

Muted Markets and More Volatility

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This month, we asked one of our portfolio management teams, Wellington Management, to provide their insights into the markets and to explain how their portfolio is positioned.

Outlook

The U.S. equity markets continue to have narrow leadership this year. For context, in 2Q, markets reached new highs, driven by a narrow set of names, with particularly strong contributions from technology and AI-related companies. In fact, Nvidia and Apple combined contributed approximately 60% of the Russell 1000 Growth Index's return during the quarter. From a sector perspective, information technology, communication services, and utilities were the strongest areas of the market, as investors optimistically engaged with the build-out of more AI-related infrastructure across the economy. Sectors including materials, industrials, financials, and real estate were all negative during the period as earnings results and macro data, outside of demand in certain parts of technology, reflected a relatively muted economic environment. Continued pressure on U.S. consumers led to uneven demand trends in consumption parts of the economy as depleted savings and continued debt service costs weighed on overall spending. Inflation remained reasonably contained, but equity markets grappled with a potentially more patient Fed as core inflation measures remained above the Fed's stated target. In 3Q, the focus remains on Fed policy and a potential rate cut in September.

As the 2024 U.S. election cycle comes into focus, policy positioning regarding fiscal deficits, tax policy, and trade are likely to be more relevant to financial markets in the second half of 2024. We expect policy headlines and the continued focus on the pace and magnitude of Fed rate cuts to create volatility. Amid this volatility, we believe the continued focus on company earnings in the latter half of the year, specifically within the leadership sectors like information technology, should create an opportunity for more differentiation within the narrow market.

Positioning

As a reminder, U.S. Equity Growth is a diversified portfolio where our efforts are focused on stock selection. Given our focus on stock selection being the central driver of portfolio returns, we've found more individual opportunities in broader parts of the market outside of technology including holdings in healthcare, industrials, and real estate. We also remain watchful for broadening implications of the significant AI-driven capital investment cycle as a range of industries start to potentially see productivity benefits from these innovations. As noted above, we are monitoring the dynamics of the presidential race, Fed policy, and company earnings, as near-term volatility may create potential opportunities over our long-term investment horizon.

As of July 31, 2024, some of our largest active weight holdings in the portfolio versus the Russell 1000 Growth Index are Alphabet, Broadcom Inc, and Mastercard. We highlight commentary on each below:

- Alphabet, a multinational technology conglomerate, reported a strong first-quarter earnings beat with revenue increasing 15% year-over-year, the fastest rate of growth since early 2022, driven by strength in YouTube advertising and Cloud services. The company also announced its first-ever dividend and a \$70 billion share repurchase program. While the stock has come under recent pressure with the technology sector and uncertainty over ongoing antitrust concerns from the U.S. Department of Justice, we continue to see the potential for generative AI capabilities to drive revenue growth and expand margins for Google Cloud and remain overweight on the position.
- Broadcom Inc is a multinational designer, developer, manufacturer, and global supplier of a wide range of semiconductor and infrastructure software products. We believe the company is attractively levered to the cloud data center investment cycle (including sales tied directly to AI build-outs) and is a clear leader in foundational connectivity chips and leading-edge custom silicon that are in high demand due to the explosive growth of increasingly complex data traffic and the resultant networking bottleneck. Additionally, we like their exposure to AI through ASICs (a form of compute acceleration) coupled with the growth rate of their merchant networking products which should create a runway for Broadcom to continue to increase shareholder value.
- Mastercard, the global payments company, fell during 2Q despite reporting strong 1Q24 results that showed revenue and EPS beat consensus estimates. Also, a federal judge rejected a \$30 billion antitrust settlement involving Mastercard and other merchants over credit card swipe fees, stating that the credit card giants could withstand a greater judgment. This may lead merchants to negotiate a more favorable settlement for themselves or proceed to trial. We continue to have a positive view on Mastercard as a strong operator and share gainer from competitors.

Combined top 15 equity holdings as of August 30th, 2024 of the Assante Private Portfolios 40i60e Standard portfolio with Alphastyle exposure:

1. Microsoft Corporation	6. Schneider Electric SE	11. London Stock Exchange
2. Amazon.com, Inc.	7. ServiceNow, Inc.	Group pls
3. NVIDIA Corporation	8. Novo Nordisk A/S Class B	12. Rheinmetall AG
4. Constellation Software	9. Constellation Energy	13. Alcol AG
Inc.	Corporation	14. Safran SA
5. ASML Holding NV	10. Eli Lilly and Company	15. GE Vernova Inc.



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