THE CAPITAL MARKETS

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New Covenant Trust Company

MARKET UPDATE AT A GLANCE

The Dow Jones Industrial Average (DJIA) finished May at 38,686, up +2.30% for the month and +2.64% so far in 2024. The S&P 500 closed May at 5,278, up +4.80% for the month and up +10.64% year-to-date. The NASDAQ Composite gained +6.88% in May, up +11.48% for the year. Small-company stocks, as measured by the Russell 2000, ended May up +4.87% for the month, up +2.12% so far for the year. Utilities (+8.70%) was the best-performing sector in May.

THE TREND HAS BEEN INVESTORS' FRIEND, BUT HOW MUCH LONGER CAN IT LAST?

As the S&P 500 surged to a +24% gain in 2023, much was made around the "Magnificent Seven" mega-cap tech stocks and how these seven companies accounted for nearly 90% of the indexes' gain for the year. As the calendar turned to 2024, many expected limited upside to these companies, and to the market in general, given the scale and speed of 2023's rally and the amount of optimism that was already priced into markets.

As we near the midpoint of 2024, however, the S&P is up +14% at the time of this writing, with over half of that gain being attributed to the "Fab Four" group of tech stocks — NVIDIA, Apple, Microsoft and Alphabet. Despite meaningful changes to the markets' outlook on inflation, interest rates and geopolitics, markets appear content to keep following 2023's playbook.

Markets are trading on bullishness around falling inflation, interest rate cuts and artificial intelligence, and they've generated a nickname for a basket of tech stocks to boot. While "The Trend is Your Friend" is one of Wall Street's oldest expressions, the bullish momentum around AI and tech, and the sanguine response to higher interest rates for longer, may be setting markets up for more severe bouts of volatility should any disappointing news disrupt those optimistic narratives.

"The bigger risk I see is that investors get too comfortable with the idea that there are no imminent threats. It means any surprise — whether on the economy, the AI theme, the Fed or geopolitics — will hit hard."

(Wall Street Journal, James Mackintosh, June 9, 2024)

> **"Investors look sanguine, and analysts say they have good reason. The economy has remained stronger than almost anyone predicted after the Federal Reserve began raising interest rates. Corporate profits are rising again. Inflation cooled more than expected in last week's consumer prices report, and Fed officials signaled that they expect to cut benchmark rates later this year. … But history shows that periods of extreme market calm rarely last."**
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> *(Wall Street Journal, Jack Pitcher, June 16, 2024)*

CALM INDEX RETURNS ARE MASKING SOME VOLATILE STOCK BEHAVIOR

2024 has seen some of the calmest market conditions in recent years, with the CBOE Volatility Index, or VIX, hitting a 5-year low of 12 in recent weeks and not crossing 20 at a single point so far for the year. The last time the VIX didn't cross 20 in a year was in 2017.

Despite this relative calm at the index level, there is some unusually high levels of volatility at the individual stock level.

For example, as earnings were released last month, software company Salesforce dropped -20% on the same day tech company HP gained +17%, and there have been other similar examples in recent weeks.

This supports our ongoing advice to remain focused on the fundamentals in this market such as broad diversification and sector balance in portfolios. Being able to simply avoid mistakes in investing is often a primary driver of long-term investor success over time.

With markets near record highs, we'd also encourage investors to evaluate any upcoming cash needs and consider replenishing cash reserves to weather any near-term volatility.

The S&P 500 is up around +49% since the middle of October 2022. Investors have been rewarded for not panicking during that difficult bear market, and we expect discipline, prudence and restraint to also be rewarded at this stage of the business cycle.

