Despite a mixed quarter, stocks maintain their lead at halftime.

Quarterly snapshot

- Major global equity market indexes saw mixed performance in the second quarter of 2024, but ended the first half of the year in positive territory. U.S. stocks were bolstered largely by a rally concentrated in shares of a select few companies—but namely Nvidia—benefiting from artificial intelligence (AI). Most developed equity markets outside of the U.S. lost ground over the quarter.
- Global fixed-income assets fell over the quarter. U.S. Treasury yields moved higher for all maturities, with the exception of 1-, 2-, and 6-month bills. (Bond prices move inversely to yields).
- We continue to view both concentration and valuation as concerning for U.S. equity investors. We believe the current size and future growth expectations of the top names set the bar exceedingly high even for the most stellar companies in the most transformative industries.

Major global equity market indexes saw mixed performance in the second quarter of 2024, but ended the first half of the year in positive territory. In the U.S., the broad-market S&P 500 Index and the tech-heavy Nasdaq Composite Index garnered positive returns, bolstered largely by a rally concentrated in shares of a select few companies—but namely Nvidia—benefiting from artificial intelligence (AI). Most developed equity markets outside of the U.S. lost ground over the quarter. benefiting from artificial intelligence (AI)—most notably chip-maker Nvidia Corp. Most developed equity markets outside of the U.S. lost ground over the quarter amid investors' concerns that sticky inflation would cause many global central banks to delay pivoting to a rate-cutting regime.

The Nordic countries were the strongest performers among developed equity markets for the quarter, led by Norway and Finland. North America also posted a notable gain attributable mainly to an upturn in the U.S. The Far East recorded a negative return for the quarter and was the primary developed-market laggard due to weakness in Japan. Africa was the top performer within emerging markets for the quarter, attributable primarily to strength in South Africa. Conversely, the Latin American market declined sharply over the quarter and was the most notable underperformer due to significant downturns in Mexico and Brazil.[1]

Global fixed-income assets, as measured by the Bloomberg Global Aggregate Bond Index, declined 1.1% in the second quarter. High-yield bonds posted modest gains and were the strongest performers within the U.S. fixed-income market, followed by U.S. Treasury securities, mortgage-backed securities (MBS), and corporate bonds.[2] Treasury yields moved higher for all maturities, with the exception of 1-, 2-, and 6-month bills. Yields on 2-, 3-, 5-year Treasury notes each rose 0.12% over the quarter, while the 10-year was up 0.16%. The spread between 10- and 2-year notes narrowed rom −0.39% to −0.35% over the quarter, and the yield curve remained inverted.[3]

Global commodity prices, as measured by the Bloomberg Commodity Total Return Index, rose 2.9% during the quarter. The West Texas Intermediate (WTI) and Brent crude oil prices declined 2.0% and 2.4%, respectively, amid concerns about softening demand for gasoline. The New York Mercantile Exchange (NYMEX) natural gas price surged 47.4% over the quarter due to strong demand and a decline in production in the U.S., along with expectations that advances in AI will increase consumption of natural gas-generated electricity. The gold spot

[1] All equity market performance statements are based on the MSCI ACWI Index.

[2] According to the Bloomberg US High Yield Index, Bloomberg US Treasury Index, Bloomberg US Mortgage Backed Securities Index, and the Bloomberg US Corporate Investment Grade Index.

[3] According to the U.S. Department of the Treasury. As of June 28, 2024.

Key measures: Q2 2024

Equity	
Dow Jones Industrial Average	-1.27%
S&P 500 Index	4.28%
NASDAQ Composite Index	8.47%
MSCI ACWI Index (Net)	2.87%
Bond	
Bloomberg Global Aggregate Index	-1.10%
Volatility	
Chicago Board Options Exchange Volatility Index **PRIOR QUARTERLY: 13.01**	12.44
Oil	
WTI Cushing crude oil prices **PRIOR QUARTERLY: $83.17**	$81.54
Currencies	
Sterling vs. U.S. dollar	$1.26
Euro vs. U.S. dollar	$1.07
U.S. dollar vs. yen	¥160.86

