WITH YOU EVERY MILE

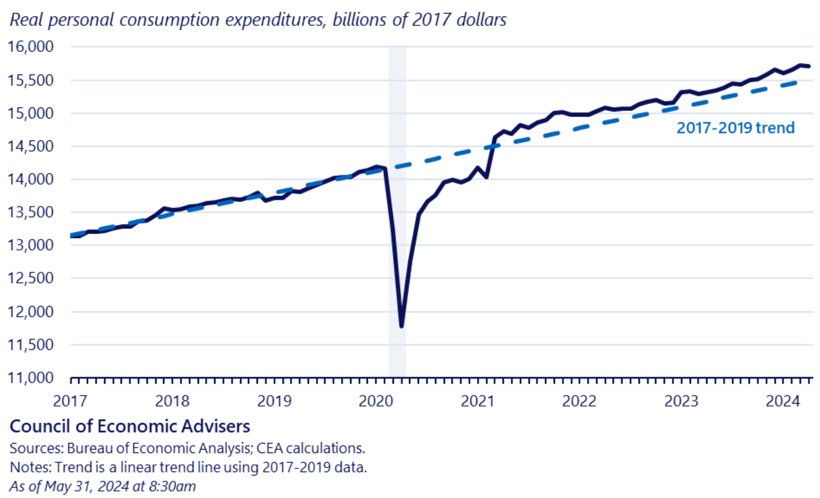
MARKET LANDSCAPE | Q3 2024

MIRACLE MILE INVESTMENT STRATEGY GROUP

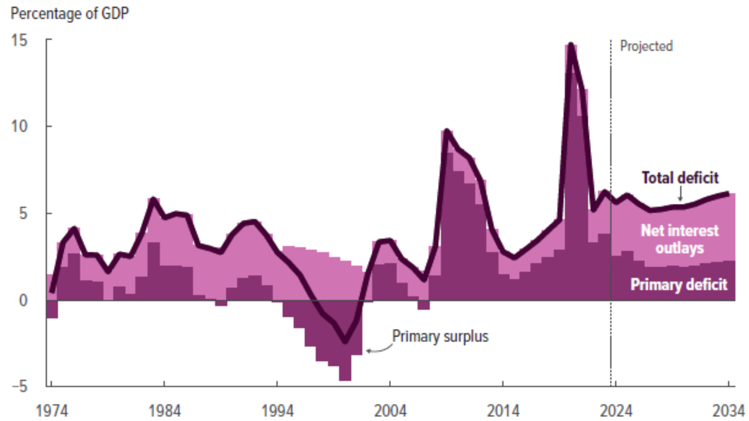
MIRACLE MILE ADVISORS

Despite the Federal Reserve increasing rates by over 5% since mid-2022, economic growth in 2023 and Q1 2024 managed to surpass expectations due to stronger consumer consumption and higher government spending.

Personal Consumption



Federal Deficit

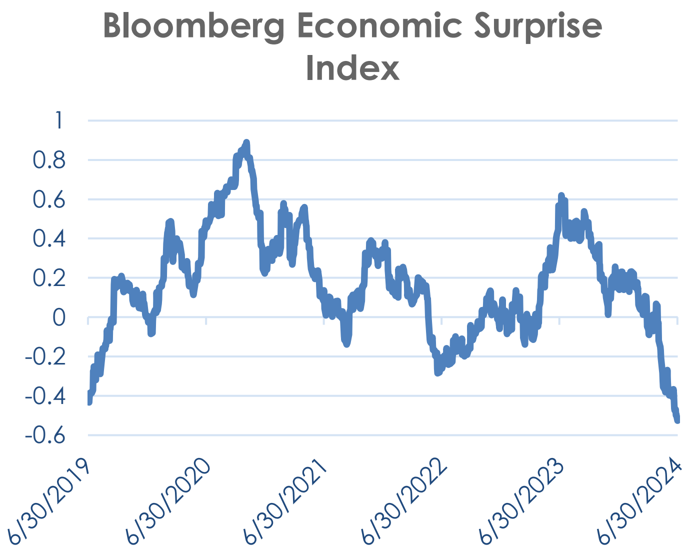


Source: Congressional Budget Office as of 2/29/24

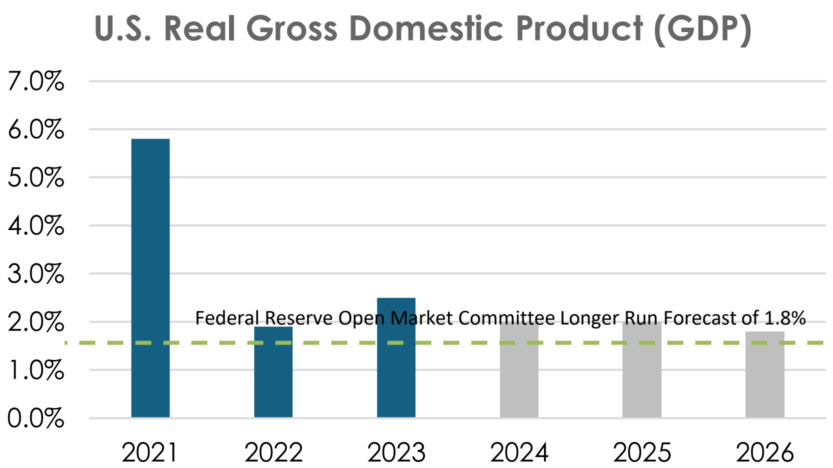
The level of personal consumption (consumer spending) continues to outpace the pre-pandemic trend.

The federal deficit remains elevated and has not retreated toward pre-pandemic levels.

While U.S. economic growth continues, Q2 2024 economic data has generally come in lower than expected (negative economic surprise). This indicates the potential for a slowing trend ahead, supporting economist expectations for a moderating rate of economic (GDP) growth.



