

SECOND QUARTER 2024

GROWTH WITH MODERATE 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, developed ex-U.S. equities and emerging market equities, funded by reductions across municipal investment grade fixed income and natural resources. The tactical change returned the portfolio to an overweight stance across global 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 across each major global equity region and municipal high yield fixed income funded by underweights across municipal investment grade fixed income, inflation-linked fixed income, cash and natural resources. The portfolio ended the quarter with a modestly higher risk level than its strategic benchmark.

The portfolio underperformed in the quarter with drag primarily due to strategic positioning as benefits from tactical positioning offset modest additional headwinds from fund implementation. Strategic positioning detracted from performance as municipal high yield fixed income and real assets failed to keep pace with global equities. Tactical positioning helped performance primarily due to the overweight to U.S. equities, the underweight to natural resources and the underweight to municipal investment grade fixed income. Our broader-based U.S. market factor tilt (TILT), our global listed infrastructure (NFRA) and our broader-based emerging markets factor tilt (TLTE) were the main detractors in terms of fund implementation, while our quality large cap U.S. equity (QLC), our municipal investment grade fixed income (NOTEX) and our municipal high yield fixed income (NHVMX) were the main contributors.

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