



**BlackDiamond
Financial**

INVESTMENT INSIGHTS

SECOND QUARTER 2024



*Picture by Black Diamond Client Service Specialist, Becky Crawford
Belfair in Bluffton, South Carolina*



Large Company Stocks Continue Higher on Narrowing Rally

The S&P 500 Index continued to outperform, rising 15.3% in the first half of the year. The index has reached a historic level of market concentration with the ten largest stocks making up almost 40% of its value.

Just three members of the Magnificent Seven (Nvidia, Microsoft and Alphabet) have accounted for nearly half of the S&P 500's return this year. Investors have become increasingly bullish on Generative AI's potential for productivity growth. Expecting the Magnificent Seven to continue outperforming means betting on these companies' ability to consistently exceed the market's earnings expectations, largely due to the impact of AI.

In contrast, small company stocks rose a meager 1.7% year-to-date. Rising treasury yields impact small companies more than large companies, mainly because small companies issue more short-term debt and are more sensitive to today's higher interest rates.

This continues a ten-year cycle of small company relative underperformance. We have seen similar patterns before, and it is impossible to predict when this trend will reverse. The last time was in the late 1990s during the dot-com era. Abandoning small companies then would have been a mistake as they subsequently outperformed over the next decade. Importantly, small company valuations are approximately 20% below long-term averages and are priced at a 40% discount to large companies, providing important diversification benefits.

Bond interest rates are outpacing inflation for the first time in many years, which is good news for long-term investors. Core inflation has been falling steadily. The annual inflation rate fell to 3.4% in May, which is down from 5.3% a year ago. The bond market now anticipates two 0.25% rate cuts in 2024 starting in September and gradually declining rates in 2025. As such, it appears that a higher-interest-rate environment is here to stay.

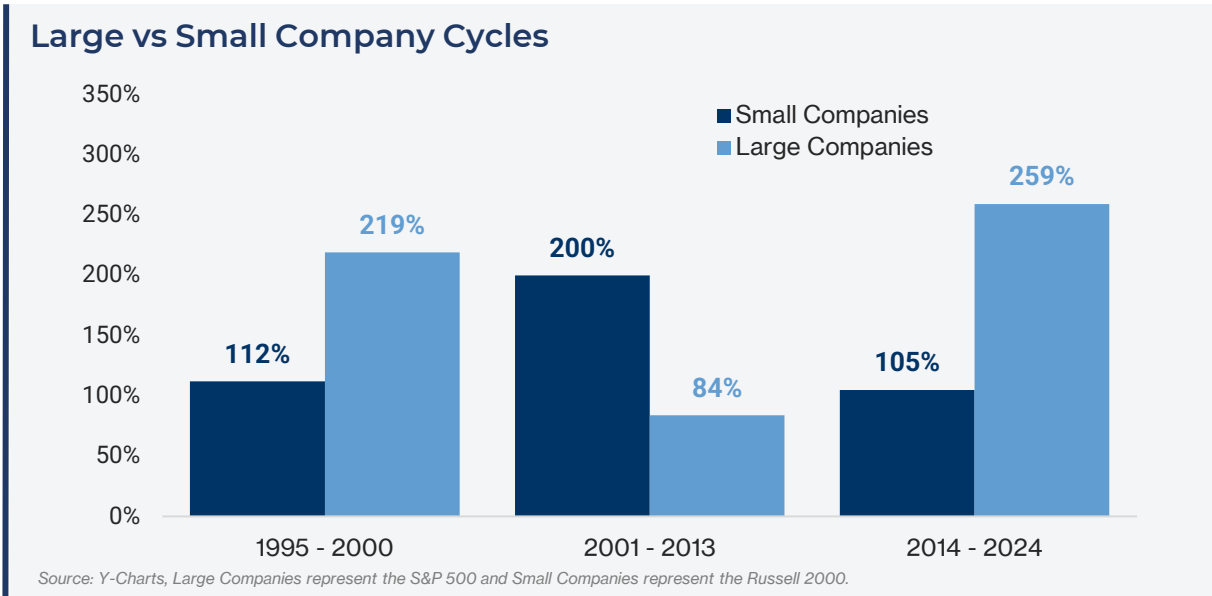
Comparative Returns

| | Annualized Performance | | | | | |
|------------------------------------|------------------------|--------|--------|---------|---------|----------|
| | Q2 2024 | YTD | 1 Year | 3 Years | 5 Years | 10 Years |
| Large Cap U.S. Stocks ¹ | 4.3% | 15.3% | 24.6% | 10.0% | 15.1% | 12.9% |
| Small Cap U.S. Stocks ² | (3.3%) | 1.7% | 10.1% | (2.6%) | 6.9% | 7.0% |
| International Stocks ³ | 1.0% | 5.7% | 11.6% | 0.5% | 5.6% | 3.8% |
| Real Estate ⁴ | (0.2%) | (0.8%) | 6.3% | (1.0%) | 2.7% | 4.6% |
| U.S. Bonds ⁵ | 0.1% | (0.7%) | 2.6% | (3.0%) | (0.2%) | 1.4% |

