

Economic Review

Standing Pat. The Federal Reserve has kept the target range for the federal funds rate steady for the past seven meetings, after pausing their aggressive rate increases at 5.25%-5.5% last July. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward two percent. The updated Summary of Economic Projections (SEP) or “dot plot,” a chart indicating where each Fed official sees interest rates in the future, point to one 25 basis point cut by the end of this year and four more 25 basis point cuts in 2025. That would bring rates down to 4.0%-4.25% by the end of next year.

The Fed’s preferred inflation measure, the PCE (Personal consumption expenditures), declined to 2.6% in May compared to 2.7% the previous month. Yet the measure has been stuck in a range between 2.5% and 2.7% since last November.

The U.S. economy shows some signs of slowing, as real gross domestic product (GDP) increased at an annual rate of 1.4% in the first quarter, compared to 3.4% in the previous quarter, according to the Bureau of Economic Analysis. The latest Atlanta Fed GDPNow model estimate for second quarter GDP is at 1.7%.

The labor market remains healthy with unemployment at 4.0%, and the number of unemployed persons at 6.6 million, according to the BLS. A year earlier, the unemployment rate was 3.7% with 6.1 million unemployed. The Job Openings and Labor Turnover Survey (JOLTS) has declined from a high of 12.2 million job openings in March 2022 to 8.1 million, currently. Still, there are about 1.2 jobs available for every unemployed worker.

The Conference Board Leading Economic Index (LEI) provides an early indication of where the economy is heading in the near term. The LEI does not currently signal a recession, but projects that elevated inflation and high interest rates will continue to weigh on consumer spending.

Home prices rose to a new high in May as inventory remained tight. The median sales price of existing homes was \$419,300, up 5.8% over the previous year, according to the National Association of Realtors.

The Consumer Confidence Index dipped in June as consumers contend with inflation, borrowing costs and more recently, a softening in the labor market.

Financial Markets Review: Domestic Stock Market

The S&P 500 has set over 30 new highs through the first half of the year and closed the second quarter up 3.92% (ex-dividends) to 5,460.48. The NASDAQ Composite also posted 20 record closes in the first half, climbing another 8.26% in the second quarter to 17,732.60. And after crossing 40,000 in the first quarter, the Dow Jones Industrial Average drifted lower in the second quarter, ending the period off -1.73% to 39,118.86.

As a group, the AI technology stocks regarded as the “Magnificent Seven” had another strong quarter. All seven advanced and Nvidia led the group, leaping 36.74%.

With respect to investment styles, the gap between growth and value remains a chasm. The AI boom kept the spread between large growth versus large value at a staggering 10.5% for the second quarter, 13.08% year to date and 20.42% for the past year.

The DJIA top performers for the second quarter were Apple, jumping 22.97%, followed by Walmart, advancing 12.88% and Amgen rising 10.69%. The worst performers were Intel, plummeting -29.60%, Nike, declining -19.41% and The Walt Disney Company dropping -18.85%.

Of the 11 S&P 500 sectors, information technology led the pack, gaining 13.81%, followed by communication services, up 9.37% and utilities ahead 4.66%. Materials trailed the group with a loss of -4.40%, along with industrials down -2.90% and energy off -2.42%.

Among industry groups, top performers included semiconductors and equipment (+22.60%), tech hardware and equipment (+18.20%) and media (+9.83%). Laggards included transportation (-6.77%), materials (-4.50%) and diversified financials (-3.41%).

According to FactSet, analysts are projecting a year-over-year earnings increase of 8.8% for the second quarter. For the full year 2024, earnings are projected to grow 11.3% on revenue growth of 5.0%. For 2025, analysts are currently projecting even stronger earnings growth of 14.4% and revenue growth of 6.0%.

Our current outlook is that a recession will be avoided in 2024 and inflation will gradually moderate. The economy is on solid footing and corporate earnings are strong. Pressure from housing, labor and commodities may lead to fewer rate cuts from the Fed. With signs of consumer spending fatigue, rising credit delinquencies and extended equity valuations, we would not rule out a modest near-term correction, followed by a resumption of growth. Other areas of attentiveness include rising debt and deficits, flash points in Europe, the Middle East and Asia, and the upcoming U.S. Presidential election this November.