Sources: Bloomberg, FactSet, Lipper

price rose 4.5% over the quarter as the ongoing Israel-Hamas conflict prompted investors to seek "safe-haven" investments. Despite a slump in June due to a significant increase in production, wheat prices ended the quarter up 2.4% on earlier speculation that below-average rainfall in Russia and the Southern Plains in the U.S. could lead to supply constraints.[4]

As widely anticipated, the Federal Open Market Committee (FOMC) left the federal-funds rate unchanged in a range of 5.25% to 5.50% following its meeting on June 11-12. In a statement announcing the rate decision, the FOMC noted, "Inflation has eased over the past year but remains elevated. In recent months, there has been modest further progress toward the Committee's 2 percent inflation objective." The FOMC's acknowledgement of "further progress" in achieving the inflation target came in contrast to the statement following its previous meeting on May 1, in which the Committee cited the "lack of progress" toward its objective.

The Fed's so-called dot plot of economic projections indicated a median federal-funds rate of 5.1% at the end of 2024, up from its previous estimate of 4.6% issued in March, signaling that the central bank anticipates just one federal-funds rate cut of roughly 25 basis points (0.25%) by the end of this year. The Fed estimated that core inflation, as measured by the core personal-consumption-expenditures (PCE) price index, will end the year at an annual rate of 2.6%—modestly higher than the central bank's 2.4% projection in March. The PCE price index is the Fed's preferred gauge of inflation, as it tracks the change in prices that consumers pay for a more comprehensive set of goods and services than that of the consumer-price index (CPI).

At the end of June, the CME Group's FedWatch Tool implied a 56% chance that the central bank will implement a rate cut of 25 basis points (0.25%) following its meeting on September 17-18.[5] The FedWatch Tool provides a gauge of the markets' expectations of potential changes to the federal-funds target rate while assessing potential Fed monetary policy actions at Federal Open Market Committee (FOMC) meetings.

Economic data

U.S.

The Department of Labor reported that the consumer-price index (CPI) was flat in May, declining from the 0.3% increase in April. The 3.3% year-over-year advance in the index, down from the 3.4% annual rise in April, was slightly below expectations. Housing costs rose 0.4% and 5.4% in May and over the previous 12 months, respectively, while food prices posted corresponding increases of 0.1% and 2.1%. Energy prices declined 2.0% in May, but were up 3.7% year-over-year. The 3.4% rolling 12-month rise in core inflation in May, as measured by the CPI for all items less food and energy, was down 0.2 percentage point from the year-over-year upturn for the previous month, and represented the smallest annual increase since April 2021.

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[4] According to market data from The Wall Street Journal.

[5] According to CME Group. June 28, 2024.

According to the third estimate from the Department of Commerce, U.S. gross domestic product (GDP) grew at an annualized rate of 1.4% in the first quarter of 2024—down sharply from the 3.4% rise in the fourth quarter of 2023. The latest figure represents an uptick from the second estimate of 1.3% for first-quarter GDP growth. The change was attributed to a downward revision to imports (which are subtracted in the calculation of GDP), as well as upward revisions to non-residential fixed investment (purchases of both nonresidential structures and equipment and software), and government spending. These were partly offset by a downward revision to consumer spending.

U.K.

The Office for National Statistics (ONS) reported that inflation in the U.K., as measured by the CPI, rose 0.3% in May, matching the increase in April. The CPI's 2.0% year-over-year advance was lower than the 2.3% annual upturn for the previous month. The largest contributors to the 12-month rise in inflation included alcohol and tobacco, as well as health care. These more than offset declines in costs for housing and household services, and furniture and household goods. Core inflation, which excludes volatile food prices, rose at an annual rate of 3.5% in May, down from the 3.9% year-over-year increase in April.[6]

According to the second estimate of the ONS, U.K. GDP grew 0.7% in the first quarter of 2024 (the most recent reporting period), an uptick from the initial estimate of a 0.6% increase, and significantly outpacing the 0.6% decline in the last three months of 2023. Output in the services and production sectors rose 0.8% and 0.6%, respectively, for the first quarter, while construction output fell 0.6%.[7]

