MARKET UPDATE

Economic Market Update – Second Quarter, 2024

June 30, 2024

- U.S. Equity Markets: Strong performance with the S&P 500 up 15.3% year-to-date, driven primarily by technology and communication services sectors. Growth stocks continue to outpace value stocks, with small-cap stocks lagging behind large-cap peers.

- International Markets: Developed international markets posted solid returns, with the MSCI EAFE Index up 5.7%. Emerging markets showed mixed results, with significant return dispersion across countries, notably weak performance in China but strong gains in India and Taiwan.

- Fixed Income: Fixed income markets saw declines in the first half of 2024. However, high-yield and floating-rate securities outperformed, and we anticipate longer-dated bonds to perform well with expected Fed rate cuts in the near future.

- Economic Outlook: We project moderate U.S. economic growth for the second half of 2024, with GDP growth revised to 2.3%. The labor market shows signs of softening, which could influence Fed policy decisions. We remain optimistic about the economy while recognizing potential risks from inflation, monetary policy changes, and geopolitical events.

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As we review the first half of 2024, the U.S. economy and labor market have demonstrated notable resilience despite various headwinds. The economy has maintained moderate growth, supported by firmer-than-expected demand, leading to an upward revision of real GDP growth expectations for 2024 to 2.3%. This growth, while slower than in 2023, remains well above recessionary territory, aligning with the Federal Reserve's objectives.

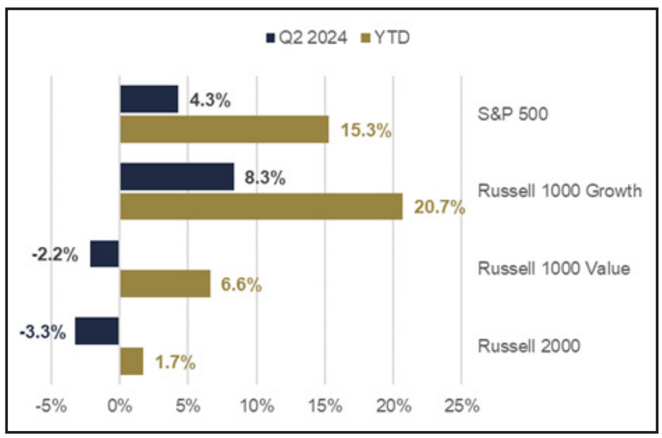
In the labor market, the jobs-workers gap has returned to its pre-pandemic balance, signaling a normalization with minimal impact on the unemployment rate. However, mixed signals from labor market indicators, such as discrepancies between the household survey and payroll report, suggest underlying softening. Employment trends, particularly in sectors like information technology and goods transportation, show signs of strain, contributing to a broader increase in the unemployment rate. While labor market data as a whole suggests that the soft landing is on track and remains our base case, we will be watching upcoming data releases closely.

As we move into the second half of the year, investors can expect continued moderate economic growth and a cautious Federal Reserve closely monitoring labor market developments as well. The trajectory of Fed policy will likely hinge on labor market data and inflation trends, with potential rate cuts on the horizon if labor market softening continues. Equity markets have shown resilience, particularly in sectors like Technology and Communication Services, but elevated valuations and the possibility of rate cuts warrant portfolio rebalancing to align with risk targets.

Fixed-income markets, impacted by strong economic data and delayed expectations of a Fed pivot, have faced challenges in the first half. However, as rate cuts become more likely, lengthening duration in fixed-income portfolios may be prudent in the back half of the year. Investors should remain vigilant to emerging risks, including unexpected monetary policy changes, geopolitical tensions, and political uncertainties, while maintaining a diversified investment strategy to optimize portfolio performance and mitigate potential headwinds in the evolving economic environment.

