



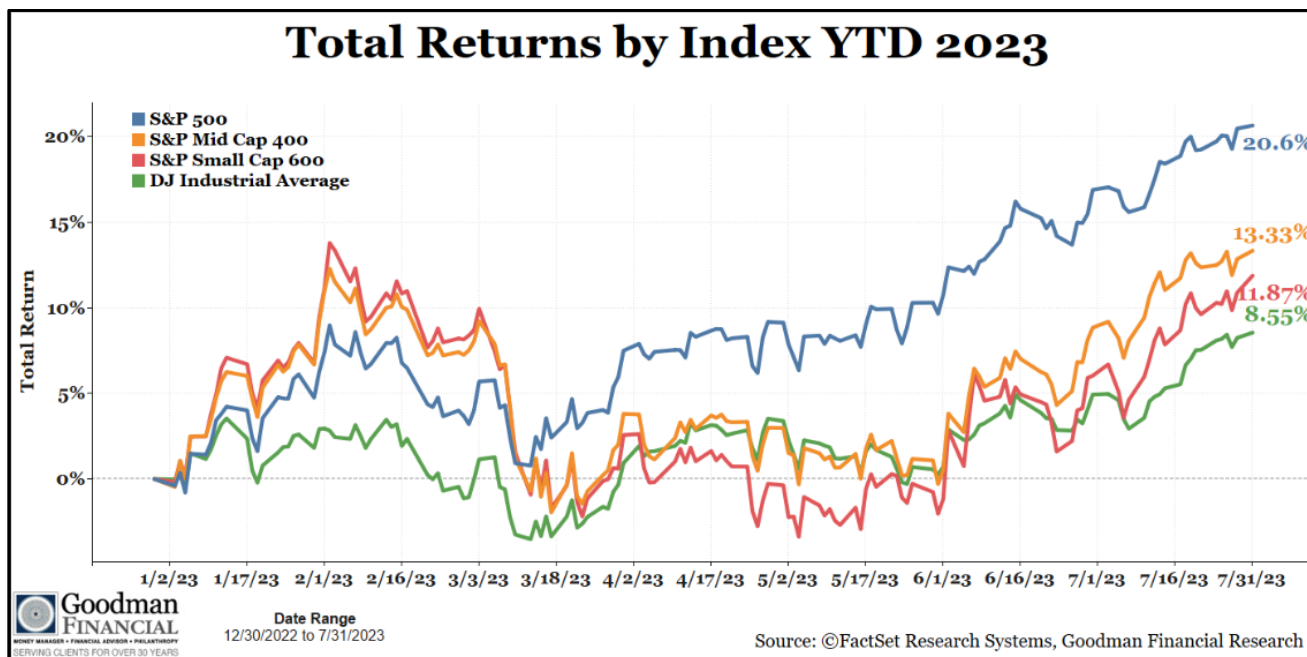
EQUITY & FIXED INCOME MARKETS COMMENTARY

Stocks posted solid gains in July. The S&P 500 closed higher for the fifth month in a row, up 3.2%, while the Blended Equity benchmark gained 4.0% for the month, as the Mid-Cap S&P 400 and the Small-Cap S&P 600 Indices were up 4.1% and 5.5%, respectively. International stock indices also posted gains, with developed markets up 3.2% and emerging markets up 5.8% in July. Bond indices were modestly higher for the month, despite the 10-year U.S. Treasury bond yield rising to 3.95%, from 3.81% last month.

STOCKS KEEP ON TRUCKIN'...

The title of this month's commentary – *Stocks Keep on Truckin'* – does a good job describing the stock market this year, as stocks keep moving progressively higher so far this year. This is probably best exemplified by the Dow Jones Industrial Average, which recently posted 13 consecutive days of positive returns, the longest streak since 1987 and the second longest on record. Meanwhile, the S&P 500 Index managed to close July up 20.6% on a year-to-date (YTD) total return (TR) basis. It is important to note that the S&P 500 returns are heavily skewed by an over 25% weighting to the "Magnificent 7" stocks of Apple, Amazon, Google, Meta, Microsoft, Nvidia and Tesla, that on average, have doubled so far this year. In comparison, the Dow Jones Industrial Average Index, which includes just two of the "Magnificent 7" (Microsoft and Apple) as index constituents, is only up 8.5% on a TR basis through the end of July. And, of course, the S&P 400 Mid-cap and S&P 600 Small-cap indices own none of the aforementioned seven mega-cap stocks and are only up 13.3% and 11.87%, respectively on a YTD TR basis through the end of July. So, the S&P 500 is not the best representation for the broader stock market. As we discussed in our Q2 2023 quarterly client letter, we believed that the remainder of the year might see a broadening of stock returns where the broader market would perform better than the S&P 500. So far through July, that has been the case, as seen in the discussion of July equity returns above. Let's hope our view continues to unfold as expected, as this would be a nice tailwind to GFC equity portfolios.

The fact that stocks are up so meaningfully this year caught many investors by surprise, coming on the heels of a nasty bear market experienced last year. We came into this year very positive about owning stocks and have not been disappointed, if not somewhat surprised by the magnitude of this year's gains so far. It is also interesting to contrast the sentiment today versus a year ago. At this time last year, stocks were in the throes of a bear market and seemed to us to be fully contemplating and pricing in an imminent recession, which we were skeptical about happening at the time, and thus giving rise to our bullish outlook. Fast forward a year and today equity investors are bullish, and stocks are acting like a recession has been avoided. Meanwhile, whereas a year ago we thought a recession might be avoided, we no longer believe that to be the case and have increasing conviction we will see one over the coming year – something we discussed at length in the aforementioned Q2 quarterly client letter. Accordingly, we think it is time to restrain equity return expectations and become a bit more defensive, a posture we are now methodically implementing.





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REFERENCED INDICES

You cannot invest directly in an index. Index results assume the reinvestment of all dividends and interest.

- **S&P 500 Index** - a market-cap weighted index composed of the common stock of 500 leading companies in leading industries of the U.S. economy.
- **S&P 400 Mid-cap Index** – a market-cap weighted index composed of the common stock of 400 mid-sized companies reflecting the distinctive risk and return characteristics of the U.S. mid-cap equities sector.
- **S&P 600 Small-cap Index** – a market-cap weighted index composed of the common stock of 600 small-sized companies reflecting the distinctive risk and return characteristics of the U.S. small-cap equities sector.
- **Dow Jones Industrial Average Index** – a price-weighted index composed of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.
- **Nasdaq Composite Index** – an index that measures all Nasdaq domestic and international based stocks listed on the Nasdaq Stock Market.
- **Barclays Intermediate Govt/Corp Index** – the index includes investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities with less than 10 years to maturity.