis.

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# Market Outlook: Q2 2024

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