FSA INVESTMENT GROUP

Q2 QUARTERLY UPDATE

Q2 2024 saw continued, though slower, growth in U.S. equities, a relatively muted bond market, along with an encouraging improvement in some emerging markets, while larger developed international markets showed weakness. The predominant theme of the quarter that drove stock and bond returns was the sentiment around Fed Rate cuts, elevated bond yields, and strong corporate earnings driven by technology and communications in the U.S.

U.S. Large Cap Stocks continued to advance in Q2 2024, albeit at a more moderate pace compared to the first quarter as they recorded a gain of 4.3%[1] for the quarter, setting a new record high and bringing the year-to-date increase to 15.3%. It remained a different story for smaller stocks which declined 3.3%[2] for the quarter and are only up 1.7% year-to-date. Furthermore, over the last 12 months, U.S. Large Cap stocks have outperformed Small Cap Stocks by 14%. We have more to discuss this divergence later in this note. The bond market reported a slight increase of 0.1%[3] for the quarter, aided by a strong June as inflation metrics showed moderation. Internationally, stocks showed a positive performance, with an increase of 1.0%[4] in Q2, driven by better returns from emerging markets.

Throughout the second quarter of 2024, the economy displayed a mixed but evolving landscape. Unemployment showed a promising decline in March, only to creep up to 4% by May, which marked a two-year high.Despite this fragility, nonfarm payrolls consistently added jobs, suggesting resilience in employment. Inflation remained around the low to mid 3% range, with a slight cooling trend by June and Core Inflation easing consistently. The housing market presented mixed signals: while new home sales saw significant declines, the median sales price of existing homes continued to rise to record highs, driven by constrained supply and steady demand. The Federal Reserve maintained a steady course, keeping the Fed Funds Rate unchanged, signaling caution amid persistent inflation concerns and tight labor markets. Overall, the quarter highlighted a slowing, but growing economy which continues to grapple with inflationary pressures, labor market adjustments, and sector-specific challenges.

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ABOUT OUR FIRM

We are dedicated to providing investment management and strategic wealth planning to Indian tribes and high net worth individuals. Simply put, we strive to be our client's trusted advisor.

As a financial advisory firm, our primary focus is to provide unbiased opinions that are designed to achieve long term investment results. FSA Investment Group does this with the highest levels of trust, integrity and respect while always collaborating using a team approach. We are dedicated to professionally supporting, educating, and providing informed direction to each and every client.

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As we stand at halftime, things have gone well for the first half of this year. However, we know there is another half to play. With 6 months left in the year, we continue to take the approach of a team with a solid lead at halftime. We feel good about where we stand, but we know we have to continue to adapt and execute to secure any lead. Our internal FSA Market Tracker continues to show a green light for investors to hold risk assets, typically exercised through stock ownership. Even though we have a green light, we are looking ahead at the Federal Reserve's actions, potential geopolitical events, and even domestic politics, which may present hurdles to clear for the rest of this year. In late June our investment team researched the disparity between US Large and small cap stock performance. While we knew there was a significant difference in profitability between the two, we thought the performance gap was too wide. According to Compustat, in the second quarter, the small size factor had its worst relative performance for US stocks for any quarter going back to 1970 (see chart 1 below).