Source: Bloomberg. As of 6/30/24

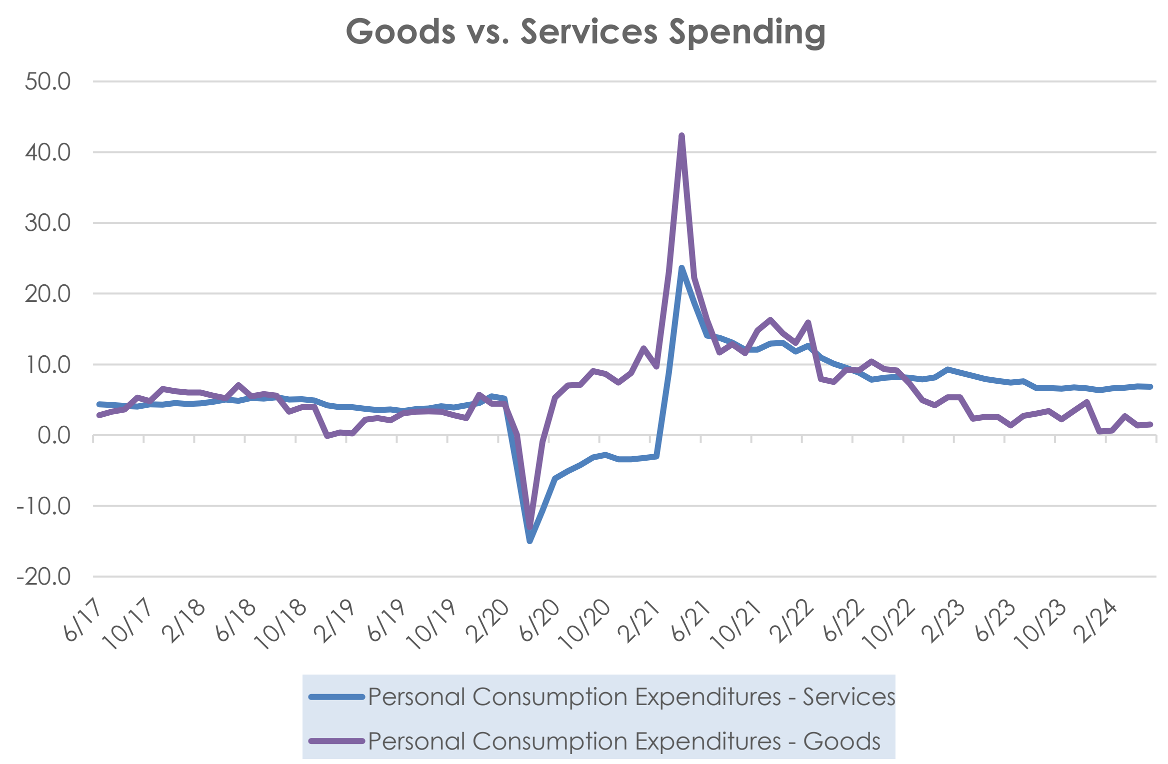


Source: Bureau of Economic Analysis, Federal Reserve. As of 6/12/24

Portfolio Perspective: Given the decelerating economy and expectations of interest rates remaining higher for longer (as discussed on slide 15), we favor exposure to higher-quality businesses with above-average profitability, less leverage, and lower economic sensitivity.

Refer to appendix for disclosures and data sources

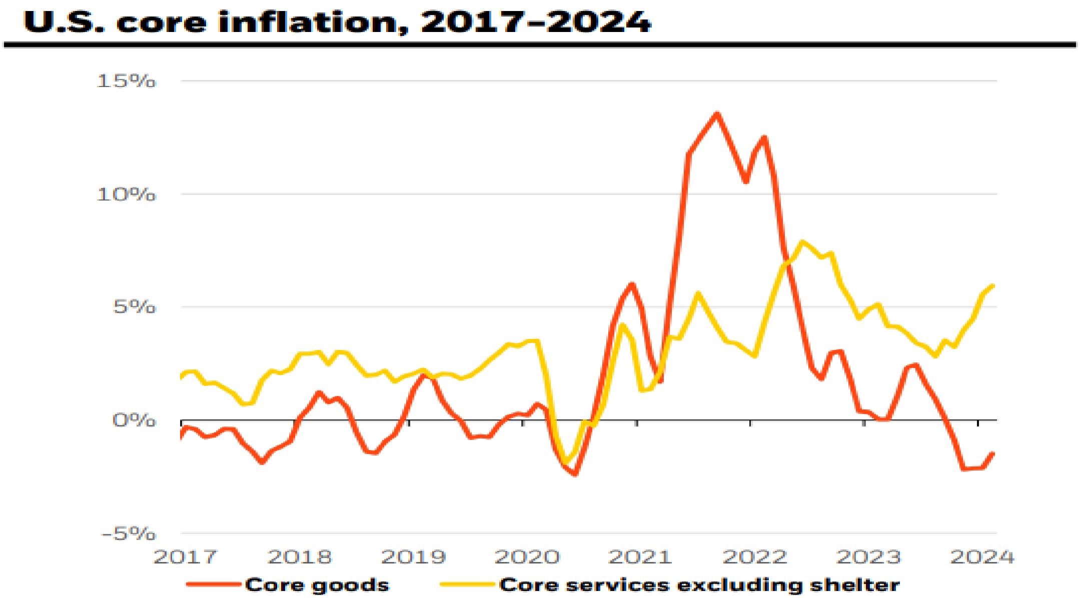
Coming out of the pandemic, spending on goods surged. Over the last two years, that has flipped with consumers preferring to allocate more dollars toward services (healthcare, travel, leisure, etc.).



Source: U.S. Bureau of Economic Analysis, FRED Database. As of 5/31/24

Greater spending on services has resulted in deflation among goods and elevated inflation in the price of services (insurance, health care).

Goods Inflation vs. Services Inflation

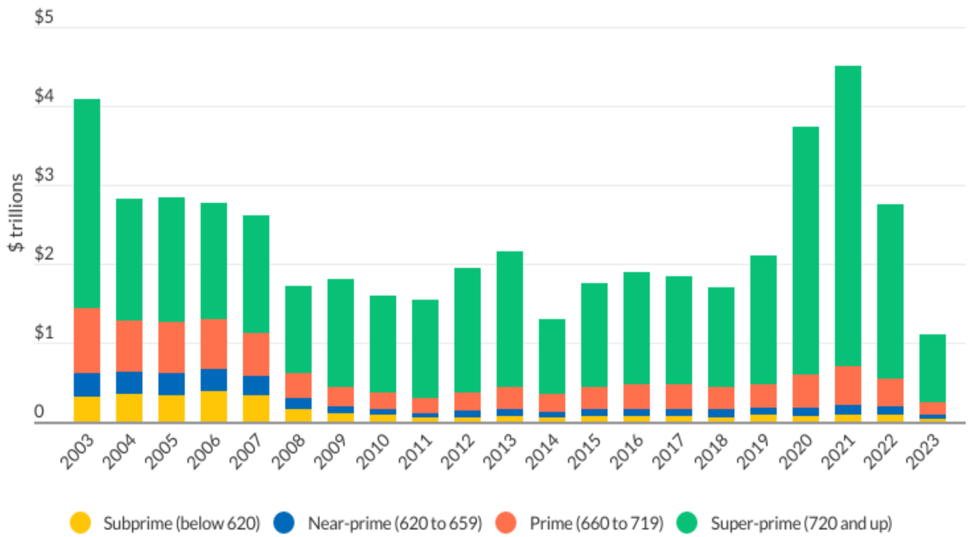


Source: BlackRock Investment Institute, U.S. Bureau of Labor Statistics, with data from Haver Analytics, March 2024.
Note: The chart shows core goods and services inflation measured by the change over six months at an annualised rate. Core goods inflation covers all goods excluding energy and food costs; core services inflation covers all services excluding energy and shelter costs.

Refer to appendix for disclosures and data sources

Prior to the Fed hiking rates, borrowers had locked in long-term financing at ultra-low rates. As a result, many borrowers have not been materially impacted from higher interest rates.

Annual mortgage originations ($ trillions)



Source: LendingTree analysis of Federal Reserve Bank of New York/Equifax panel data. Notes: Includes refinanced loans. 2023 data is through the third quarter.

As of 9/30/23

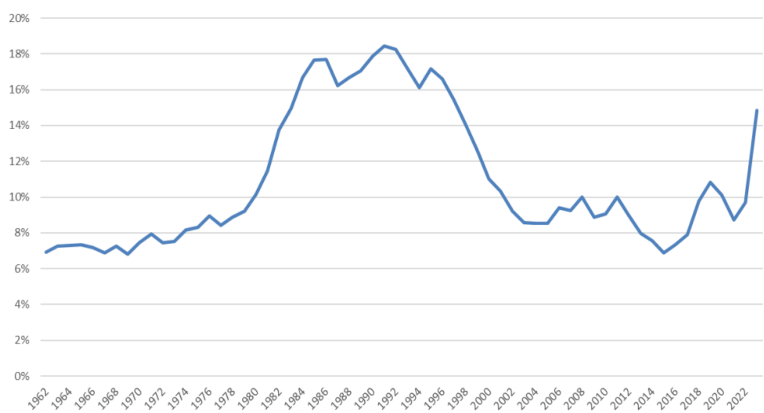
Mortgage originations spiked in 2020 and 2021 when 30-year mortgage rates ranged between 2.75% and 3.75%.