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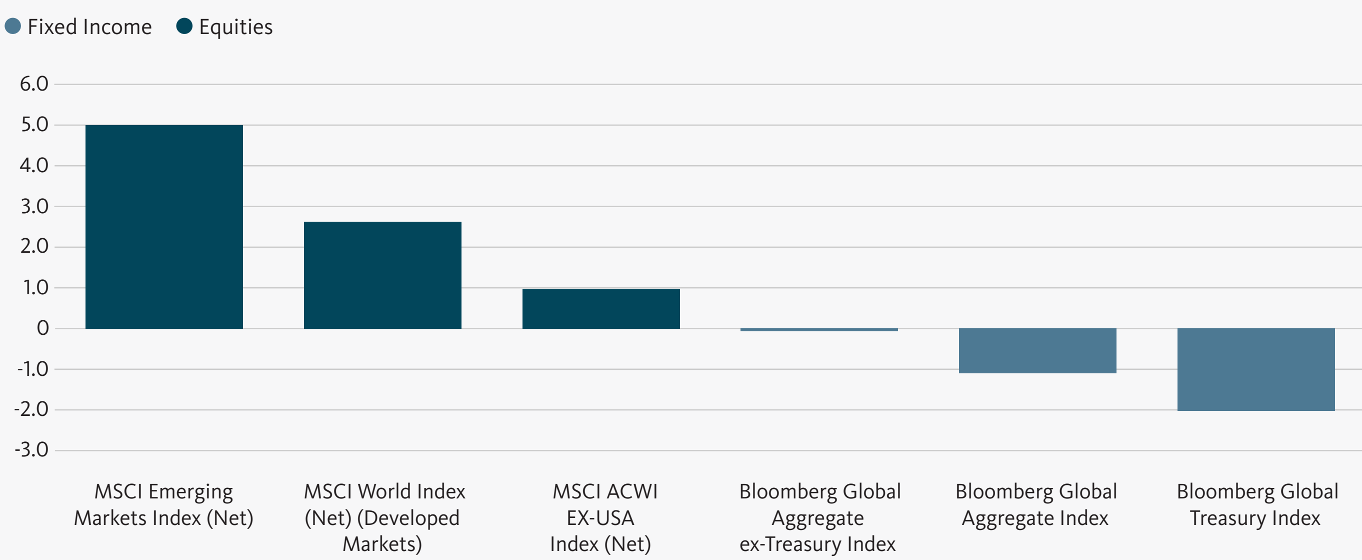
[6] According to the ONS. June 19, 2024.

[7] According to the ONS. June 28, 2024.

Major Index Performance in Q2 2024 (Percent Return)



Sources: FactSet, Lipper

Eurozone

Eurostat pegged the inflation rate for the eurozone at 2.6% for the 12-month period ending in May, up modestly from the 2.4% annual increase in April. Costs in the services sector rose 4.1% for the period. Prices for food, alcohol and tobacco were up 2.6% year-over-year in April, slightly lower than the 2.8% annual rate for the previous month. Energy prices rose 0.3% over the previous 12 months following a 0.6% annual decline in April. Core inflation, which excludes volatile energy and food prices, rose at an annual rate of 2.9% in April, up 0.2 percentage point from the 2.7% year-over-year increase in April.[8]

Eurostat also reported that eurozone GDP edged up 0.3% in the first quarter of 2024, following a 0.1% dip for the fourth quarter of 2023, and was up 0.4% year-over-year. The economies of Malta, Cyprus, and Croatia were the strongest performers for the first quarter, expanding 1.3%, 1.2%, and 1.0%, respectively. Conversely, GDP in Denmark and Estonia declined by corresponding margins of 1.8% and 0.5% during the quarter.[9]

Central banks

At a news conference following the FOMC meeting on June 12, Fed Chair Jerome Powell commented that, while the central bank has not pivoted to rate cuts, no FOMC member anticipates the need for a rate hike. Powell said, “We’ve always been pointing to cuts at a certain point. Not to eliminate the possibility of hikes, but no one has that as their base case.” The Fed chair acknowledged progress in slowing inflation, “a good level” of economic growth, and a robust labor market. “Now, ultimately, we think rates will have to come down to continue to support that,” Powell noted. “But so far, they haven’t had to. And that’s why we’re watching so carefully for signs of weakness.”