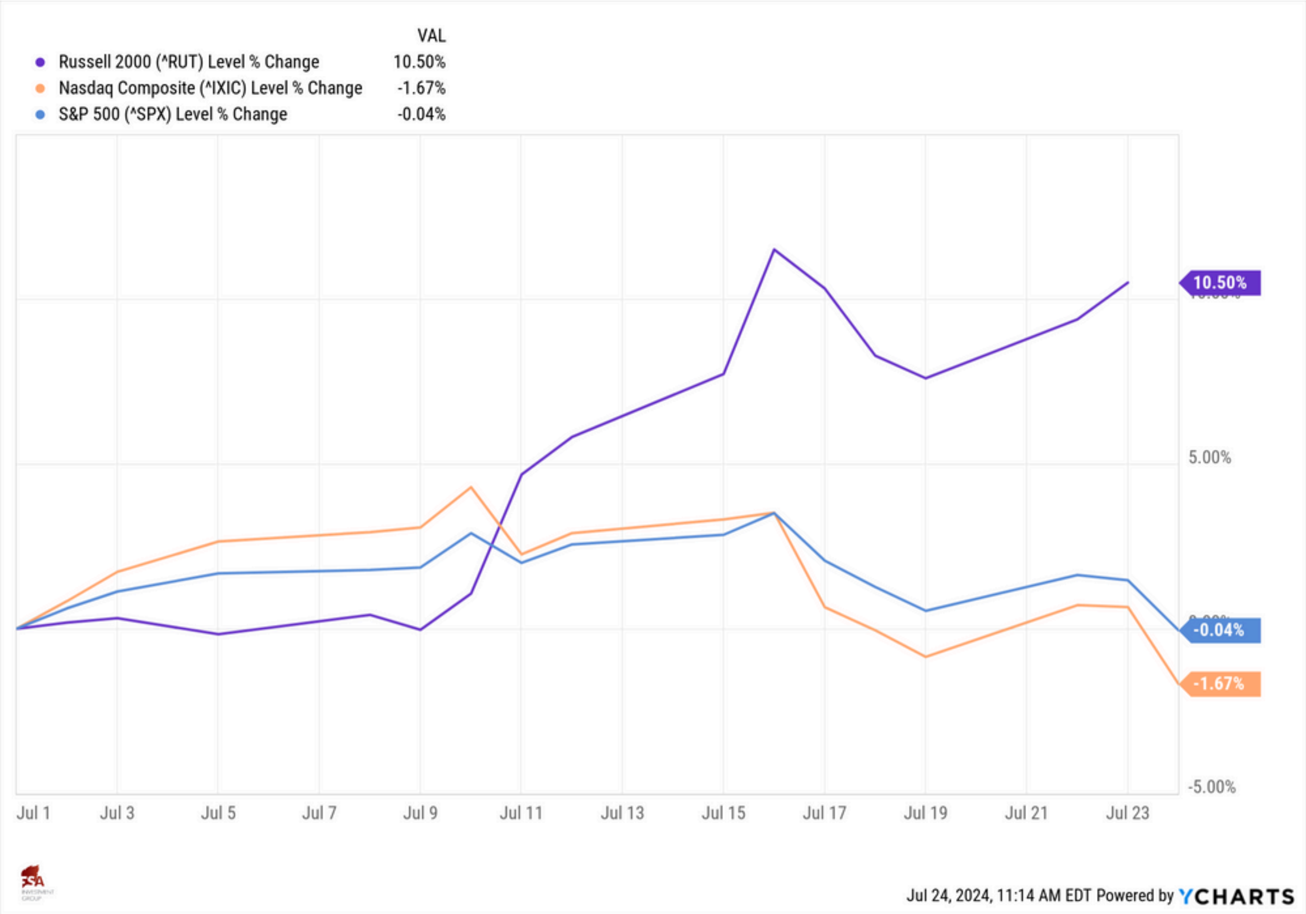

Figure 1

We knew that the rate of inflation was coming down and that the Federal Reserve was closer to beginning its rate cutting cycle. If there was a change in how investors viewed small caps profitability due to either economic policy change or through lower financing costs, then we thought that the risk versus reward had flipped into Small Caps favor. For client portfolios, we overweighted U.S. equities with a bias towards small cap. While it's still early in the quarter, this move has worked well so far (figure 2) as US small cap stocks have outperformed large cap by over 10% through July 24th. We will continue to monitor this position and if that outperformance gap widens some more, then we will likely reduce our exposure to small caps and shift back towards a more neutral positioning.