Category/Style	Total Returns* (6/30/24)			Annualized Returns (6/30/24)			
	2 nd Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years	
S&P 500	4.28	15.29	24.56	10.01	15.05	12.86	
S&P Midcap 400	-3.45	6.17	13.57	4.47	10.27	9.14	
S&P Small Cap 600	-3.11	-0.72	8.66	-0.26	8.06	8.24	
Russell 1000 Large Cap Growth	8.33	20.70	33.48	11.28	19.34	16.33	
Russell 1000 Large Cap Value	-2.17	6.62	13.06	5.52	9.01	8.23	
Russell 2000 Small Cap Growth	-2.92	4.44	9.14	-4.86	6.17	7.39	
Russell 2000 Small Cap Value	-3.64	-0.85	10.90	-0.53	7.07	6.23	

Source: Standard and Poor’s, Frank Russell Company * returns include reinvested dividends

International Stock Markets

The International Money Fund (IMF) baseline forecast is for the world economy to continue growing at 3.2% for 2024 and 2025, at the same pace as 2023. Global inflation is forecast to decline steadily, from 6.8 percent in 2023 to 5.9 percent in 2024 and 4.5 percent in 2025, with advanced economies returning to their inflation targets sooner than emerging market and developing economies.

The MSCI EAFE Index of developed markets fell -0.42% in the second quarter. MSCI Emerging Markets Index advanced 5.00%, and the MSCI Frontier Markets were higher by 0.65%.

PMI indices for all Eurozone countries, except Italy, slipped in June. However, the global recovery provides a supportive backdrop for Eurozone manufacturers.

Additionally, optimism about future production remains as high as it was in May, indicating that businesses are still confident about the coming year. Most markets experienced softness in the quarter. The Stoxx Europe 600 Index dropped -3.54% to 501.60. In local currencies, Germany's DAX Index lost -1.39% to 18,235.45, and France's CAC-40 sank -8.85% to 7,479.40, while the London FTSE 100 gained 2.66% to 8,164.12.

In Asia-Pacific markets, Japan's factory output rose for the first time in over a year. Manufacturers also raised their prices at the strongest rate in over a year. Japan's Nikkei stock index vaulted 18.28% for the period to 39,583.08.

In emerging markets, China's manufacturing sector expanded at a more pronounced pace midway into 2024. Production growth was the fastest rate in two years. The China Shanghai Composite Index fell -2.42% for the quarter to 2,967.40. In India, capacity pressures became evident in June, leading firms to increase their staffing levels to the greatest extent in over 18 years. Input cost inflation eased slightly. The S&P BSE Sensex Index advanced 7.30% to 79,032.73.

The U.S. Dollar Index (DXY) remained strong in the second quarter, returning 1.26%, to 105.87. The dollar increased 6.31% against the yen to \$160.88 (JPY/USD) and was 0.78% higher vs. the euro at \$1.07 (USD/EUR).

World Bond Markets

In the U.S., the 3-month/2-yr. treasury spread and 2-yr./10-yr. treasury spread remain inverted, at 0.64% and 0.37%, respectively. The 3-month T-bill ended the quarter unchanged at 5.36%. The 2-year note rose to 4.72%, and the U.S. 10-year treasury bond climbed to 4.34%.

With interest rates backing up, bonds struggled in the second quarter. The Bloomberg Aggregate Bond Index was up a mere 0.07%. The Bloomberg Municipal Index edged lower by -0.02% for the quarter and the Barclays U.S. Treasury TIPS Index gained 0.79%. Money market yields were stable at 5.13%, as reported by the Crane 100 Money Fund Index.

According to Value Line, yields on 10-year government bonds ended the quarter higher in the UK (4.05%), Germany (2.39%) and Japan (0.95%), while falling in Canada (3.29%). In June, The Bank of Canada became the first major central bank to cut rates, reducing its rate to 4.75%. The ECB followed suit, cutting its benchmark rate to 3.75% from a record high 4.0%. ECB president Christine Lagarde said that inflation had eased enough for the central bank to start lowering rates.