U.S. Equity

U.S. equity markets have posted strong returns in the first half of 2024, with every major market index posting positive performance for the year's first six months. The S&P 500, the bellwether for U.S. stock returns, finished June up 15.3% year-to-date.[1] Small-cap stocks continue to lag their large-cap peers, with the Russell 2000 up just 1.7% through the first six months of the year. Continuing the trend of broad-based strength in U.S. equity markets that began in late 2023, all but one of the nine Russell style boxes finished the first half of 2024 in positive territory, with small-cap value the only style in the red. Growth continues to outpace value, with the Russell 1000 Growth Index finishing the first half up 20.7%. The Russell 1000 Value Index climbed a comparatively paltry 6.6% during the first six months of 2024. Growth has also outperformed in small-cap, with the Russell 2000 Growth Index up 4.4% vs. the -0.8% return for the Russell 2000 Value Index. As usual, performance has varied across sectors, but outside of Real Estate, which is down -4.1% year-to-date, every other S&P 500 sector finished the first half in positive territory. Tech stocks have continued to shine, returning 27.8%,



[1]Return figures for U.S. indices are on a total return basis; international returns are net returns in U.S. dollars unless otherwise stated.

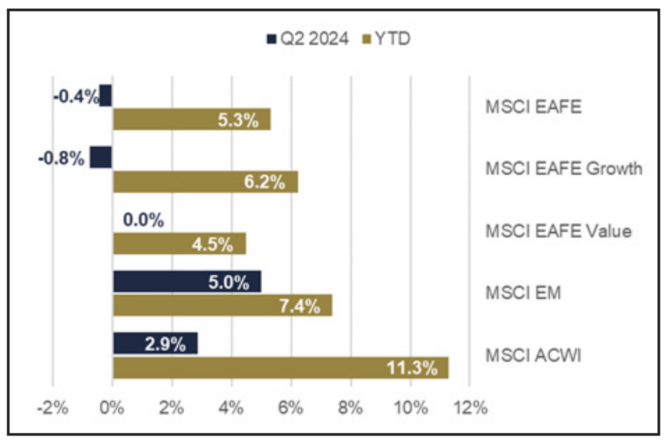
YTD 2024 Returns

	Value	Blend	Growth
Large	7.9%	17.2%	22.9%
Mid	4.5%	5.0%	6.0%
Small	-0.8%	1.7%	4.4%

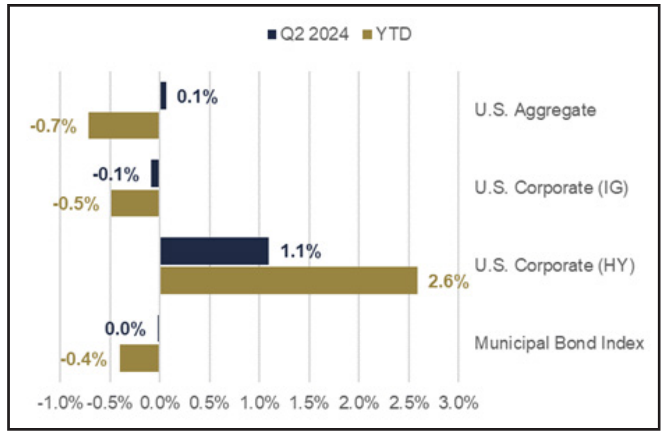
coming in as the best-performing sector year-to-date. Communication Services, up 26.1%, was the only other sector to outpace the S&P 500 as a whole, but most sectors are up mid-to-high single digits so far this year. Consumer Discretionary and Materials stocks were the laggards, though they still finished in positive territory, up 5.2% and 3.1% respectively. The aforementioned Real Estate sector, where the impact of higher rates is being felt more acutely, is the only sector in the red for the year through June.