1 S&P 500 index. 2 Russell 2000. 3 MSCI ACWI ex-U.S. index. 4 MSCI U.S. REIT index. 5 Bloomberg Barclays Aggregate Bond index.

Will Large Company Stocks Continue to Outperform?

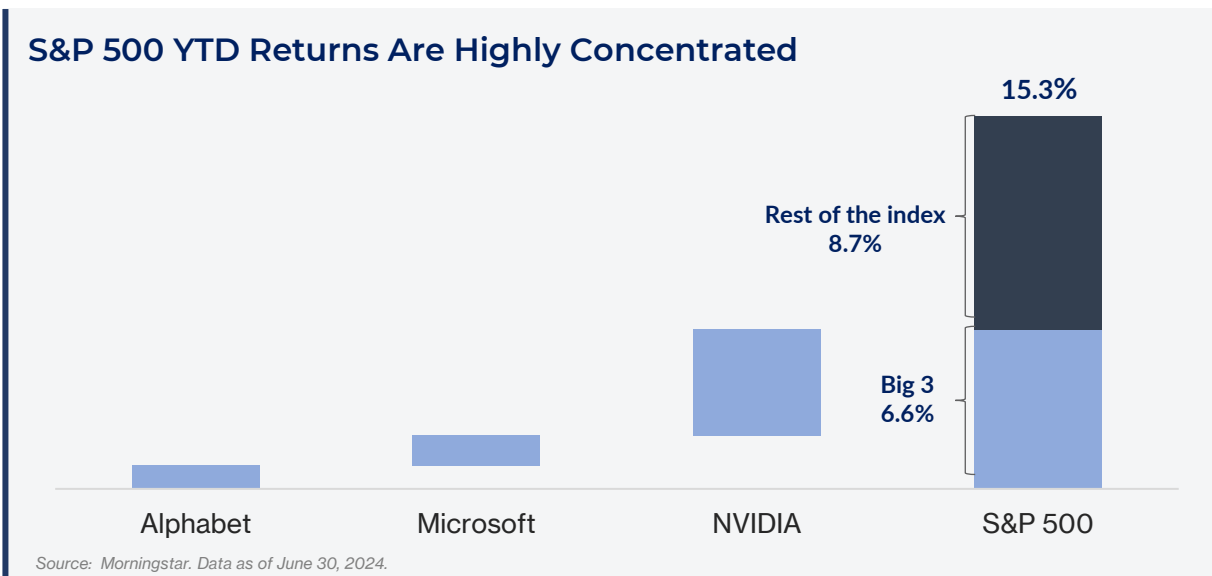
Large company stocks have significantly outperformed small company stocks over the past decade. It is important to note that markets move in cycles. As depicted below, there are often long periods of relative outperformance by one asset class over another. This cycle is therefore not unprecedented. We believe maintaining a diversified portfolio and a long-term perspective are key as cycles can be prolonged. Valuations of small company stocks are currently attractive. Investors should not dismiss their approximate 2% return premium over large companies over the past 97 years.



Which Companies Propelled the S&P Forward This Year?

Technology leaders (the “Magnificent Seven”) are posting continued strong growth in 2024. Each is a global behemoth supported by positive demand trends, substantial profitability, and a healthy balance sheet. These factors have led to a small number of large tech stocks having a disproportionate impact on year-to-date market returns.

As the chart shows below, 43% of the S&P 500 return this year is attributable to only three companies.





ABOUT US

Black Diamond Financial, LLC is a fee-only registered investment adviser with a unique and holistic focus on preserving and enhancing wealth. Our mission is to help you achieve your financial goals through the use of low cost, tax-efficient investment strategies. We create individualized investment portfolios for each client that are risk-appropriate, return optimized, and tax-efficient. Where appropriate, we incorporate institutional quality private investments to capture illiquidity premiums or yield opportunities. Furthermore, we believe cost is a critical factor in any successful investment strategy and therefore offer fully transparent pricing that is below industry standard. As an employee-owned firm focused on our fiduciary duty, we make our clients' interests our highest priority.

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