Portfolio Perspective: Given that higher rates have not significantly impacted the economy, modest rate cuts by the Fed are unlikely to provide substantial benefits either. Therefore, we do not expect a stimulus-driven rebound if and when the Fed begins to cut rates.

Refer to appendix for disclosures and data sources

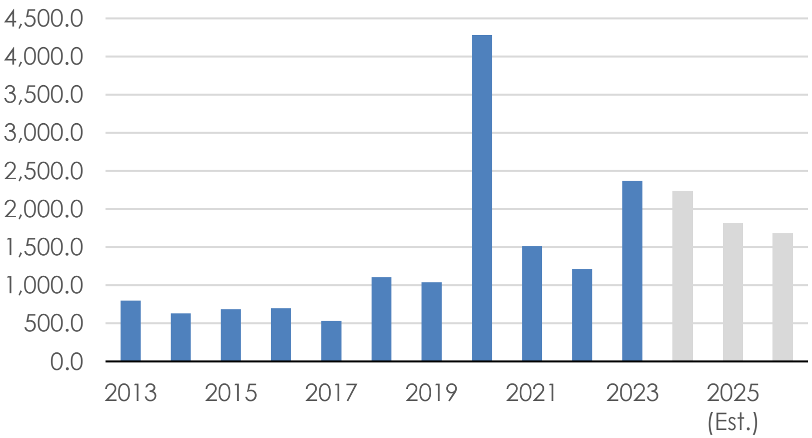
Larger fiscal deficits and higher interest rates have resulted in interest on Treasury debt accounting for 15% of Federal revenues. Going forward, Treasury issuance is projected to be well above historic trends. This presents a risk that the extra supply of added Treasury debt could ultimately result in investors requiring higher yields from Treasury bonds.

Federal Interest Expense as a percentage of Federal Revenue



Source: Bloomberg, DoubleLine. As of 6/30/24

U.S. Treasury Net Issuance

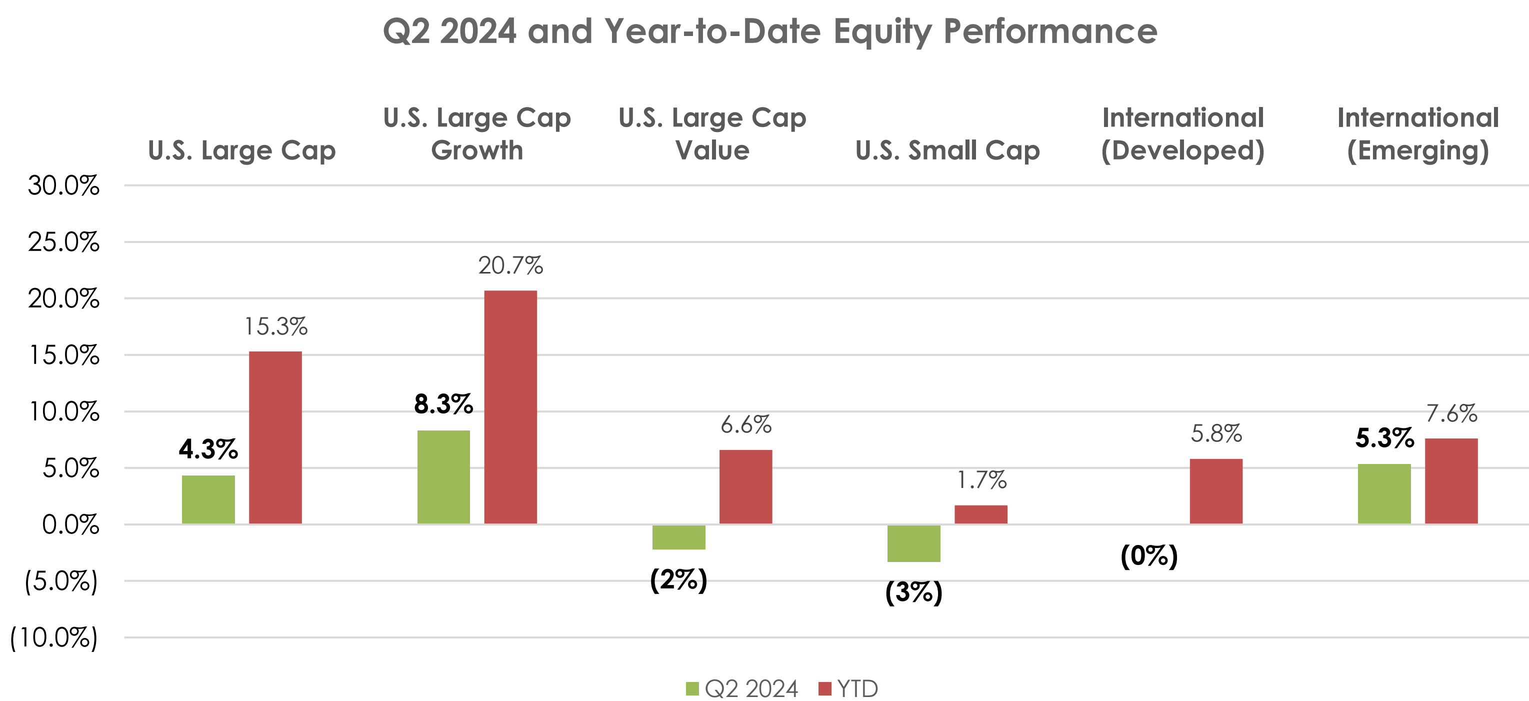


Source: SIFMA, United States Treasury, Congressional Budget Office. 2024-2026 net issuance estimates provided by Congressional Budget Office. As of 2/29/24

Portfolio Perspective: Fed rate cuts could benefit shorter maturity bonds, but risks around Treasury issuance could impact longer dated bonds. Overall, these considerations leave us neutral in our view and positioning around rates.

Refer to appendix for disclosures and data sources

Large cap, growth-oriented U.S. stocks remain the top performing category within the equity market. Small cap and international stocks have experienced more modest gains.

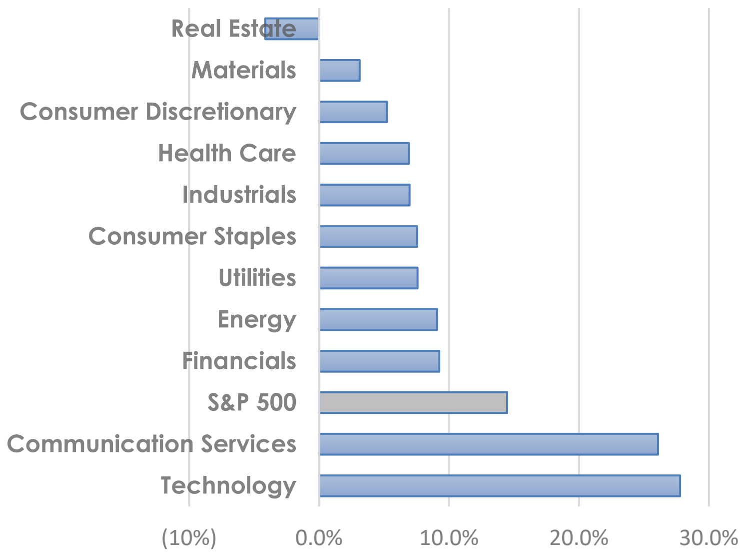


Source: Bloomberg. U.S. Large Cap represented by the S&P 500. U.S. Mid Cap represented by the S&P 400. U.S. Small Cap represented by the Russell 2000. U.S. Large Cap Growth and Large Cap Value represented by the Russell 1000 Growth and Russell 1000 Value respectively. International represented by the MSCI EAFE. Emerging Markets represented by the MSCI Emerging Market index. As of 6/30/24

Refer to appendix for disclosures and data sources

Only two of the eleven sectors making up the S&P 500 have outpaced the broader index year-to-date. This, combined with a smaller percentage of stocks outperforming, has resulted in an unusually narrow market.