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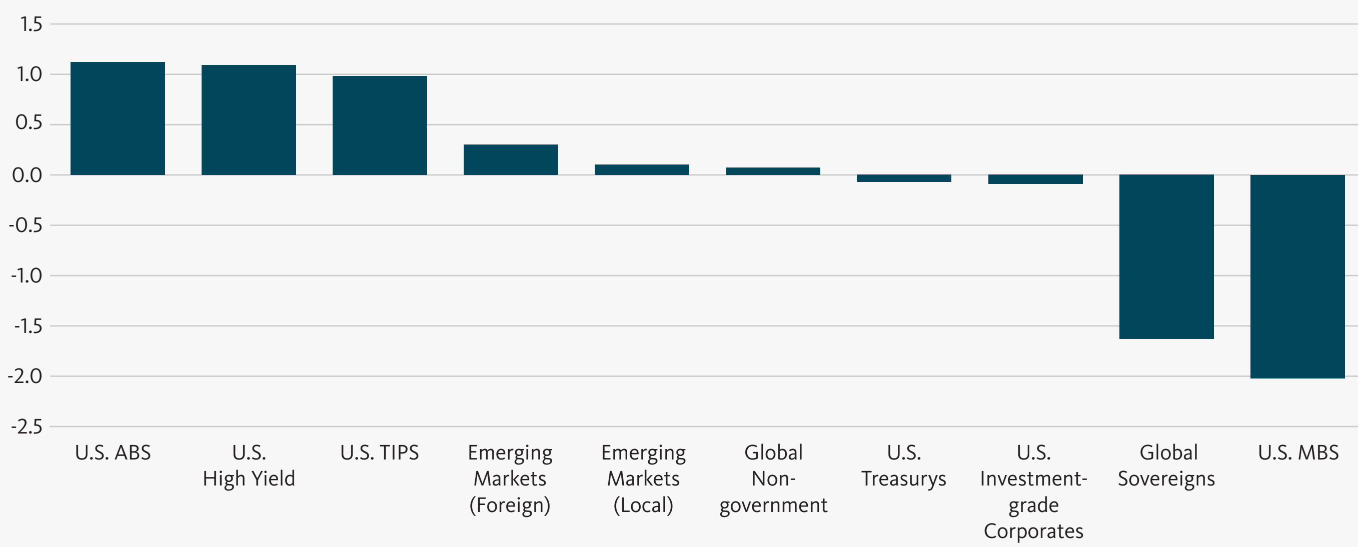
[8] According to Eurostat. June 18, 2024.

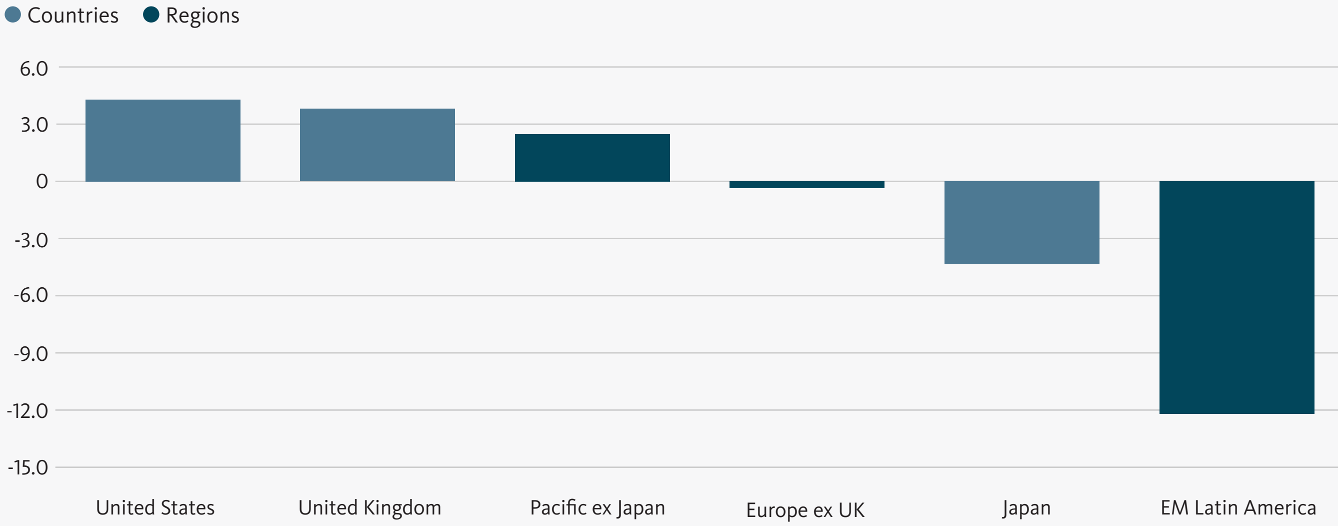
[9] According to Eurostat. June 7, 2024.