International Equity

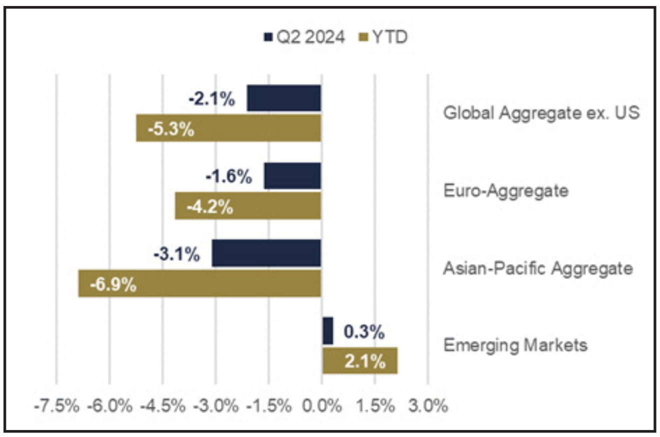
Despite continuing to lag the U.S., international markets also produced solid returns in the first half of the year. The MSCI EAFE Index, which tracks developed international markets, finished the first half up 5.3%. The split between value and growth was less pronounced internationally than in the U.S. Growth also outperformed internationally, with the MSCI EAFE Growth Index up 6.2% year-to-date compared to the MSCI EAFE Value's 4.5% return. The MSCI EAFE Index has a value tilt relative to major U.S. indices due to the lack of significant multinational technology firms, most of which are primarily based in the United States. Much of the difference in performance between U.S. and international indices in recent years comes down to the significant differences in sector exposure. After a strong rally in Q2, emerging market stocks are the clear international leader on the year, with stocks in developing countries up 7.4% for the first six months of 2024. Digging beneath the surface, however, reveals that significant return dispersion across countries continues to be a prominent feature in the developing world. Chinese stocks have rebounded slightly after a difficult year in 2023, finishing the first half up 4.7%. Stocks in Hong Kong, however, continued to struggle, down -10.7% for the year through June. As we've previously highlighted, though the weight of Chinese firms in the MSCI Emerging Markets Index has fallen from a peak of around 45% to just under 23% today, the performance of the Chinese market still has a significant impact on the return of the overall index. India, which has the second highest weight in the index after China, continues to perform well, up 16.9% over the first six months of 2024. Taiwan, with significant exposure to semiconductor manufacturing, was the standout performer in the Asia Pacific region, up 29.6% year-to-date. Closer to home, stock markets in Latin America have struggled, with the region down -16.9% year-to-date. **Summing up the global stock market in the first half of 2024, the MSCI All Country World Index, which tracks the global stock market, was up 11.3% over the first six months of the year.**



Fixed Income



After rallying to close out 2023, most major fixed-income markets reversed course in the first half of 2024, as strong economic data pushed expectations for the first rate cut from the Federal Reserve further out on the calendar. The Bloomberg U.S. Aggregate Bond Index, a broad measure of the performance of investment-grade fixed-income markets in the U.S., fell -0.7% year-to-date. Investment-grade corporate bonds fared slightly better but are also in the red for the first half, with the Bloomberg Investment Grade Corporate Index dropping -0.5%. Riskier areas of the credit market continued to outperform, with floating-rate securities up 4.2% and high-yield corporate bonds up 2.6% for the first six months of the year. Cash continued to post competitive returns relative to longer-dated fixed-income instruments, with short-term U.S. Treasury Bills finishing the first half up 2.7%. Returns for municipal bonds followed a similar pattern, with only high-yield municipal bonds in positive territory for first half of the year. With a Fed pivot on the horizon, longer-dated bonds are likely to outperform in the back half of 2024. Developed International fixed-income returns were even weaker than returns in the U.S., with the Bloomberg Global Aggregate Bond ex-USD Index finishing the first half down -5.3%. Developed Europe was the slightly better region, with the Bloomberg European Aggregate Index down -4.2%. The Asia-Pacific region, which is dominated by Japan, fell -6.9%, driven by the first interest rate hike from the Bank of Japan in a generation. Emerging markets performed well in the first half relative to developed markets, with the JPMorgan Emerging Market Global Core Index finishing June up 2.1% year-to-date. Summing up the global fixed income market in the first half of 2024, the Bloomberg Global Aggregate Bond Index fell -3.2% over the first six months of the year.