Year-to-Date Sector Returns



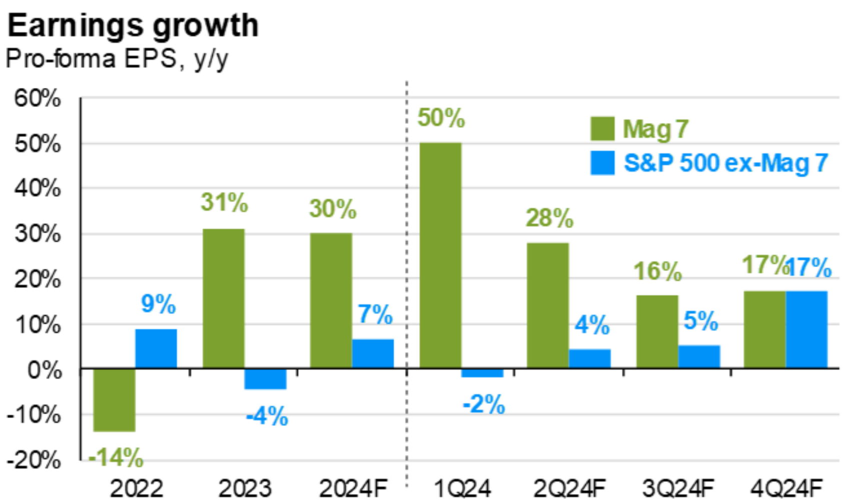
Source: Bloomberg. As of 6/28/2024

Fewer Stocks the Broader Market

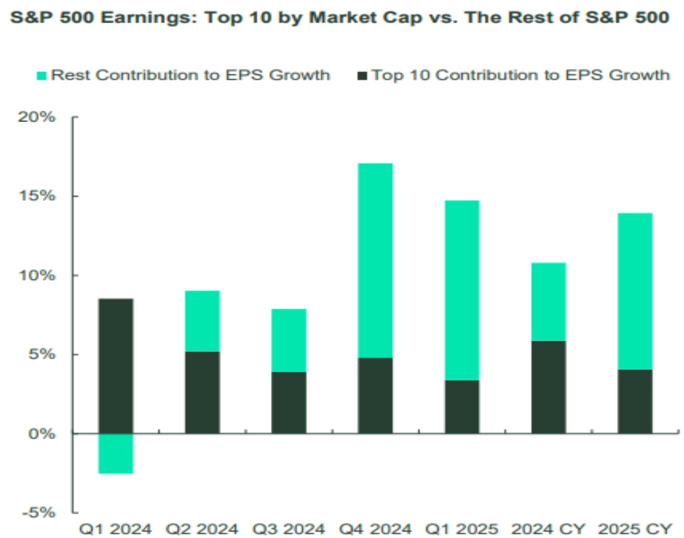
Source Charles Schwab, Bloomberg. As of 3/1/2024.
https://www.schwab.com/learn/story/beneath-surface-market-highs

Portfolio Perspective: Strong earnings results from technology-driven companies helped sustain investor interest in select sectors and large growth-oriented businesses. This led to an unusually narrow market with a small cadre of stocks driving the performance. For reasons discussed below (slides 10 and 11), maintaining diversified exposure remains prudent.

The trend favoring large growth-oriented technology-based businesses may be nearing an inflection point as growth projections for the Magnificent 7* stocks and the rest of the S&P 500 may become more balanced in the coming quarters.



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. *Magnificent 7 includes AAPL, AMZN, GOOG, GOOGL, META, MSFT, NVDA and TSLA. As of 6/30/24



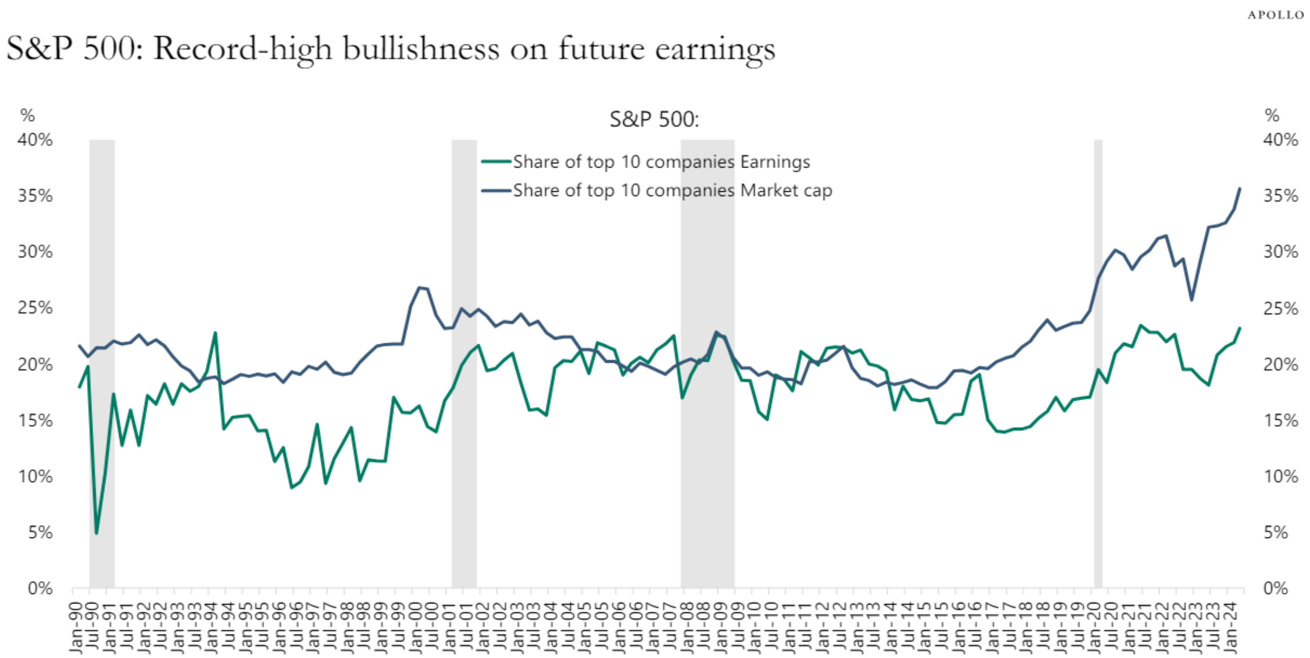
Source: Factset, Bloomberg, State Street Global Advisors. As of 5/31/24

The difference in earnings growth between the Magnificent 7 and rest of the S&P 500 narrows in the 2H of 2024

The top 10 stocks in the S&P 500 are projected to shift from contributing the majority of the index's total earnings growth to becoming a minority of overall earnings in late 2024 and in 2025

