HUNT VALLEY
WEALTH

Market & Portfolio Commentary
Q2 2024

Hunt Valley Wealth Transition into *The Colony Group*

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Next year we will celebrate our 30th anniversary of being an independent investment advisory firm. Many of our clients have been with us for over 20 years, and we are grateful for their partnership and trust. When we left the broker business to start this firm, we had a vision – we would advise clients and invest their money as if we were working with our own family members. As a fiduciary, we have operated this way since the beginning, and we are grateful for the many trusting relationships that have emerged in the process.

Throughout this time, we have experienced a lot of change. We have changed ownership, company names, office location, employees, and a lot more. Most of this was for the better, as it improved our ability to operate efficiently and connect with clients.

What has **never changed** during all this was our investment approach, culture, and dedication to providing quality financial advice. That **will not change** going forward either.

As we integrate with The Colony Group, we expect to experience more positive change. This includes access to more support and resources over time, which we believe will improve the client experience. We also believe that these resources will improve our ability to implement our investment philosophy – a continuation of the progress that we have experienced since 1995.

We will remain a boutique operation, as we have for nearly thirty years. It is our identity, and we enjoy having close personal relationships with each one of you. We are fully dedicated to your financial wellbeing, and we will maintain that dedication throughout this new chapter.

Please see important disclosures at the end of this report.

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Second Quarter Market Review and Commentary

John Heinlein
Managing Director,
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Investors entered the second quarter nervous about the inflation outlook as markets had pared back their expectations for Fed rate cuts from five at the start of the year. A series of hotter-than-expected inflation readings in April reduced the probability of rate cuts further which in turn sent stocks and bonds lower. Lower rates are seen as bullish for stocks as they make their cash flows more valuable (lower discount rate) and make bonds less attractive. In May, both markets began to lift as the outlook for inflation cooled. By the end of June, inflation news turned favorable. Investors became more confident in the Fed lowering rates in September which led to stocks regaining their footing. As we start the third quarter, the current consensus is that the Fed will only cut rates once this year.

Turning to the stock market, while not as strong as the first quarter, the second quarter returns were good for the S&P 500 index as it gained 4.27% (+15.29% YTD). The Nasdaq composite index had an even better performance, advancing 8.26% for the quarter (+17.47% YTD). Other major indexes fared much worse as the Dow Jones Industrial Average was down 1.27% (+4.79% YTD) and the small-cap index, as measured by the Russell 2000 index, was down 3.28% (+1.73% YTD).

At first glance, the outsized performance of the first two benchmarks suggests most stocks had a great first half. That is not the case, though. The biggest story behind these numbers is that the breadth (a measure of the number of stocks participating) of the rally in equities this year has been one of the narrowest in history.

"The Magnificent Seven" (NVIDIA, Amazon, Microsoft, Alphabet, Apple, Meta, and Tesla) accounted for an outsized percentage of the total gains. In the second quarter, those seven stocks accounted for 76% of the S&P 500 gain. There has been tremendous excitement around Artificial Intelligence (AI) and these stocks have greatly benefited from the hype.