2H 2024 Outlook

We expect the U.S. economy to experience moderate growth through the remainder of 2024, with economic activity growing slower than seen in 2023 but still well above recessionary territory – which is exactly what the Federal Reserve wants. Expectations for real GDP growth in 2024 have been revised upward to 2.3% based on the Bloomberg composite of economic forecasts, largely driven by firmer-than-expected demand. This adjustment follows a downward revision in Q1 GDP growth to 1.4% from the initial estimate of 1.6%, reflecting softer consumer goods spending and a significant decline in inventory investment. Final sales to domestic purchasers, which exclude inventories and net exports, maintained a steady pace, rising at a 2.5% annualized rate, indicating resilient underlying domestic demand. We continue to believe inflation is on the slow but steady path to target and remain sanguine on the economy at this stage in the cycle. Employment trends may be beginning to show some cracks, however, and we expect the future trajectory of Fed policy will likely be dictated by developments in the labor market.

The labor market has finally returned to its pre-pandemic balance, with the jobs-workers gap back to its level in February 2020. This normalization has occurred with minimal impact on the unemployment rate, moving the economy back to a flatter Beveridge curve, which measures the relationship between job vacancies and the unemployment rate. The jobs market stands at an inflection point, however, where further softening in labor demand could begin to impact actual jobs. Labor market indicators are currently sending less consistent signals than before the pandemic, muddying the water for professional forecasters and, more importantly, for the Fed. In particular, the household survey, which captures individual household employment data, and the payrolls report, which surveys employers, are sending mixed messages on the health of the labor market. Household survey employment growth underperformed payroll growth by 0.7 million in 2023 and by 1.4 million so far in 2024. The household survey data is admittedly noisier, and recent gaps are partly due to missing immigration surges and the volatile 16-24-year-old cohort, but the gap between the two major measures of employment is currently much wider than it has been historically. Based on the payrolls report, the underlying trend in job growth is around 250K jobs per month, well above the 150K breakeven rate, implying the labor market remains quite strong. The household survey paints a different picture, however, with a three-month moving average of around 38K jobs per month and a six-month moving average that is negative, implying the economy is actually losing jobs. The unemployment rate has also increased by 0.3 percentage points in 2024 and 0.4 percentage points on a three-month moving average basis. This increase has been broad-based across industries, with overstaffed sectors that built up substantially during the pandemic, like information technology and goods transportation, contributing significantly to the increase. The hiring rate has also fallen below its pre-pandemic rate, though most of the decline is due to a drop in quits, leading to fewer departing workers needing replacement. New entrants to the labor force are also facing a lower job-finding rate compared to a year ago. So, while on the surface the labor market continues to appear strong, underneath the surface, the signs are beginning to add up that softening is underway.

The key question is how the Federal Reserve will interpret this inconsistent labor market data when making policy decisions. How does the current labor market compare to history in the lead-up to a Fed cut? Despite the early warning signs, labor market conditions today are stronger than at the time of the first rate cuts in 1995 and 1998, but comparable to conditions in 2019. A key distinction is that labor market conditions today appear to be softening faster than in previous episodes, however, and historically the decision to cut rates has been most sensitive to the unemployment rate and jobless claims. A continuation of the recent labor market softening at the current pace would increase downside risks and have the potential to influence the Fed's decision. Whether the Fed cuts rates in September or continues to hold off will hinge on the next three rounds of inflation data, which still remains above target. But moderate further labor market softening could make downside risks a more central part of the case, and if inflation data supports easing, a September rate cut could be on the table.