Commodities

Commodities moved up in the second quarter by 3.46% to close at 1,023.52 according to the DJ Commodity Index. Oil prices retreated by \$1.63 (-1.96%) to \$81.54/barrel. And according to AAA, consumers watched prices at the pump slip by four cents, as the national average price of gas fell to \$3.49/gallon. Gold continued to climb to new record highs, ending the second quarter at \$2,327.70/troy oz., for a quarterly gain of \$110.30, or 4.97%.

Mutual Funds/Exchange-Traded Funds

According to the Investment Company Institute, assets in exchange-traded funds (ETFs) rose to \$8.96 trillion, a gain of 29.4% over the past year. The growth in the number of ETFs continues with an increase of another 331 funds in the past year to 3,237. The total number of mutual funds continued to contract with a loss of 178 funds over the past year to 7,153. Investors continued to hold a large amount in money market funds, as asset levels remained at \$6.1 trillion over the past quarter.

MUTUAL FUNDS OVERVIEW AS OF JUNE 30, 2024

Category	Total Returns			Annualized Returns		
	2 nd Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond Interim-Term	0.25	0.39	3.68	-0.77	1.01	1.90
Short-Term Taxable Bond	1.05	1.94	5.96	0.67	1.59	1.64
Intermediate Taxable Bond	0.22	-0.30	3.05	-2.96	-0.14	1.26
Long-Term Taxable Bond	-1.24	-2.54	1.60	-6.69	-0.93	2.24
High Yield Bond	1.11	2.81	9.92	1.63	3.54	3.51
Global Bond	-1.11	-2.60	2.02	-4.25	-1.63	-0.64
Small-Cap Blend	-3.26	2.25	10.38	0.89	8.14	7.07
Mid-Cap Blend	-3.31	5.58	13.23	3.41	9.43	8.19
Large-Cap Blend	2.40	12.63	21.37	7.97	13.28	11.23
Global Stock Large Blend	1.16	8.40	14.89	4.20	9.23	7.64
Foreign Large Blend	0.12	5.36	10.54	1.23	5.95	4.17
Natural Resources	-2.37	0.30	4.39	4.34	10.17	4.19
Real Estate	-0.80	-1.83	5.40	-2.18	2.86	5.06

Source: Morningstar Category Returns, Morningstar, Inc.

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The Bureau of Economic Analysis (BEA) of the United States Department of Commerce is a U.S. government agency that provides official macroeconomic and industry statistics, most notably reports about the gross domestic product (GDP) of the United States and its various units such as states, cities, towns, townships, and villages. **Gross Domestic Product (GDP)** is a measure of output from U.S. factories and related consumption in the United States. It does not include products made by U.S. companies in foreign markets. **Real Gross Domestic Product (real GDP)** is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). The **Atlanta Fed GDPNow** estimate is a model-based projection not subject to judgmental adjustments. It is not an official forecast of the Atlanta Fed, its president, the Federal Reserve System, or the Federal Open Market Committee. **The Consumer Price Index (CPI)** measures prices of a fixed basket of goods bought by a typical consumer, widely used as a cost-of-living benchmark and uses January 1982 as the base year. **Purchasing Managers' Index™ (PMI™)** is a survey-based economic indicator designed to provide a timely insight into business conditions. Flash PMI data are published by S&P Global and are early estimates of the company's final PMI numbers. The Flash PMI data are published approximately one week before final PMI data each month and are typically based on 85%-90% of total PMI responses received each month. Flash manufacturing, services and composite indices are published for: Australia, Eurozone, France, Germany, Japan, United Kingdom, and the United States. **The Conference Board Leading Economic Index® (LEI)** for the U.S. are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components. **Personal Consumption Expenditures (PCE)** is a measure of price changes in consumer goods and services and consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables and services. **The ISM Manufacturing Index** is based on surveys of more than 300 manufacturing firms by the Institute for Supply Management (ISM). The ISM Manufacturing Index monitors employment, production, inventories, new orders and supplier deliveries. A composite diffusion index monitors conditions in national manufacturing and is based on the data from these surveys. **The Federal Reserve System** (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy. **The Federal Open Market Committee (FOMC)**, a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). **The unemployment rate** percentage of total workforce who are unemployed and are looking for a paid job. Unemployment rate is one of the most closely watched statistics because a rising rate is seen as a sign of weakening economy that may call for cut in interest rate. A falling rate, similarly, indicates a growing economy, which is usually accompanied by higher inflation rate and may call for increase in interest rates. Labor force participation rate is the percentage of working age population that is part of the labor force. It is a measure of what proportion of a country's population is employed or actively looking for employment. The index of leading economic indicators is intended to predict future economic activity. Typically, three consecutive monthly LEI changes in the same direction suggest a turning point in the economy. **Inflation** is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times. **Treasury Yield Curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. **The Michigan Consumer Sentiment Index** was created in the 1940s is conducted by the Survey Research Center and consists of at least 500 telephone interviews posed to a different cross-section of consumers in the continental U.S. each month. The survey questions consumers on their views of their own personal finances, as well as the short-term and long-term state of the U.S. economy. **The International Monetary Fund (IMF)** is an international organization that was initiated in 1944 at the Bretton Woods Conference and formally created in 1945 by 29-member countries. Each survey contains approximately 50 core questions, and each respondent is contacted again for another survey six months after completing the first one. The answers to these questions form the basis of the index. **An exchange-traded fund (ETF)** is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Indexes are unmanaged and investors cannot invest directly in an index.