Refer to appendix for disclosures and data sources

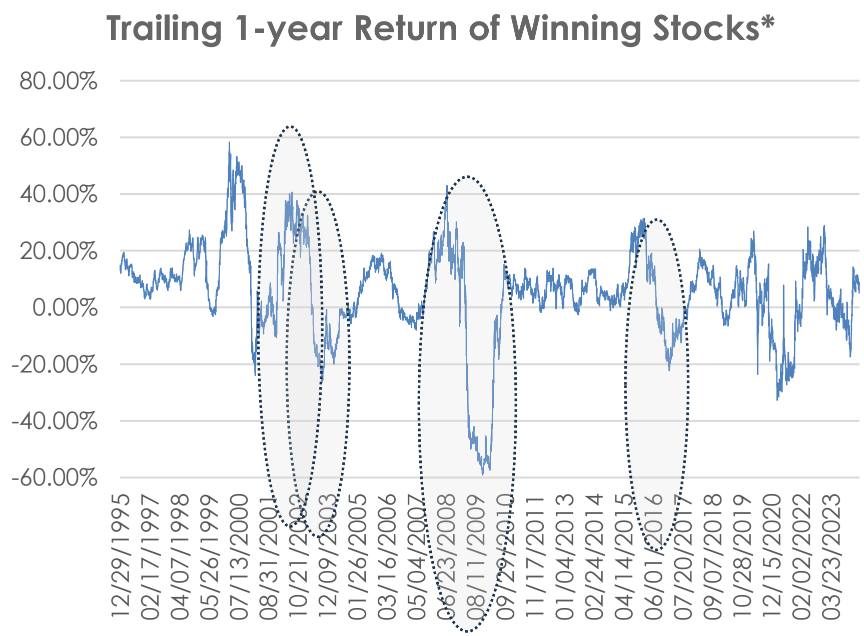
Of the 500 stocks in the S&P 500, the top 10 now represent 37% of the index, yet only account for 25% of total earnings. Market expectations embed considerable growth assumptions into the valuation of these top ten stocks.



Source: Bloomberg, Apollo Chief Economist
As of 6/30/2024

Portfolio Perspective: While the leading growth stocks are at the forefront of attractive secular trends, such as AI, we prefer to balance exposure from these franchises with an allocation to overlooked segments of the market whose fundamentals may be improving on a relative basis.

It's not uncommon for those stocks that have been outsized winners (momentum stocks) to experience sharp corrections. Historically when this has transpired, the broader market has typically had a positive outcome.



*Winning Stocks defined as the performance differential between the top and bottom 30% of stocks based on trailing 12-month return, skipping the most recent month. Based on CRSP USA universe.

Source: AQR, Miracle Mile Advisors. As of 4/30/24

Worst Months for Momentum Stocks

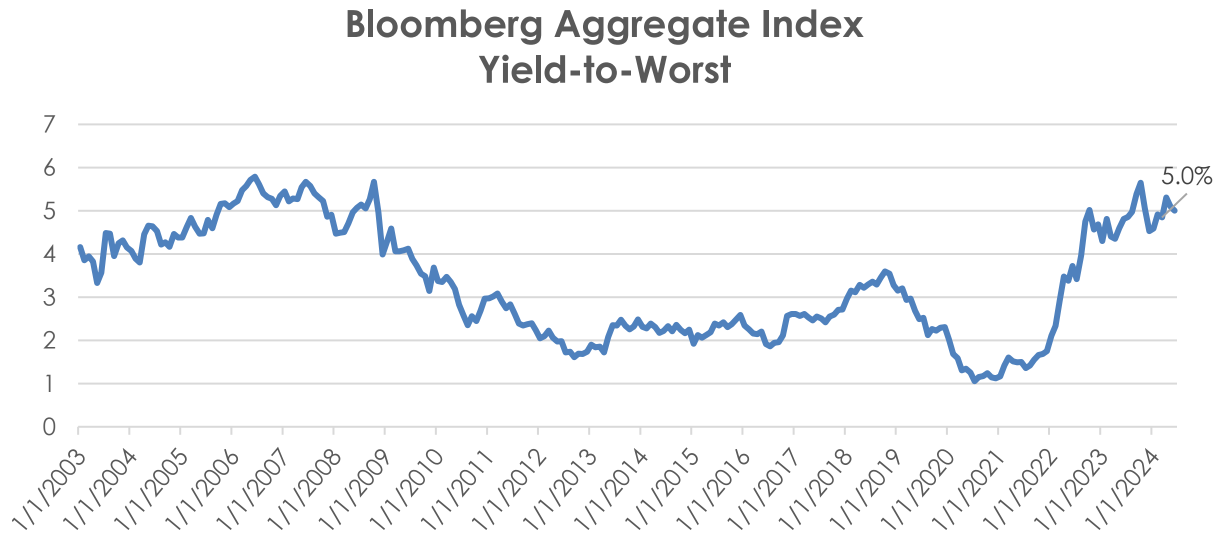
Month	Momentum Stocks	Market
April 2009	-34.3%	+10.2%
January 2001	-25.3%	+3.7%
November 2002	-16.3%	+6.1
January 2003	-16.0	+7.0
January 1975	-13.8%	+14.2%
May 2009	-12.5%	+5.2%
November 2020	-12.4%	+12.5%
March 2009	-11.9%	+9.0%
July 1973	-11.6%	+5.7%
May 2003	-10.7%	+6.1%
March 1980	-9.6%	-11.7%
April 2003	-9.3%	+8.3%

Source: Blackrock, Ken French Data Library July 1963-July 2023. https://www.blackrock.com/us/individual/investment-ideas/what-is-factor-investing/factor-commentary/andrews-angle/when-momentum-loses-momentum

Portfolio Perspective: Another reason to maintain balance in a portfolio and not explicitly focus solely on those stocks that have been recent winners.

Refer to appendix for disclosures and data sources

The yield on the Bloomberg Aggregate Index has returned to 5%. Bonds now provide yields comparable to pre-Global Financial Crisis (GFC) levels. We believe bonds offer reasonable long-term return expectations.



Source: Bloomberg, as of 6/30/2024

Refer to appendix for disclosures and data sources

Not only are bonds pricing in more reasonable yields, but they also offer upside potential if rates drop from current levels. Moreover, the upside potential for a given drop in rates is greater than the downside risk for a similar move higher.

One-Year Return Outcomes for a 10-Year Treasury

(assuming +/- 2% change in yield)

	Change in Bond Yield				
10-year Starting Yield	-2%	-1%	0%	1%	2%
1.0%	16.8%	8.9%	1.0%	-6.9%	-14.8%
1.5%	17.3%	9.4%	1.5%	-6.4%	-14.3%
2.0%	17.8%	9.9%	2.0%	-5.9%	-13.8%
2.5%	18.3%	10.4%	2.5%	-5.4%	-13.3%
3.0%	18.8%	10.9%	3.0%	-4.9%	-12.8%
3.5%	19.3%	11.4%	3.5%	-4.4%	-12.3%
4.0%	19.8%	11.9%	4.0%	-3.9%	-11.8%
4.5%	20.3%	12.4%	4.5%	-3.4%	-11.3%
5.0%	20.8%	12.9%	5.0%	-2.9%	-10.8%
5.5%	21.3%	13.4%	5.5%	-2.4%	-10.3%
6.0%	21.8%	13.9%	6.0%	-1.9%	-9.8%

Source: Miracle Mile Advisors

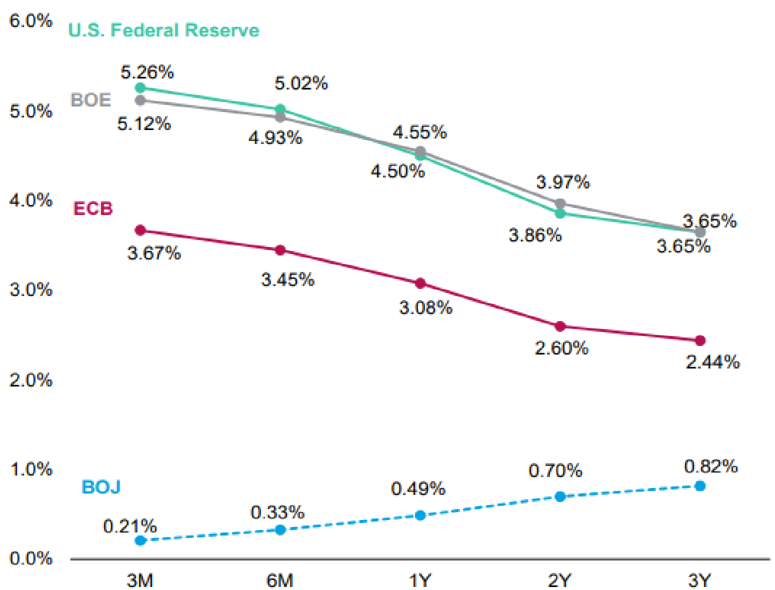
Scenarios based on active on-the-run 10-year Treasury Bond. 10-year Treasury yield was 4.40% as of 6/28/24

Portfolio Perspective: More attractive yields and the favorable risk/return profile led to our increasing fixed income allocations where appropriate.

