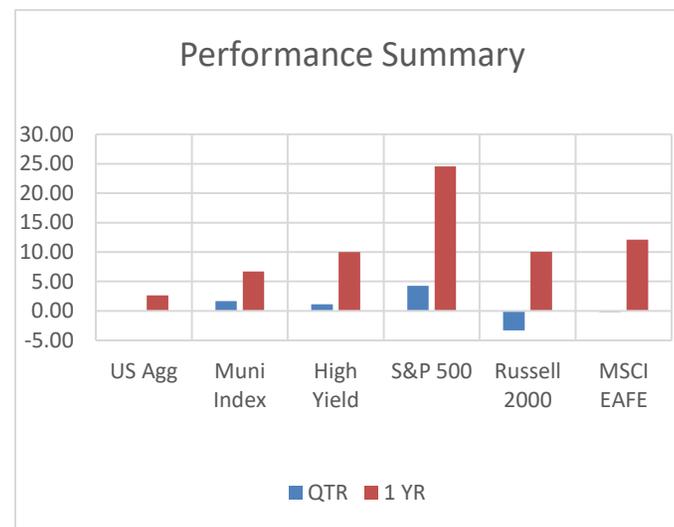


The performance of global stocks diverged during the quarter. In the U.S., large-cap stocks were up 4.3%, while small-cap stocks were down -3.3%. In foreign markets, developed market stocks were down slightly at -0.17% while emerging market stocks were up over 5%. Bonds were basically flat for the quarter, with core bonds up 0.07%.

- The S&P 500 reached an all-time high in late June, driven by the 6 largest stocks, contributing 62% of the return year to date.
- The forward price-to-earnings multiple expanded to 21 by the end of the quarter.
- Foreign developed market stocks took a breather for the quarter while emerging markets were one of the best-performing segments of global markets.
- Inflation remained above the Federal Reserve’s 2% target, forcing them to keep short-term interest rates at elevated levels.
- The U.S. economy and employment remained strong but are beginning to show signs of softening.



Morningstar US Market Index Rose 3.20% Quarter to Date

Without gains from stocks tied to AI, broad market index would have declined in Q2.

		Value	Core	Growth
	US Mkt 3.20	-0.71	2.31	1.17
Large	5.50	0.22	2.60	2.39
Mid	-2.56	-2.27	-1.25	-4.09
Small	-3.86	-4.98	-3.86	-2.74

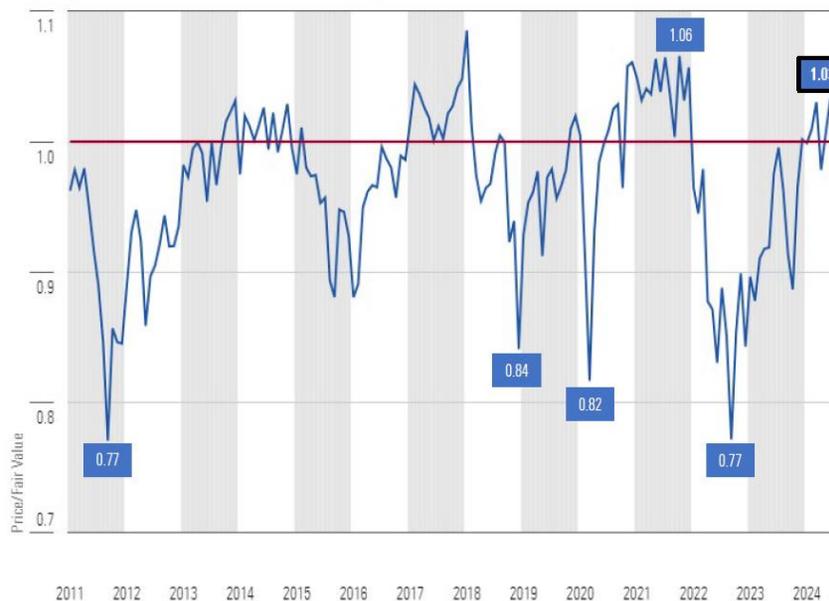


A Review of the U.S. stock market using Morningstar indices

Reviewing the Morningstar indices in detail can provide valuable insights into which parts of the stock market are driving performance. The chart to the left shows that the total U.S. stock market was up 3.2% for the quarter, however, there was significant divergence in performance from different segments of the stock market. Large-cap stocks were up 5.50%, while both mid and small-cap stocks had negative returns, -2.56% and -3.86% respectively. In general, core and growth stocks outperformed value stocks for the quarter by a small margin. The worst-performing segment was small-cap value stocks. On the next page, we take a look at how recent performance has impacted the valuation of the market as a whole and the different segments.