Performance of "Magnificent 7" stocks in S&P 500*

Indexed to 100 on 1/1/2021, price return

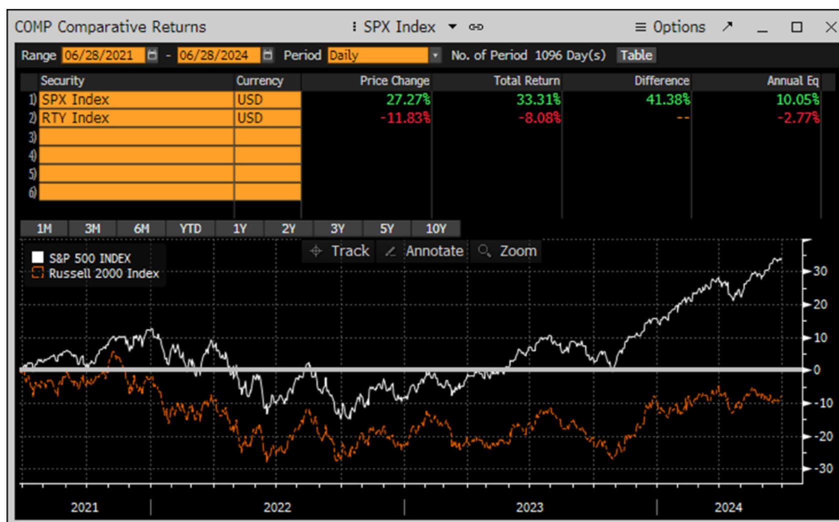
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
*Magnificent 7 includes AAPL, AMZN, GOOG, GOOGL, META, MSFT, NVDA and TSLA. Earnings estimates for 2024 are forecasts based on consensus analyst expectations.
**Share of returns represent how much each group contributed to the overall return. Numbers are always positive despite negative performance in 2022.
Guide to the Markets – U.S. Data are as of June 30, 2024.

The S&P 500 is a market-capitalization-weighted index, so these seven mega-cap stocks have a greater proportionate impact on its movement. As of June 30th, the seven stocks have climbed 37% compared to a 5.1% advance for the S&P 500 Equal Weight Index.

The chart below shows the outperformance of the Morningstar Market-Cap-Weighted Index vs. the Equal-Weighted Index going back to last year. You can see that market performance has been driven primarily by a small number of large companies.

Market-Cap-Weighted vs. Equal-Weighted Performance

Smaller company stocks, as measured by the Russell 2000 Index, were down 3.28% for the quarter (+1.73% YTD). This market sector has been out of favor for years due to higher rates and economic uncertainty. For the past 3 years, smaller companies have fallen 8% versus a gain of over 33% for the S&P 500 Index.



Source: Bloomberg

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Looking Ahead

The main story for the rest of the year will likely revolve around the Federal Reserve and the timing of changes to lower interest rates. Interest rates have an impact on the economy and particularly on stock valuations.

Also, one cannot ignore the AI-centered mega caps and their influence on the market. The market ought to be sensitive to any potential bad news concerning AI which would most likely impact the market's overall performance. While most would agree that AI will have a major impact on our future and how we live, we are still in the early stages of this new technology. Choosing the winners at this early stage is difficult. A look back at history shows that the major changes that similarly had a great benefit to society (i.e. the internet, telecom, etc.) are littered with poor individual stock performances that once seemed promising (WorldCom, AOL, etc.). One must be careful when investing in the latest technology.

Finally, we are hearing some concerns about the November elections. We think the most likely effect will be increased market volatility as it approaches. If we do encounter price volatility, we hope to take advantage of it as we know the values of the businesses that we own don't change much in the short term.

This is a contentious political environment as there are strong feelings surrounding both presidential candidates. It appears that many people fear a drastic outcome if their preferred candidate doesn't win. While we recognize that the winner of the presidential race may matter to most other areas of our lives, we don't think it matters to your investments.

History has proven this to be true, and we need to look no further than the recent past which has shown that stocks have performed well under both current leading candidates. From Trump's inauguration until before the pandemic escalated the S&P was up 49%. From Biden's inauguration until June 28, 2024, the S&P is up an identical 49%. If you want to be a successful investor over time, you cannot let your emotions – which include your political leanings– affect your investment decision-making. While some policy changes (such as tax rates) do affect business values, most of the value of a business is in the economic value it provides to society and its ability to monetize that value. Elected officials have little impact on this – especially for businesses with wide economic moats. We seek to invest your money in a portfolio of these wide moat companies, and remain focused on their long-term value.

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S&P Global Inc. (SPGI)

S&P Global

Louis Foxwell, CFA
Portfolio Manager

S&P Global is a data, analytics, and benchmarking company. It benefits from numerous revenue streams via the following segments:

Market Intelligence: The company offers data and analytics to investment professionals, insurers, banks, regulators, and others.