Refer to appendix for disclosures and data sources

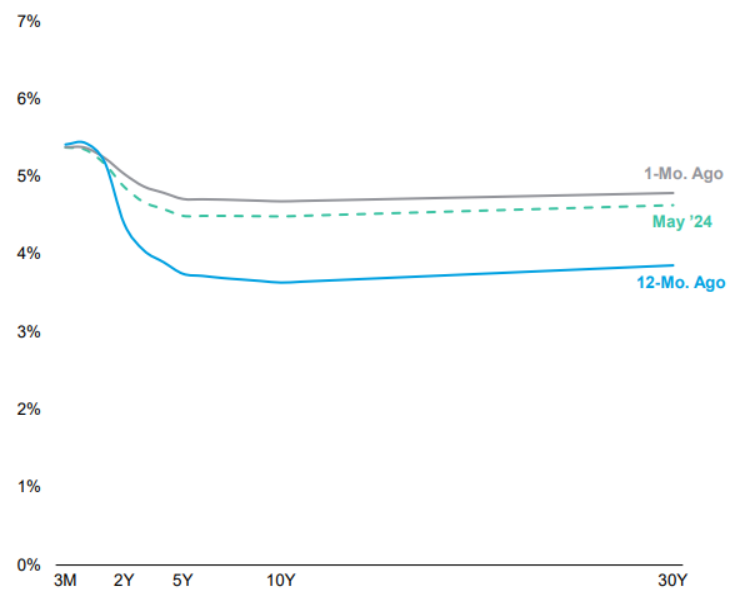
While rate cuts appear on the horizon, we anticipate a slow and modest level of rate reductions. We expect the Fed's federal funds rate to remain well above the 0% level that it held for much of the time period from late 2008 to early 2022.

Market Expectations for Future Central Bank Rates



Source: Bloomberg, Factset, Eaton Vance As of 5/31/24

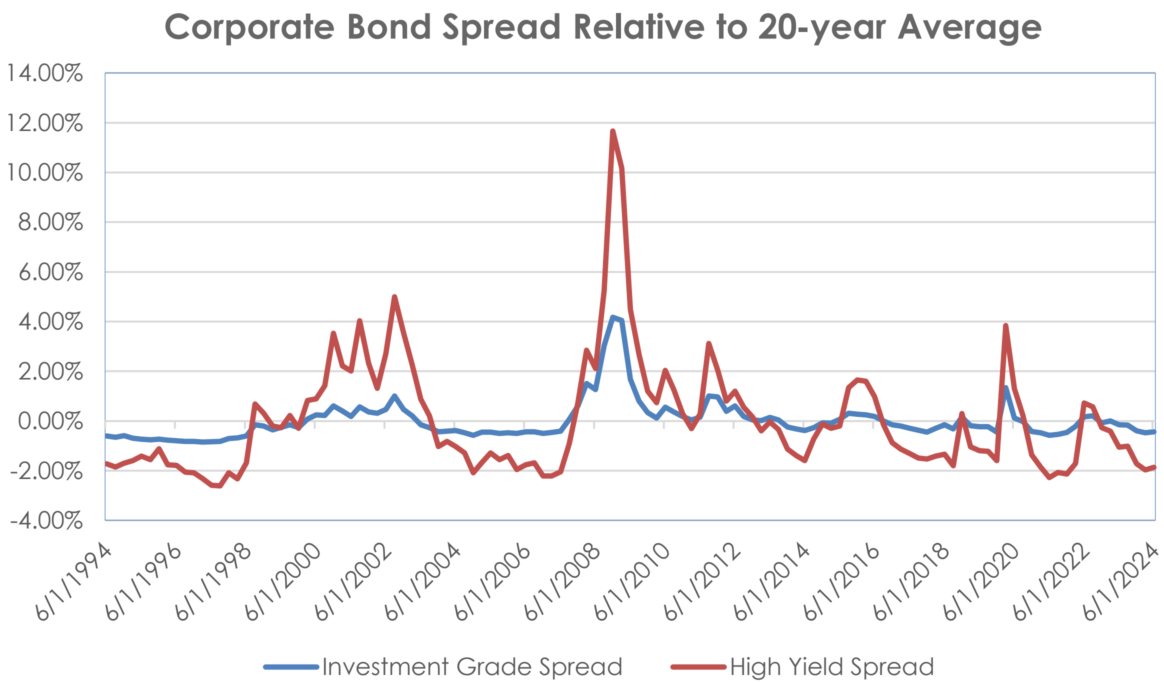
U. S. Treasury Yield Curve



Source: Factset, Morningstar, Eaton Vance As of 5/31/24

Refer to appendix for disclosures and data sources

Corporate bonds currently price in a favorable economic environment and low (default) risk. The amount of added yield (spread) relative to risk free Treasuries is below long-term averages for both investment grade and high yield sectors.



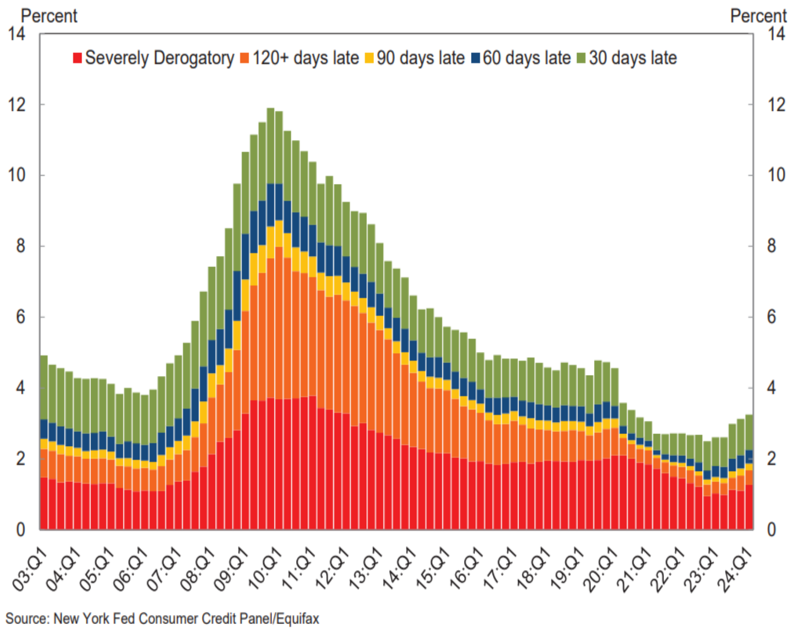
Source: Bloomberg, Miracle Mile Advisors. As of June 30, 2024

Portfolio Perspective: We view the compensation (added yield) for taking risk in corporate bonds as less attractive. Therefore, we have reduced exposure to corporate bonds and tilted towards those with higher credit ratings.