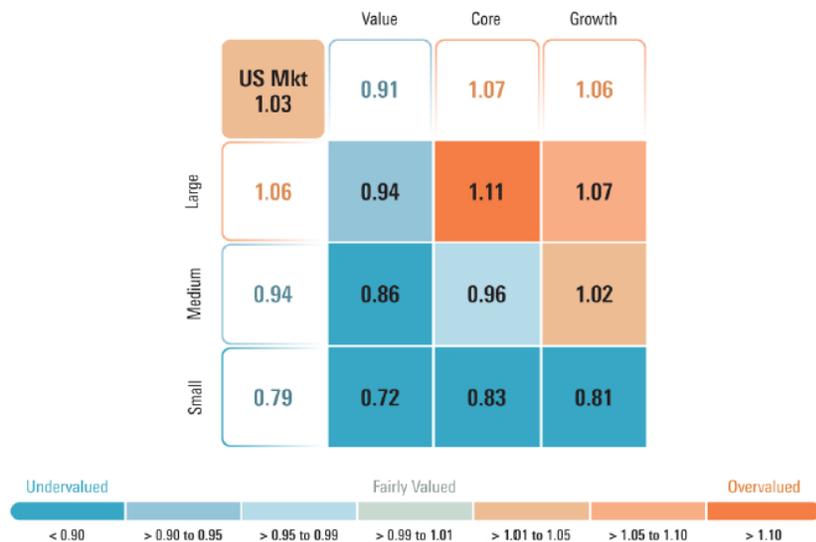
According to Morningstar, the valuation of the stock market as a whole reached a slightly overvalued level of 1.03 at quarter end. The way Morningstar determines value is by dividing the current price of each stock their analysts cover by their estimate of fair value, so the 1.03 translates to the market as a whole being about 3% overvalued. The left chart below shows how their determination of fair value fluctuates over time. Over the past 15 years, fair value has ranged from a low 0.77 (heavily discounted) in 2011 and 2022 to 1.08 in 2018 and 1.06 in 2021. Needless to say, buying when the estimate of fair value is low and being more cautious when the estimate is high has been a good investment strategy. Insights can also be gained by looking at the fair value estimates for the different segments of the stock market. The chart below right shows how significant fair value varies in the different segments. For example, large-cap stocks trade at a fair value of 1.06 (6% overvalued) while small-cap stocks trade at a fair value of 0.79 (21% undervalued). The variance in some of the specific segments is even starker, with large-cap core stocks at 1.11 and small-cap value at 0.72. The takeaway is that even though the market as a whole has gotten more expensive there are still plenty of stocks trading at significant discounts to their fair value.

Historical Morningstar US Equity Research Coverage Price/Fair Value Estimate at Month's End
 Rally has pushed the stock market well above a composite of our valuations.



US Stock Market Trading Above Fair Value

Valuations of Morningstar's equity research coverage by equity style box.



The same type of valuation analysis can be done at the sector level. The chart to the right shows the performance of each sector for the quarter. Again, the divergences are significant with sectors such as communication services and technology up close to 8% or more for the quarter. The surprise performer for the quarter was the utility sector, up 6.81%. In large part, the performance of utilities can be attributed to the growth of artificial intelligence and the impact it is having on the electrical grid and overall energy demand. On the flip side, the basic materials sector was the biggest drag on market performance, down -4.71% for the quarter.

Estimates of fair value can also be calculated at the sector level. The lower chart to the right shows the overall estimate of fair value for each of the sectors. Again the divergences are fairly wide with consumer defensive and technology stocks at 1.08 and 1.10 respectively. While real estate and energy are trading at significant discounts, 0.89 and 0.93 respectively. Again the takeaway is even though some sectors have gotten quite expensive there are still bargains to be found in the stock market.

If you have any questions regarding how your assets are allocated and would like us to provide a similar review of how your holdings are allocated please let us know.

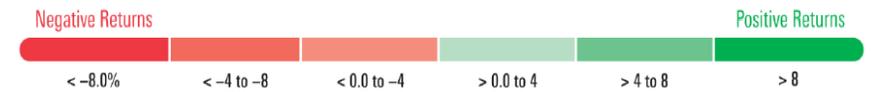
Best regards,



Steve Giacobbe, CFA, CFP®

Returns by Sector: Quarter to Date (%)

Widespread losses as investors flock to artificial intelligence plays or look to play defense.



Morningstar Price/Fair Value Metric by Sector Weighted by Intrinsic Value

Figures below 1 are undervalued, while those above 1 are overvalued.

