Highland ReCAP

A Review of Capital Markets

Highland
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June 2024

Summary

Stocks were mixed in June and interest rates rallied in the month to what's becoming a familiar tune - data indicating a slowing economy and inflation that is gradually declining. In the U.S., unemployment ticked up slightly and the housing market continued to cool, leading markets to price in more optimism for a Fed interest rate cutting cycle kick-off in the second half of 2024. Overseas, the European Central Bank approved its first rate cut, while the Bank of England paused. The pressure on the Japanese Yen persisted. Emerging markets were a top performer in June while at the country level, results were mixed. Similarly, the broad commodities benchmark sold off despite oil prices rising more than 5% for the month.

Equities

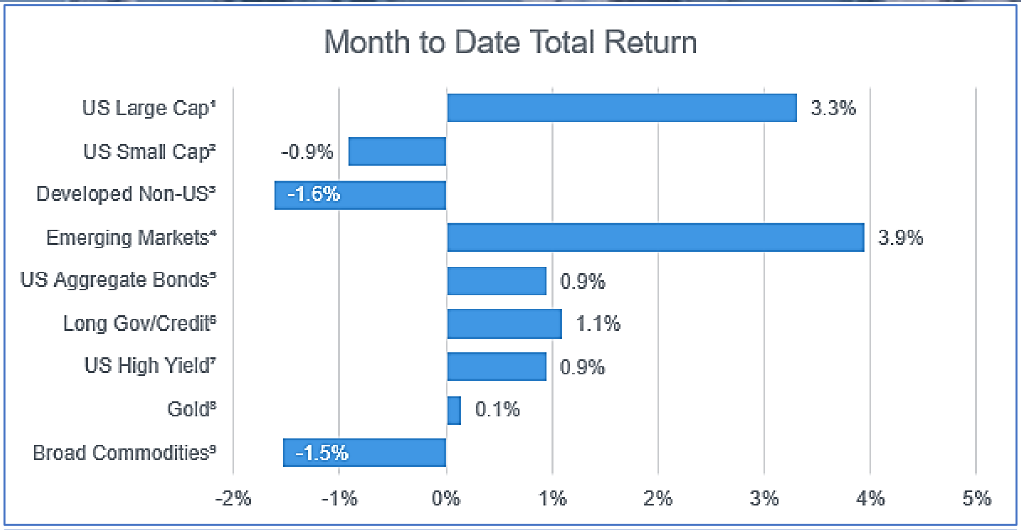
U.S. blue chip stocks capped off a strong first half of the year with another positive month. Nvidia was in the spotlight once again as the AI bellwether saw outsized gains, followed by a steep selloff at the tail end of June. Large cap stocks returned 3.3% for June, while small caps were unable to capture that same momentum, declining nearly 1% for the month. Developed non-U.S. markets didn't fare any better, falling 1.6% in June. While the ECB kicked off its easing cycle, snap elections in France tempered investor enthusiasm, and Japan continued to experience pressure on the Yen in foreign exchange markets. In emerging markets, Mexico's election results were in-line with expectations, but the surrounding sentiment gave investors pause, while China equities also struggled through the month. EM index returns, however, were a top performer, with an assist from top holding Taiwan Semiconductor.

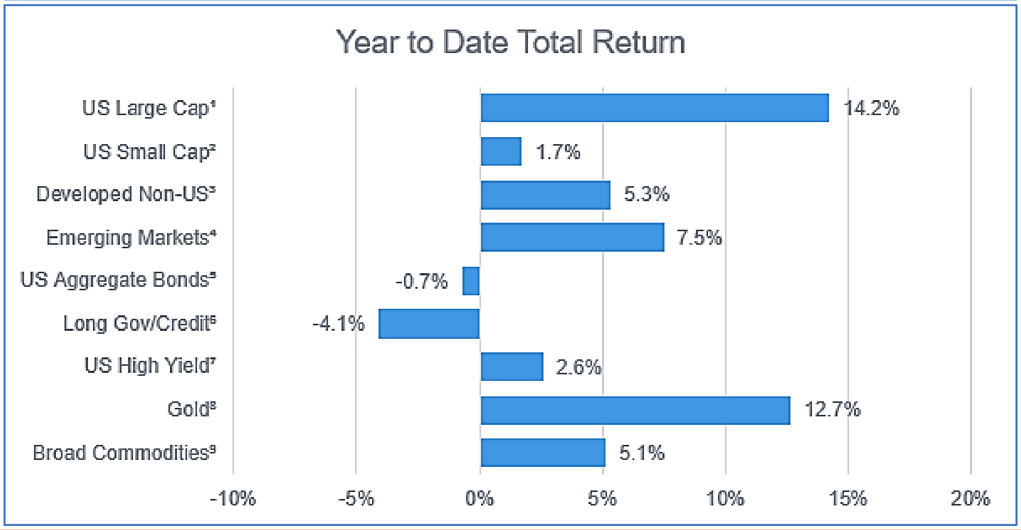
Fixed Income

Interest rates rallied and bonds generated positive returns in June, as investors digested optimistic inflation data and pessimistic economic data. The unemployment rate ticked up from 3.9% to 4.0% in May, and while the increase was small, jobs markets have historically been a leading recessionary indicator. Another favored indicator, the housing market, also cooled with existing home sales and housing starts both declining in the face of elevated mortgage rates and higher home prices. CPI came in at 3.3%, a touch below forecasts, while the Fed's preferred measure of inflation, PCE, rose 2.6%, in-line with expectations. The 10-year Treasury yield dipped as low as 4.21% before finishing the month at 4.34%, 13 basis points lower than May levels. Bonds benefited from lower rates, with investment grade and high yield bonds each returning just under 1% for the month.

Market Trends

As of June 30, 2024





	1M	3M	YTD	1Y	3Y	5Y	10Y
US Large Cap[1]	3.3%	3.6%	14.2%	23.9%	8.7%	14.6%	12.5%
US Small Cap[2]	-0.9%	-3.3%	1.7%	10.1%	-2.6%	6.9%	7.0%
Developed Non-US[3]	-1.6%	-0.4%	5.3%	11.5%	2.9%	6.5%	4.3%
Emerging Markets[4]	3.9%	5.0%	7.5%	12.5%	-5.1%	3.1%	2.8%
US Aggregate Bonds[5]	0.9%	0.1%	-0.7%	2.6%	-3.0%	-0.2%	1.3%
Long Gov/Credit[6]	1.1%	-1.7%	-4.1%	-1.6%	-8.5%	-2.2%	1.6%
US High Yield[7]	0.9%	1.1%	2.6%	10.4%	1.6%	3.9%	4.3%
Gold[8]	0.1%	4.9%	12.7%	20.6%	9.1%	9.4%	5.0%
Broad Commodities[9]	-1.5%	2.9%	5.1%	5.0%	5.7%	7.2%	-1.3%

1 – Russell 1000, 2 – Russell 2000, 3 – MSCI EAFE, 4 – MSCI Emerging Markets, 5 – Bloomberg US Agg, 6 – Bloomberg US Long Gov/Credit
7 – Bloomberg US Corporate High Yield, 8 – Bloomberg Gold Subindex, 9 – Bloomberg Commodity

Disclosure Statements

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FTSE Russell

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