When a rate cut does finally come, market participants will likely respond favorably. U.S. equity markets have shown resilience despite higher rates, but valuation levels remain elevated despite solid fundamentals. The Technology and Communication Services sectors have been the primary drivers, contributing significantly to the index's performance this year. The Magnificent 7 components, excluding Tesla, all saw positive returns, with these seven stocks alone contributing over 60% of the index's overall return, leading to a new record concentration for the S&P 500. A significant portion of the value in these sectors and stocks is derived from cash flows well out into the future – and rate cuts will lower the discount rate applied to these cash flows, making them more valuable in the present. While market sentiment remains supportive for stocks, investors would be prudent to take this opportunity to rebalance portfolios to bring them back in line with risk targets. Stocks have significantly outperformed bonds over the last year, so an investor in a 65% equity/35% fixed-income portfolio who has not made any adjustments in the last twelve months would have seen equity exposure rise to around 70% of the total portfolio. With rate cuts on the horizon, now is an opportune time to align portfolios that may have drifted with intended risk tolerances.

The current challenge facing fixed-income investors is the ongoing debate about the restrictiveness of current Fed policy. New York Fed President Williams views current policy as sufficient to reach the 2% inflation target. At the same time, Dallas Fed President Logan suggests high interest rates may not be curbing economic activity as expected. Minneapolis Fed President Kashkari has warned of a possible rate hike, while Governor Bowman prefers a slower balance sheet runoff. Much like the labor market, Fed members have been sending mixed messages. It is likely, however, that the voting members of the Fed will reach a consensus on easing policy at some point over the next six months. Sluggish loan growth and mounting unrealized losses on securities holdings in the banking sector indicate potential strains, contributing to the perception of restrictive monetary policy. Consumer delinquency rates, particularly in credit cards, have risen, indicating potential stress in credit portfolios. Absent any sustained inflationary pressure in the months ahead, these concerns, coupled with further softening in the labor market, will likely result in the first cut of this cycle, if not by year-end, then certainly by the first quarter of 2025. Given that rate cuts are starting to appear on the horizon in the back half of the year, further lengthening of duration in fixed income portfolios, a process we began incrementally at the tail end of 2023, will likely be warranted.

As always, there are risks around our baseline outlook. Unexpected changes in monetary policy or persistent inflation could significantly alter the economic landscape. A reacceleration of inflation and/or delays in rate cuts could negatively impact both equity and fixed-income markets. Speculation around policy changes under a potential Trump 2.0 administration, including currency devaluation and tariff impositions, could also unsettle markets. Congressional control and confirmation processes may limit significant shifts, but the uncertainty around the election could impact investor sentiment. Global political events, with more elections in major global economies occurring this year than any previous year in history, could introduce volatility and impact investor sentiment. Political risk is rising, not only in emerging markets where it is the norm, but also in developed markets with elections in France and the United Kingdom. As always, geopolitical tensions, trade disputes, and other international conflicts could disrupt global supply chains and economic growth. Despite these risks, we remain sanguine on the prospects for the economy for the rest of 2024, and while we expect an uptick in volatility around the election in November, markets have historically rallied strongly to finish out Presidential election years once investors know who will occupy the White House for the next four years, regardless of which party controls the Presidency.

As we move through 2024, maintaining a diversified investment strategy that leverages the strengths of the U.S. and global markets while remaining vigilant to emerging risks is essential. By closely monitoring economic indicators, market sentiment, and policy developments, investors can navigate the current landscape effectively, optimizing portfolio performance and mitigating potential risks. This comprehensive approach will ensure that portfolios are well-positioned to capitalize on opportunities and withstand potential headwinds in the evolving economic environment.

We remain committed as always to focusing on your long-term financial goals and priorities and constructing portfolios designed to reach those goals while minimizing risk. The volatility environment experienced over the last several years demonstrates the value of disciplined professional management. Our clients' interests always come first, and our goal is to continue to separate the signal from the noise and focus on what truly matters to the economy and markets to help you achieve your investment goals.

ABOUT THE AUTHOR

Matthew T. Brennan, CFA®

Chief Investment Strategist & Director of Institutional Investments

Matthew is the Chief Investment Strategist and Director of Institutional Investments for Fulton Private Bank and Fulton Financial Advisors. He was a National Merit Scholar at the University of Chicago, where he graduated with a B.A. in Political Science. He is a Chartered Financial Analyst (CFA®) charterholder and is a member of the CFA® Institute and the CFA® Society of Philadelphia.

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