Fixed-Income Performance in Q2 2024 (Percent Return)



Sources: FactSet, Lipper. See “Corresponding Indexes for Fixed-Income Performance Exhibit” in the Index descriptions section for more information.

Regional Equity Performance in Q2 2024 (Percent Return)



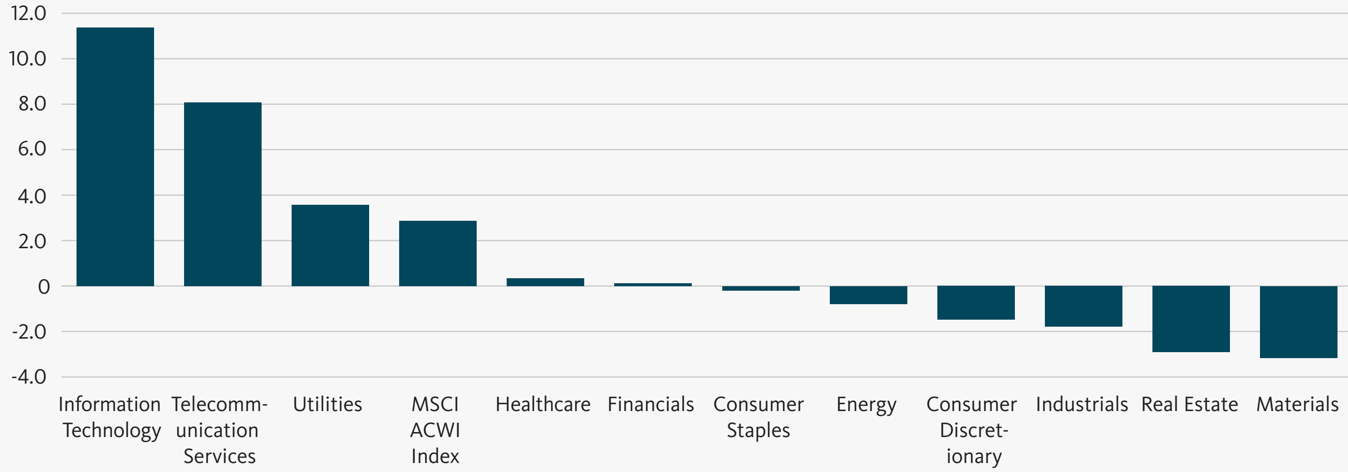
Sources: FactSet, Lipper. See "Corresponding Indexes for Regional Equity Performance Exhibit" in the Index descriptions section for more information.

The Bank of England (BOE) left the Bank Rate unchanged at a 15-year high of 5.25% following its meeting on June 19. The decision was not unanimous; two BOE Monetary Policy Committee (MPC) members voted for a rate cut of 25 basis points (0.25%) to 5.00%. In its announcement of the rate decision, the MPC commented, "The restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures. Key indicators of inflation persistence have continued to moderate, although they remain elevated." The MPC also reiterated its commitment to "adjust monetary policy as warranted by economic data to return inflation to the 2% target sustainably."