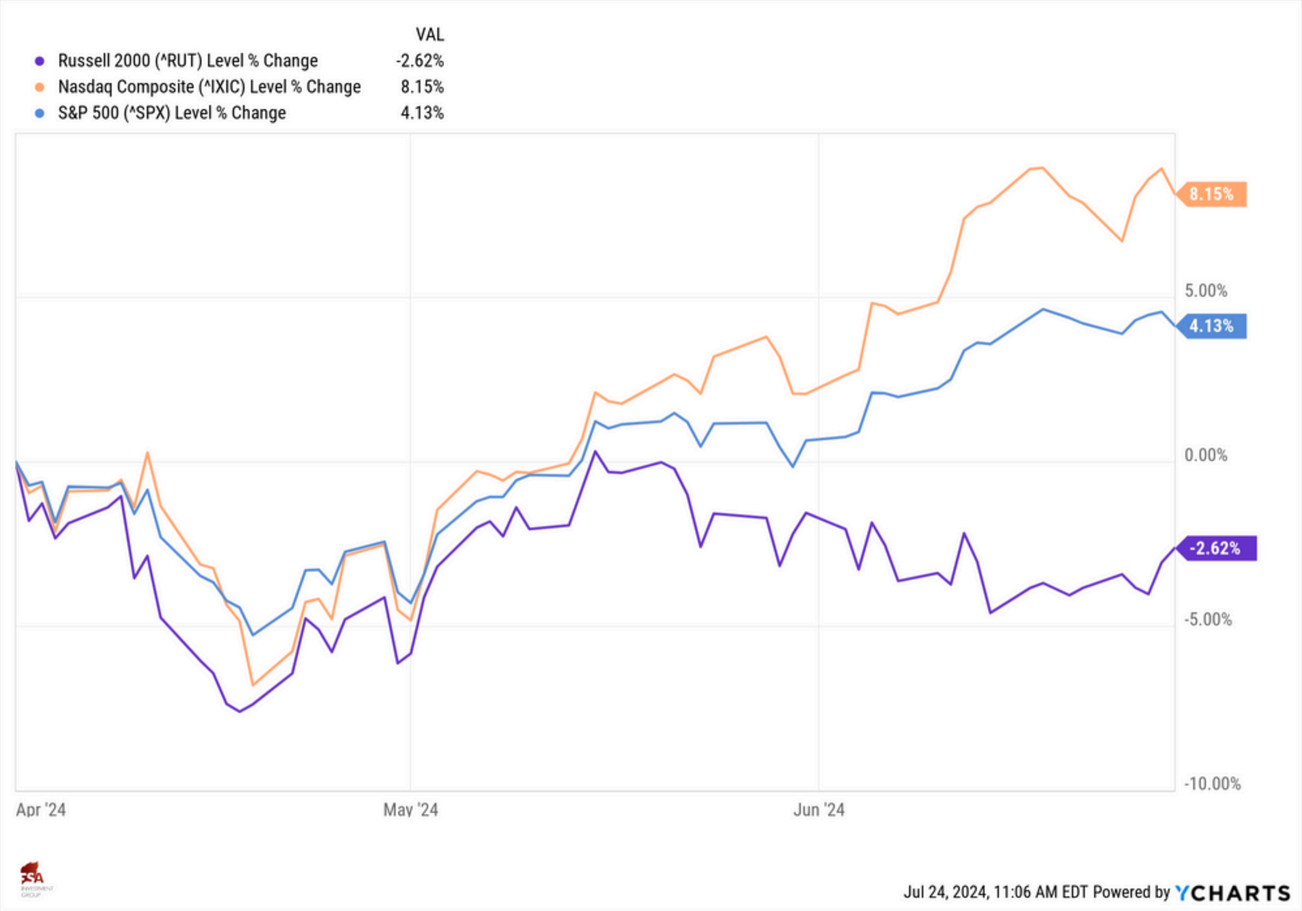

Figure 2

Investing is a journey, and we understand that there is a lot of noise and distractions along the way. We are grateful for your trust and continued partnership. We continue to honor that trust by focusing not only on the management of the portfolios to meet your needs but also on communicating and cutting through the noise to make this journey clearer and easier to follow. As always, we look forward to helping clients navigate the financial landscapes over the second half of 2024 and beyond.

Respectfully,

Andy Webb

Andy Webb
Chief Investment Officer

Brett Akers
Director of Investments

Source: 1-4 Ycharts: 1: S&P 500 Index Total Return; 2: Russell 2000 Index Total Return; 3: Bloomberg US Aggregate Bond Index Total Return;; 4 :MSCI ACWI Ex- US Index Total Return

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