ECONOMIC UPDATES

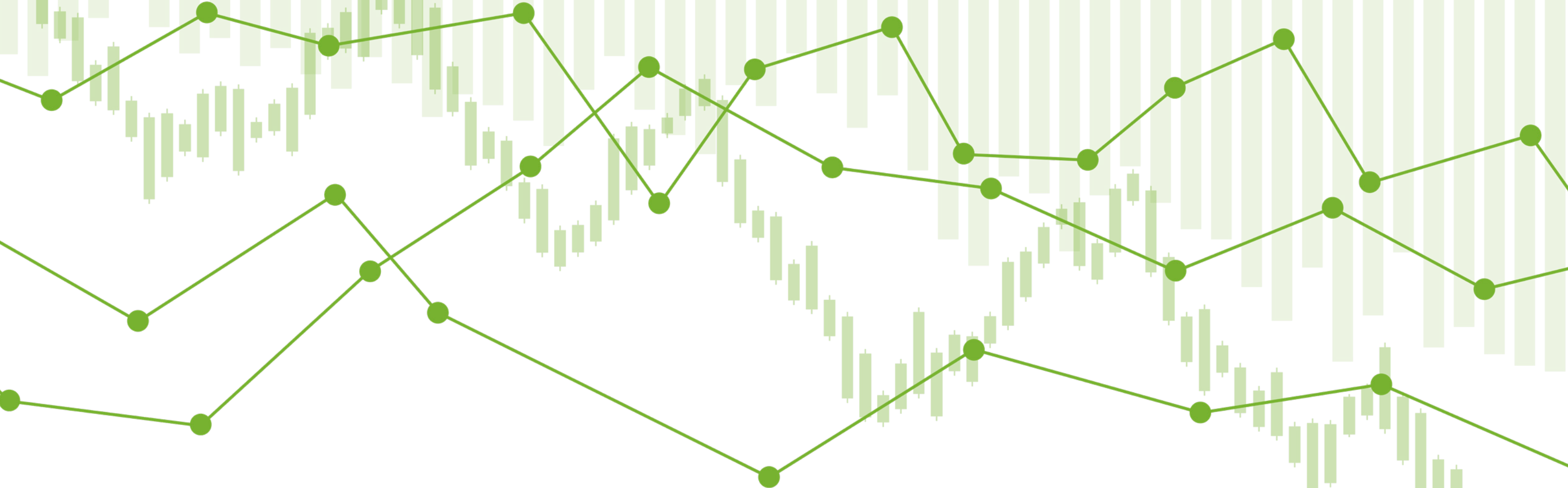
Employers added 272,000 jobs in May, well above estimates for 190,000, although the unemployment rate edged up to 4%. It's the first time in over two years that the jobless rate has hit 4% or above, driven by increases in labor force participation.

Most analysts viewed the report as a positive, and evidence that the underlying economy remains healthy and resilient.

May's CPI headline inflation report registered a 3.3% year-over-year increase, below expectations for 3.4%. Of note, the month-over-month increase was flat at 0%, a promising development for an inflation report that has disappointed investors for a number of months in a row.

Investors will likely continue to look for "Goldilocks" reports on jobs, GDP and inflation in order to avoid volatility.

Reports that are too weak will signal a deteriorating economy and the risk of recession, while reports that are too strong will be viewed as inflationary and roadblocks to the Fed eventually lowering interest rates.



Market Metrics

Index or Metric	Close as of 4/30/2024	Close as of 5/31/2024	Change Previous Month End	2024 YTD % Change
Dow Jones Industrial Average	37,815.92	38,686.32	+870.40	2.64%
S&P 500	5,035.69	5,277.51	+241.82	10.64%
NASDAQ Composite	15,567.82	16,735.02	+1,077.20	11.48%
RUSSELL 2000	1,973.91	2,075.80	+101.89	-2.12%
Fed Funds Rate	5.25% - 5.50%	5.25% - 5.50%	UNCHANGED	
2-Year Treasury	5.04%	4.89%	-0.15%	
10-Year Treasury	4.69%	4.51%	-0.18%	
Crude Oil $ per Barrel	$81.93	$76.99	-$4.94	7.45%
Gold $ per Troy oz.	$2,302.90	$2,345.80	+$42.90	13.23%
UK Point in U.S. $	$1.2521US=1£	$1.2732US=1£	$ WEAKER	-0.13%
Euro in U.S. $	$1.0693US=1	$1.0856US=1	$ WEAKER	-1.72%
Canada $ per U.S. $	$1.37385C=$1.00US	$1.36315C=$1.00US	$ WEAKER	3.38%
Japan Yen per U.S. $	157.365¥=$1.00US	157.145¥=$1.00US	$ WEAKER	11.47%

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