The European Central Bank (ECB) became the largest and most notable central bank to loosen monetary policy, reducing its benchmark interest rate by 25 basis points to 4.25% following its meeting on June 6—its first rate cut since September 19. In a statement announcing the rate decision, the ECB's Governing Council commented, "Based on an updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission, it is now appropriate to moderate the degree of monetary policy restriction after nine months of holding rates steady." However, the Governing Council cautioned that it is "not pre-committing to a particular rate path."

The Bank of Japan (BOJ) maintained its benchmark interest rate in a range of 0.0% to 0.1% after its meeting on June 13-14. However, the central bank did not provide information regarding the timeline to reduce its bond purchase program, which led to a sharp decline in the yen versus the U.S. dollar. In its "Summary of Opinions at the Monetary Policy Meeting," the BOJ noted, "While price developments have been in line with the Bank's outlook, there is a possibility that prices will deviate upward from the baseline scenario if another pass-through of recent cost increases to consumer prices happens. It is therefore necessary for the Bank to consider whether further adjustments to monetary accommodation are needed from the perspective of risk management."

Global Equity Sector Performance in Q2 2024 (Percent Return)



Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

SEI's view

We continue to view both concentration and valuation as concerning for U.S. equity investors.

Today's equity market dynamics remind us that diversifying exposures across geographies, sectors, factors and individual companies are as important as ever for investors, and we remain committed to this foundational principle. This is particularly acute for passive investors who, at this stage of the cycle (concentrated and expensive), may want to begin diversifying into actively managed strategies. We continue to view both concentration and valuation as concerning for U.S. equity investors. We believe the current size and future growth expectations of the top names set the bar exceedingly high even for the most stellar companies in the most transformative industries.

While we have been highlighting the relatively low level of broad equity volatility for the better part of year, we are also focusing on the high level of volatility present specifically in the market's biggest names. The Cboe Volatility Index or VIX is a forward-looking view of volatility derived from 30-day S&P 500 Index options. The VIX closed the quarter at roughly 12.50%, which is significantly below the longer-term average of about 16%. The same measure of implied volatility for Nvidia is roughly 4 times the VIX level, at over 50%. Certainly it makes sense for single name volatility to be higher than the market level, however, when one of the biggest companies in the world is trading with such high levels of volatility, this suggests to us that a bumpier ride may be in store for equity investor in the second half of 2024.

Our outlook for interest rates in the U.S. is decidedly bearish. The yield on the U.S. 10-year Treasury note began the second quarter with upward pressure from consecutive hot inflation prints and stronger than expected employment data. A slight softening in the inflation trend and a more dovish tone from the Fed allowed the 10-year Treasury to end the quarter at 4.36%, down roughly 30 basis points from the quarter's high point. We are leaning against this more recent rally and continue to position for higher longer-term U.S. interest rates. We expect that a still-stubborn inflationary picture in the near term and a resilient job market will keep the Fed on hold until at least after the U.S. presidential election in November.

While we acknowledge that the Fed is desperate to join the central banks of Canada, Europe, Switzerland and Sweden (which have already begun reducing rates), we continue to suspect that the specter of a reacceleration of inflation will keep any U.S. monetary policy easing cycle relatively shallow. In addition to a higher-than-expected terminal federal-funds rate—the ultimate interest-rate level that the Fed sets as its target for a cycle of rate hikes or cuts—we continue to see a resilient U.S. economy despite some early warning signs of economic weakness, a return of term premium (with investors earning higher yields on long-term debt) into the U.S. yield curve, and the basics of supply and demand keeping upward pressure on longer-term rates into the end of this year.

We expect a positive cyclical and structural macroeconomic environment to prompt a strong recovery in commodities for the second half of 2024. The asset class peaked in mid-2022 along with global inflation rates and has suffered as the disinflation trend took hold around the globe. More recently, we have seen surprising production discipline from OPEC+, AI-influenced demand, and central bank gold purchases influencing year-to-date returns. We believe that seasonality factors will add to the positive momentum in this space as summer travel demands remain robust and weather related volatility provides asymmetric upside pressures. In addition, July also marks the start of China's Third Plenum of the China's Central Committee, which is the top governing body of the Communist Party. Expectations for this gathering include infrastructure reforms and stimulus projects focused on power grid improvements. We view this as another potential boost to demand in the short term which further enhances our longer-term views of global chronic underinvestment in the commodity space, which we believe will continue to act as a structural tailwind.

