SECOND QUARTER 2024

INCOME

Financial markets benefited from a supportive macroeconomic backdrop in the second quarter, with modest gains in fixed income and more varied performance across equities and real assets. U.S. economic activity remained solid while showing signs of moderation later in the quarter. Investors welcomed a resumption in disinflationary trends after some concerns on U.S. inflation data in early 2024. Major developed market central banks began cutting rates, with 25 basis-point rate cuts from the European Central Bank and Bank of Canada in June. Fixed income returns were modestly positive even as interest rates and credit spreads were both slightly higher overall in the second quarter. Regional equity performance trends diverged as U.S. markets pushed higher with considerable support from megacap tech companies while the recovery in China and strong performance in India and Taiwan helped emerging market equities finish as a top-performing major asset class. Non-U.S. developed markets struggled later in the quarter as French equities dipped due to election uncertainty while Japan was a drag throughout most of the quarter.

We made one change in asset allocation in the quarter. In May, we increased U.S. equities and developed ex-U.S. equities, funded by reductions across investment grade fixed income and cash. The tactical change returned the portfolio to an overweight stance across developed-market equities, reflecting a more-favorable macroeconomic backdrop with the resilient U.S. economy and some improvement in the non-U.S. growth outlook. Currently, the portfolio has overweights in U.S. equities, developed ex-U.S. equities and high yield fixed income funded by underweights across investment grade fixed income, inflation-linked fixed income and cash. The portfolio ended the quarter with a slightly higher risk level than its strategic benchmark.

The portfolio modestly outperformed in the quarter with slight benefits from strategic positioning, tactical positioning and fund implementation. Strategic positioning supported performance given cash and inflation-linked fixed income outpaced investment grade fixed income. Tactical positioning slightly benefited performance mainly due to the overweight to U.S. equities and the overweight to high yield fixed income. Our diversified investment grade fixed income (BNDC) was the main contributor in terms of fund implementation, while our value-scored high yield fixed income (HYGV) and our quality low volatility U.S. equity (QLV) were the main detractors.