Refer to appendix for disclosures and data sources

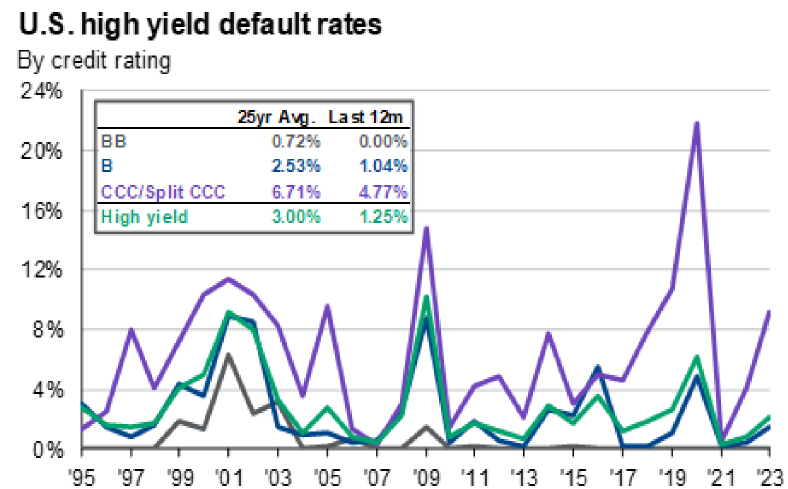
Delinquencies and default rates remain low on a historic basis but have started to trend higher.

Consumer Loan Delinquencies



As of 3/31/2024

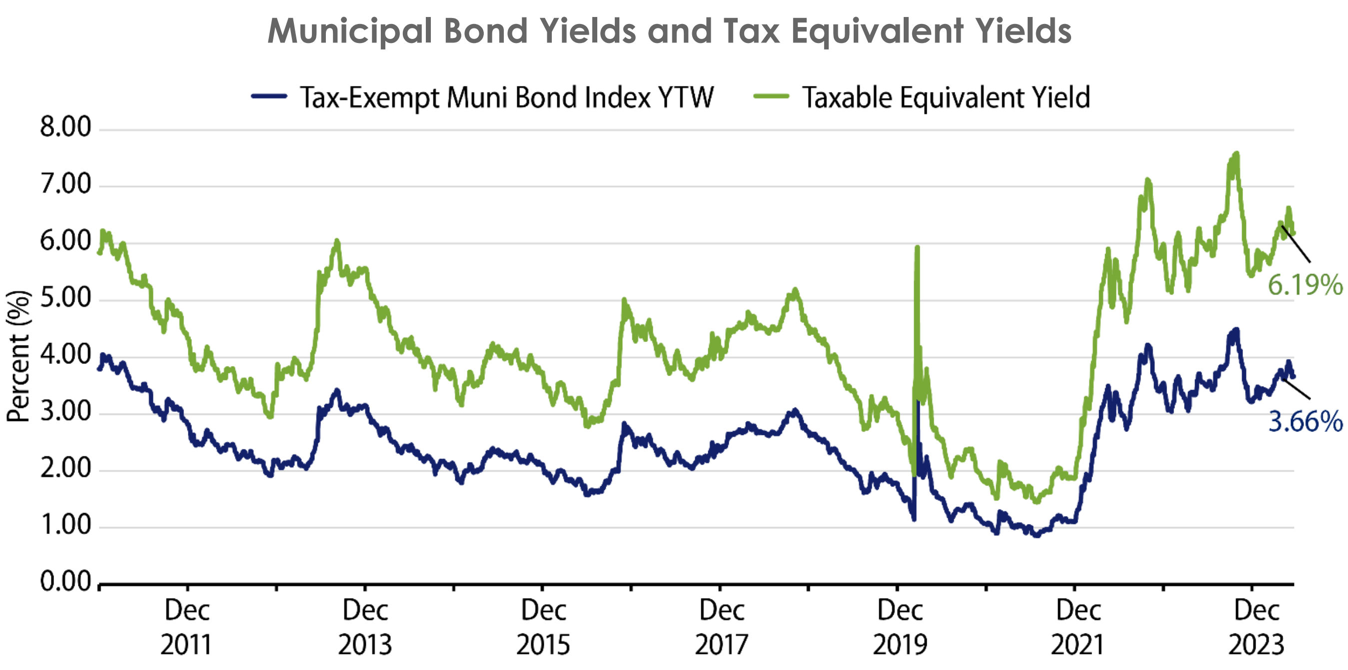
High Yield Bond Default Rates



Source: Bloomberg, J.P. Morgan Asset Management. As of 6/30/24

Refer to appendix for disclosures and data sources

Municipal bonds currently offer attractive yields for investors with higher marginal tax rates.



Source: Bloomberg, Western Asset. As of June 21, 2024. Tax-Exempt Muni Bond Index Yield-to-Worst (YTW) based on Bloomberg Municipal Bond Index. Tax Equivalent Yield assumes marginal tax rate of 40.8%.

Refer to appendix for disclosures and data sources

A spike in demand and a sharp appreciation in price have lowered our near-term expected returns for gold.

As of 4/30/2024

Gold has experienced a spike in demand, due to heightened interest and trading volume out of China.

As of 4/30/2024

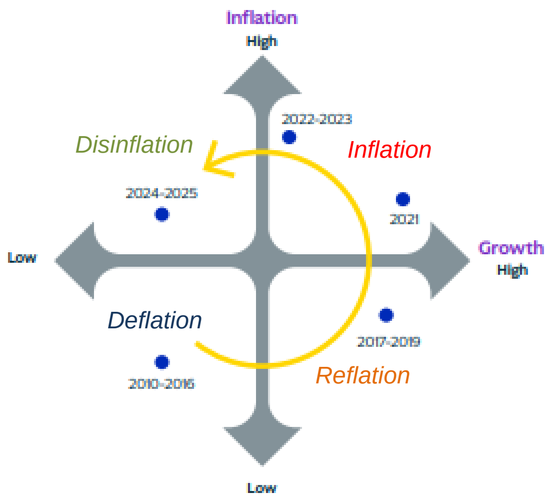
Gold prices typically move inverse to long-term (inflation-adjusted) interest rates. During the first half of 2024, this relationship broke down as gold prices shot higher despite rising (real) interest rates.

Portfolio Perspective: We believe the recent uptrend in price overshot the precious metal's long-term value and, where appropriate, we elected to remove exposure to gold.

Refer to appendix for disclosures and data sources

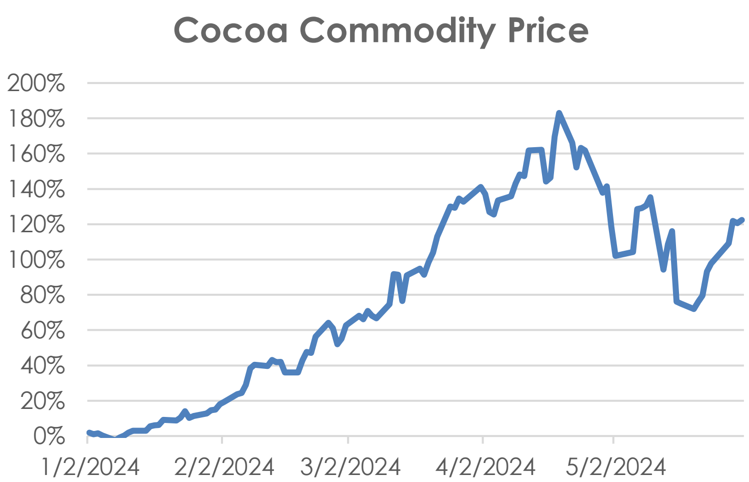
CHALLENGES – COMMODITIES

Speculative trading in some commodities and further signs of moderation in inflation have altered our outlook for the asset class.