Glossary of Financial Terms

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value.

Yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (are (which is used to assess the risk of default of companies or countries). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates that short- and long-term yields are closer together.

An **inverted yield curve** occurs when short-term yields exceed long-term yields. While an inverted yield curve historically has predicted economic recessions, it is an indicator—not a forecast.

The **federal-funds rate** is the interest rate charged to lending institutions on unsecured overnight loans. It is set by the U.S. Federal Reserve's Federal Open Market Committee. The rate is increased when the Federal Reserve wants to discourage borrowing and slow the economy and decreased when the Federal Reserve wants to spur economic growth.

Economic output comprises a quantity of goods or services produced in a specific time period.

Monetary policy refers to decisions by central banks to influence the amount of money and credit in the economy by managing the level of benchmark interest rates and the purchase or sale of securities. Central banks typically make policy decisions based on their mandates to target specific levels or ranges for inflation and employment.

Price/earnings (P/E) ratio is calculated by dividing the current market price of a stock by the earnings per share. Price/earnings multiples often are used to compare companies in the same industry, or to assess the historical performance of an individual company.

A **factor** is a quantifiable security characteristic that drives returns and can be used to explain the differences in performance between securities. Examples include value, momentum, quality, and low volatility.

Index Descriptions

All indexes are quoted in gross performance unless otherwise indicated.

The **MSCI ACWI Index** is a market capitalization-weighted index that tracks the performance of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

The **MSCI EAFE Index** is a market capitalization-weighted equity index that tracks the performance of the developed world outside North America.

The **Bloomberg Global Aggregate Bond Index** is a market capitalization-weighted index that tracks the performance of investment-grade (rated BBB- or higher by S&P Global Ratings/Fitch Ratings or Baa3 or higher by Moody's Investors Service) fixed-income securities denominated in 13 currencies. The index reflects reinvestment of all distributions and changes in market prices.

The **Bloomberg US High Yield Index** tracks the performance of fixed-rate, publicly issued, non-investment-grade (rated BB+ or lower by S&P Global Ratings and Fitch Ratings or Ba1 or lower by Moody's Investors Service) bonds.

The **Bloomberg US Treasury Index** tracks the performance of fixed-rate, nominal debt issued by the US Treasury.

The **Bloomberg US Mortgage Backed Securities Index** tracks the performance of fixed-rate agency mortgage-backed securities (MBS) guaranteed by the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Freddie Mac (FHLMC).

The **Bloomberg US Corporate Investment Grade Index** tracks the performance of the investment-grade, fixed-rate, taxable corporate bond market.

The **Bloomberg Commodity Total Return Index** comprises futures contracts and tracks the performance of a fully collateralized investment in the index. This combines the returns of the index with the returns on cash collateral invested in 13-week (three-month) U.S. Treasury bills.

Consumer-price indexes measure changes in the price level of a weighted-average market basket of consumer goods and services purchased by households. A consumer price index is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

The **Cboe Volatility Index (VIX)** measures the constant 30-day volatility of the U.S. stock market using real-time, mid-quote prices of S&P 500 Index call and put options. A call option gives the holder the right to buy a stock at a specified price; a put option gives the holder the right to sell a stock at a specified price.

Corresponding Indexes for Fixed-Income Performance Exhibit	
U.S. High Yield	ICE BofA U.S. High Yield Constrained Index
Global Sovereigns	Bloomberg Global Treasury Index
Global Non-Government	Bloomberg Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
U.S. Mortgage-Backed Securities (MBS)	Bloomberg US Mortgage Backed Securities Index
U.S. Asset-Backed Securities (ABS)	Bloomberg US Asset Backed Securities Index
U.S. Treasurys	Bloomberg US Treasury Index
U.S. Treasury Inflation-Protected Securities (TIPS)	Bloomberg 1-10 Year US TIPS Index
U.S. Investment-Grade Corporates	Bloomberg US Corporate Bond Index

Corresponding Indexes for Regional Equity Performance Exhibit	
United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex U.K.	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

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