MARKET MINUTE
WITH McGAREL

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Remember the axiom "buy the rumor, sell the news." It refers to entering a trade before there is clear evidence supporting future gains and exiting that trade just as everyone hears the good news and decides to get in on the action. In the market this year , led by a narrow group of stocks with momentum and Artificial Intelligence (AI) exposure, the axiom seems to be "buy the rumor, buy the news, buy the dip, buy the rip because it is going to go even higher. It's different this time."

For the period from January - April 2024, the information technology sector was up 6.6%, just slightly above the S&P 500 Index's return of 6.0%. It was the fifth best sector, trailing communication services, energy, financials, and industrials. From May 1 until June 30, 2024, the technology sector soared 20% and now tops the sector ranks with a 28.2% year-to-date return. A massive move in just 8 weeks (See Chart 1). What changed in the last two months? It's hard to see anything substantial in earnings...much of the gains came from AI related companies and simply increased their already high multiples.

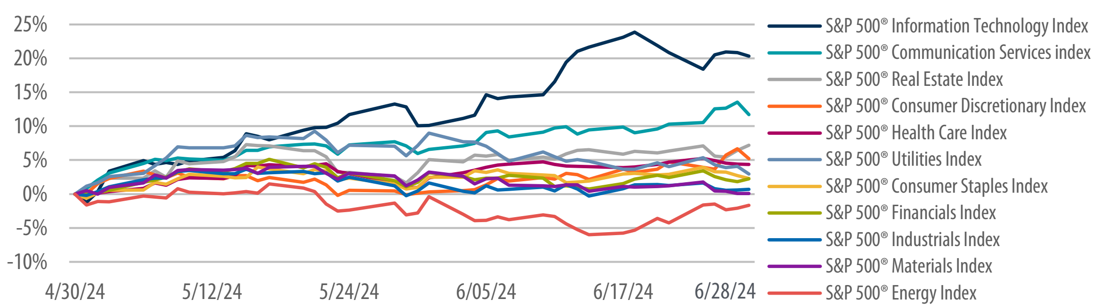
We believe FOMO (fear of missing out) is again a big component of the narrow rally in the last two months. Investors with too little exposure to the Magnificent 7, AI stocks or the technology sector are tempted to enter the space. They worry about missing out on future gains and falling even further behind their friends. And investors with huge gains in those areas are concerned about selling their winners in case they continue to climb. They don't want to leave the party too soon.

If you haven't seen this before, you would think it could go on forever. The problem with FOMO in the financial markets, in our view, is it doesn't go on forever. It typically hits its zenith after most investors have already substantially missed out on the outsized gains (See Chart 2)! It works the same way every time. We believe that is no way to invest. Chasing returns never ends well.

Our message today is simple. Absent a sharp increase in earnings expectations that, so far, has not accompanied the huge move in technology in the last two months, the sector has priced in a lot of good news. If you look at 2022, just 18 months ago, all the momentum was going the other way. 2022 was a terrible year for technology as the sector fell 28% and helped lead the S&P 500 Index down over 18%. The market can shift quickly...in both directions.

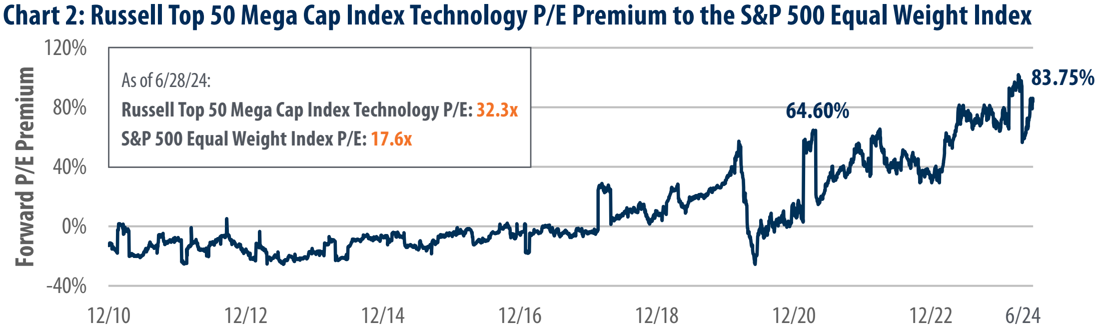
Forecasts currently point to a deceleration in the earnings growth rate of technology earnings and an acceleration of earnings growth from many other sectors as we enter the second half of the year. Staying diversified across the equity markets and not chasing the FOMO trade, in our opinion, will be beneficial in the second half of 2024.

Chart 1: S&P 500 Sector Returns



Source: Bloomberg. Data from 4/30/24 - 6/28/24.

Chart 2: Russell Top 50 Mega Cap Index Technology P/E Premium to the S&P 500 Equal Weight Index



Source: Bloomberg. Data from 12/31/10-6/28/24.

Past performance is no guarantee of future results.

The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. **S&P 500 Sector Indices** measure segments of the U.S. stock market as defined by GICS®. The **Russell Top 50 Mega Cap Index Technology** is a subset of the Russell 1000 Index and represents the top 50 companies by market capitalization in the United States that are technology firms. Market (cap) capitalization: the total dollar market value of a company's outstanding shares of stock and is calculated by multiplying the total number of a company's outstanding shares by the current market price of one share. **S&P 500 Equal Weight Index (EWI)** - The equal-weight version of the S&P 500 Index. The index includes the same constituents as the capitalization-weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance. **Forward Price-to-Earnings (P/E)** is the price of a stock divided by estimated forward earnings.

Indices are unmanaged and investors cannot invest directly in an index. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

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