HFS Wealth Advisors
Serving Your Life & Legacy

Q2 2024 Asset Management

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Index	QTD Return	2023 Return
S&P 500 Index	10.56%	26.29%
Nasdaq Composite Index	9.11%	43.42%
US Aggregate Bond Index	-0.78%	5.53%
Russell 2000 Small Cap Index	5.18%	16.93%
Bloomberg Commodity Index	0.85%	-12.55%

Equity markets maintained their bullish momentum to start 2024, showing resilience even in the face of the potential for higher interest rates for longer. Notably, the S&P 500 achieved significant gains in the first quarter, surpassing 10% and has now posted over 30% returns over the past year.

Despite reduced expectations for Federal Reserve rate adjustments in 2024, stock prices continued to climb in the first quarter. This upward trend was particularly driven by the technology sector, especially those poised to benefit from the expanding use of artificial intelligence. Additionally, even value stocks contributed to the market's positive performance. Conversely, the bond market faced challenges due to the anticipation of delayed rate cuts by the Fed until later in the year.
Top of Form

Macro Views

Market Views

Portfolio Positioning

- We are underweight large-cap growth and overweight large-cap blend with a focus on quality.

- We are underweight developed small-cap and overweight Asia-Pacific as we favor Japan.

- Within fixed income we are overweight credit/short duration and underweight treasuries/long duration.

- Allocated some of our cash to large cap cyclical sectors (Energy, Financials, Industrials) as we look for a broadening out of the market away from momentum/mega cap growth.

- With stock-bond correlations to remain in positive territory, we continue to utilize commodities, trend-following and other alternative strategies to reduce risk within our portfolios.

A Few Thoughts on Diversification

Since around 2016 we have been in what I have read said best, a bear market in diversification. The premise being that asset allocation (investing in different styles and asset classes to protect portfolios and increase long-term risk/returns) has been broken. What has worked has been the momentum style and ultimately mega-cap growth companies. There have been a few exceptions of companies/factors/asset classes bucking the trend, but only for a brief period. Any allocation to small caps, international, value factor, commodities, real estate and fixed income have been a drag on returns.

The S&P 500 has grown to its most concentrated level since the Nifty Fifty bubble in the early 1970s (Figure 1).

The average stock, represented by the S&P 500 equal weight index, has outperformed the cap-weighted index since the bottom of the Dot Com bubble in 2003 (Figure 2).

And finally, from 1/1/2000 – 12/31/2009 the S&P 500 total return index had a *negative* return. During that same period emerging markets and small caps had above average annualized returns (Figure 3).

The reason why we allocate to different asset classes and styles is because we do not have a crystal ball and know precisely what is going to work and not work over a given cycle. Why we take the approach we do is to smooth out our returns over both boom-and-bust cycles as well as to add alpha through rebalancing.

There are pockets in the current market environment that are showing signs of excess or manias and historically it has not ended well for the investors, even if the ideas spread and did have a revolutionary impact on our lives. The new theme is currently AI (artificial intelligence). Past scenarios include 1840s (trains), 1920s (cars and radios), 1970s (Nifty Fifty/Blue Chip stocks), 2000s (internet).

The thing with diversification is that the moment we most *need* it is the moment we least *want* it.

Figure 1 – Top 10 concentration of the S&P 500

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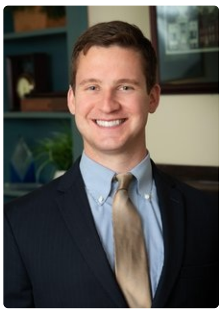

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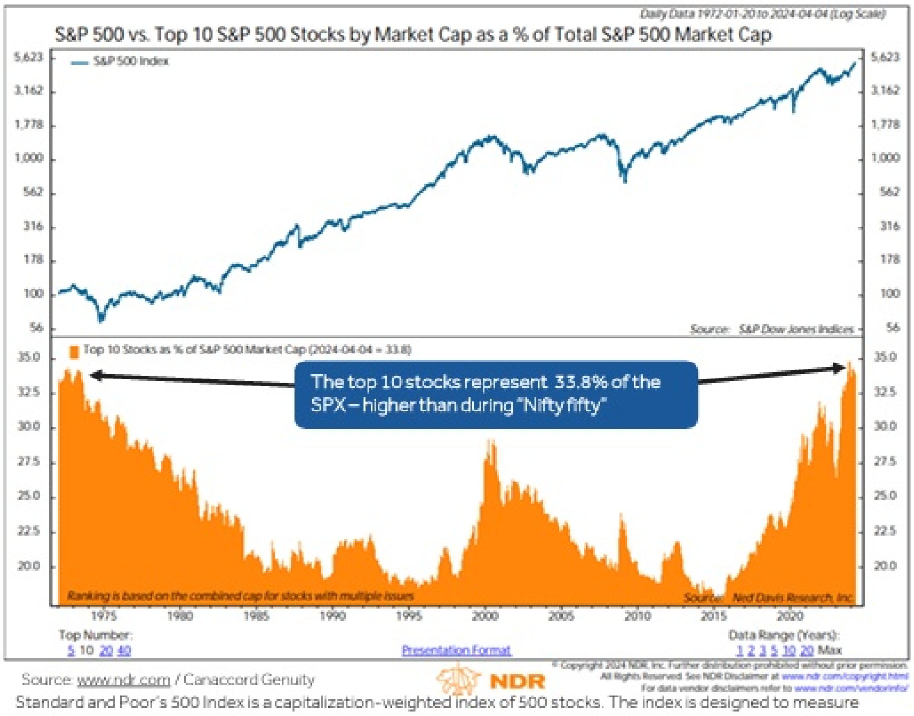
Schedule a meeting



Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Past performance is not a guarantee of future results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

Figure 2 – S&P 500 vs Equal-Weight S&P 500

Figure 3 – Lost Decade of US Large Cap (1/1/2000 – 12/31/2009)

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