Ratings: S&P Global sells credit ratings that are used by market participants to measure the risk of fixed income instruments.

Commodity Insights: This business sells pricing data, analytics, and other services for the commodity and energy markets.

Mobility: The company provides data and analytics primarily to the automotive value chain.

Indices: S&P Global offers global indices for the benchmarking and valuation of financial assets, the most notable of which is the S&P 500.

Common attributes across SPGI's business lines include mission critical products and services, regulatory barriers to entry, ubiquity/standardization across scalable end markets, and high returns on invested capital. In our opinion, each of these segments are high-quality cash flowing businesses with durable economic moats; however, a couple are specifically worth highlighting.

The Ratings business has existed for more than 150 years, evolving from a 19th century railroad directory to a credit rating agency (CRA). A credit rating is an opinion about an organization's ability and willingness to repay debt. The global debt markets are highly reliant on them in risk assessment, and three CRAs dominate the market – S&P, Moody's, and Fitch. S&P rates more than $2 trillion of debt annually, receiving both upfront and ongoing payments for monitoring. Fixed income issuers have little choice but to pay for these ratings because the cost of debt rises without S&P's stamp of approval. Additionally, S&P's fee is small relative to this cost so the company's pricing power is high. We think it is very unlikely that S&P can be displaced at this point without a complete overhaul of risk management systems in global debt markets.

The Indices business requires very little capital to operate and has some of the highest margins we have seen in the public markets. The company owns the intellectual property of numerous indices, including the S&P 500, and receives payments for their use in benchmarking, funds, derivatives, and data subscriptions. These indices track trillions of dollars of assets and cost very little to maintain/update on an ongoing basis. We believe the revenue growth runway remains long as more investors switch to passive strategies. As a licensing business, this revenue growth should mostly translate to incremental profit. Much like the Ratings business, we see the risk of disruption as low given the deep integration of the company's

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equity and fixed income indices within the financial markets.

In addition to owning numerous high-quality assets, we think S&P Global's management has demonstrated a propensity for shrewd capital allocation. In our opinion, the IHS Markit merger was an intelligent decision given the timing, synergies, and improved growth runway of the combined entity. Management has since divested non-core assets while successfully integrating core ones across the segments listed above. They have also opportunistically repurchased shares while paying a modest dividend. It is clear to us that the executives at SPGI understand the company's strengths and are investing in them, which is precisely what we want to see from our portfolio companies.

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5 Tips for Better Communication About Money

Dani Ryan, CFP®, CDFA®
Senior Wealth Advisor

Talking about money can be challenging but it's essential for maintaining healthy relationships with your partner, your parents and your children. Here are five tips to help improve your financial communication:

1. **Start with Transparency –** Honesty is the foundation of effective communication about money. Be open about your financial situation. Transparency builds trust and prevents misunderstanding.

2. **Set Clear Goals –** Consider ways to establish common ground that will align your efforts and reduce conflict. Discuss both short-term and long-term objectives. Clear goals provide a roadmap for your financial decisions.

3. **Practice Active Listening –** Pay attention to each other's concerns and viewpoints. Active listening fosters a supportive environment where everyone feels heard and respected.

4. **Schedule Regular Money Meetings –** Regular check-ins can prevent financial issues from becoming major problems. These meetings should be a safe space for open dialogue, free from distractions and stress.

5. **Educate Yourselves Together –** Financial literacy is critical for making informed decisions. Commit to learning about personal finance through books, online courses and/or a trusted financial advisor. Understanding the basics can empower you to make smarter financial decisions and reduce the likelihood of conflict from misinformation.

At Hunt Valley Wealth, we understand that conversations about money can be stressful. Our team of experienced financial advisors are here to support you. Whether you need help defining your goals, conducting scheduled reviews or simply starting the conversation, we are committed to providing you guidance and support

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We are here to support you and your wealth management objectives.

Especially now, we invite you to connect with your advisory team to discuss the markets, inflation, or your personalized wealth management strategy. We remain committed to your goals, both near and long-term.

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