Morningstar Category Returns are composed of the average return for the funds in each Morningstar category over the indicated time period. Categories are defined by Morningstar based on holdings statistics. The category returns are adjusted for survivorship bias, meaning they include all investments even if liquidated, merged or otherwise now obsolete. The returns also include funds that were in the given Morningstar category but have since changed to another category.

Benchmark Definitions

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The **S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the U.S. from a broad range of industries whose collective performance mirrors the overall stock market. The **Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The **NASDAQ** is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. The **S&P MidCap 400** provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. The **S&P SmallCap 600** seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The **Russell 2000** Index is a market-value-weighted index representing the 2,000 smallest companies in the Russell 3000 index, representative of the US small-cap securities market. The **Russell 1000** Index is a subset of the Russell 3000 Index that includes approximately 1,000 of the largest companies in the US equity universe, representative of the US small-cap securities market. **Russell Large Cap Growth Index** measures the performance of those Russell 1000 Index securities with higher price-to-book ratios and higher forecasted growth values, representative of US securities exhibiting growth characteristics. **Russell Large Cap Value Index** measures the performance of those Russell 1000 Index securities with lower price-to-book ratios and lower forecasted growth values, representative of US securities exhibiting value characteristics. **MSCI EAFE Index** is a market capitalization-weighted index of the leading stocks in Europe, Australasia and Far East. Membership of the index is selected by MSCI and designed for leading stocks roughly to match market sector weights. The **MSCI Emerging Markets Index** is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. The **MSCI Frontier Markets Index** provides a broad representation of the equity opportunity set while taking investability requirements into consideration within each market. MSCI classifies 34 countries as Frontier Markets, 26 of which are included in the MSCI Frontier Markets Index. The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The **CAC 40 Index** is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse (now Euronext Paris). The **DAX Index** is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The **FTSE 100** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The **Nikkei Index** is a stock market index for the Tokyo Stock Exchange (TSE). The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. **S&P BSE Sensex index**, is the benchmark index of the Bombay Stock Exchange (BSE). It is composed of 30 of the largest and most actively traded stocks on the BSE, providing an accurate gauge of India's economy. **Bloomberg Aggregate Bond Index** is made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million. The **Bloomberg Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital U.S. Government Inflation-Linked Bond Index** (U.S. TIPS) measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more. Treasury notes (T-notes) are intermediate securities with maturities of 1 to 10 years. Denominations range from \$1000 to \$1 million or more. The notes are sold by cash subscriptions, in exchange for outstanding or maturing government issues, or at auction. The **10-year Treasury Note** represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. The **Crane 100 Money Fund Index** measures the average yield of the 100 largest taxable money market funds. **Barclays Capital Global Aggregate ex-U.S. Index** measures the performance of the global bond market, excluding U.S. securities. **The Dow Jones Commodity IndexSM** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. The index is designed to minimize concentration in any one commodity or sector. Due to market fluctuation, the commodities represented by this index may experience loss of invested principal and are subject to investment risk. The **U.S. dollar index (DXY)** is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.