Source: Man Investments, Miracle Mile Advisors. As of 6/30/24

Commodities have historically performed best during the reflation and inflation segments of the inflationary cycle. As the U.S. has migrated into the disinflation stage, we expect lower returns from commodities.



Source: ICE U.S., Bloomberg as of 5/31/24

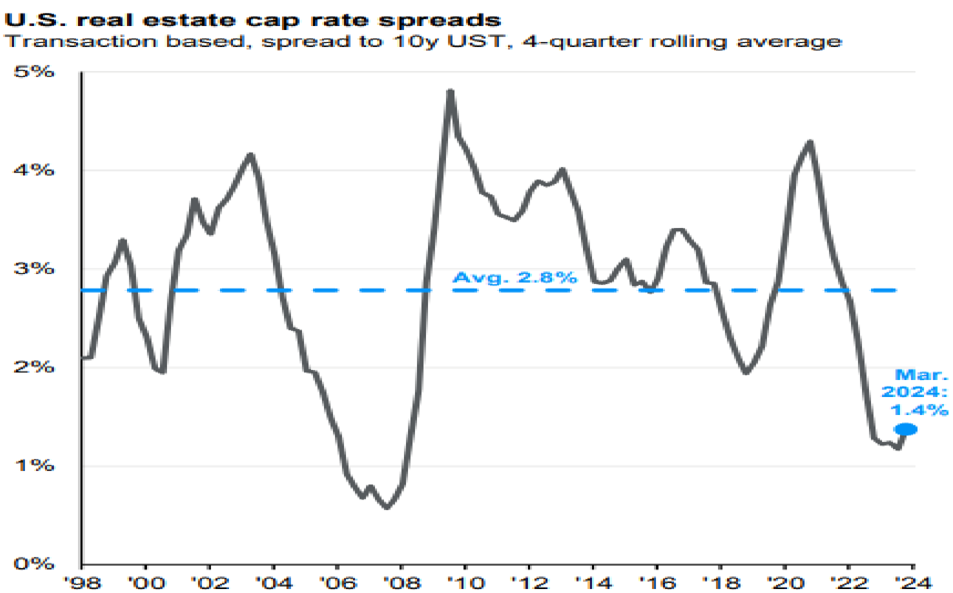
Speculative activity has impacted commodity markets in 2024. A near tripling in the price of cocoa serves as a primary example.

Portfolio Perspective: The combination of recent gains spurred by speculative trading and our expectation for lower future returns has led us to exit commodities where appropriate.

Refer to appendix for disclosures and data sources

CHALLENGES – PRIVATE REAL ESTATE

Commercial real estate cash flow yields (cap rates) remain low relative to bonds. For current valuations to hold, either long-term interest rates need to fall or prices must adjust lower.

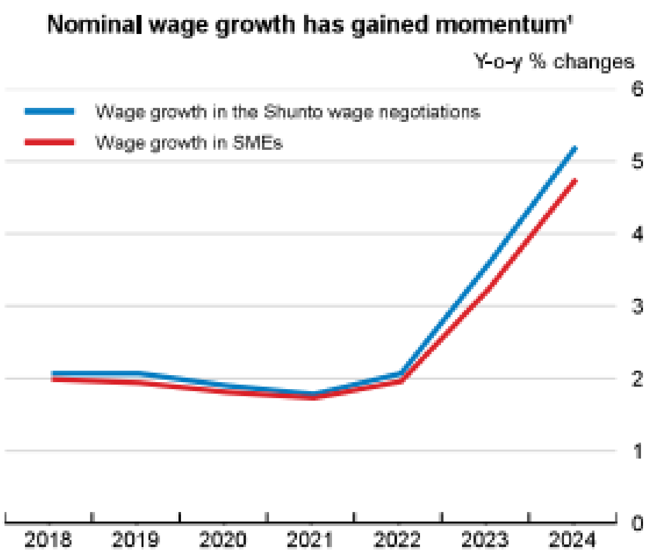


Source: NCREIF, Refinitiv Datastream, J.P. Morgan Asset Management.
Cap rate is calculated as the net operating income dividend by sales price. It is transaction based and value weighted. As of 6/30/24

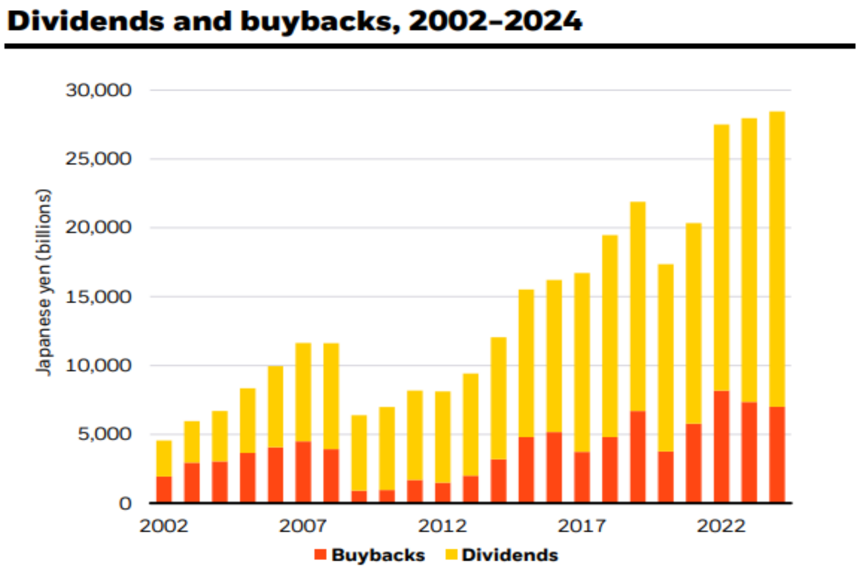
Portfolio Perspective: The risk/reward in private real estate is unattractive, and we remain cautious in adding exposure. We may become more constructive over time as a tightening of supply should ultimately lead to more favorable rent growth.

Refer to appendix for disclosures and data sources

After nearly 30 years of low growth and deflationary pressures, positive trends have emerged for Japan's economy and stock market. Wages are rising and corporate reforms are spurring an acceleration in share repurchases.



Source: OECD Economic Outlook 2024. As of 6/30/24

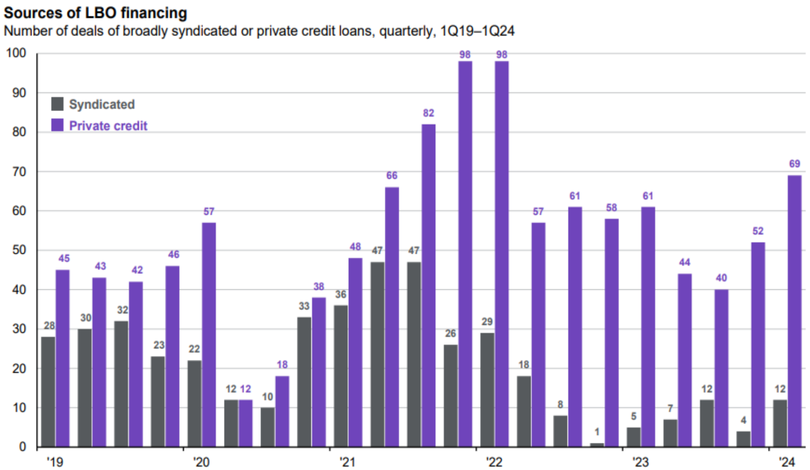


Source: BlackRock Investment Institute, Nikkei NEEDS, Bloomberg, AlphaSense, Morgan Stanley. As of 3/31/24

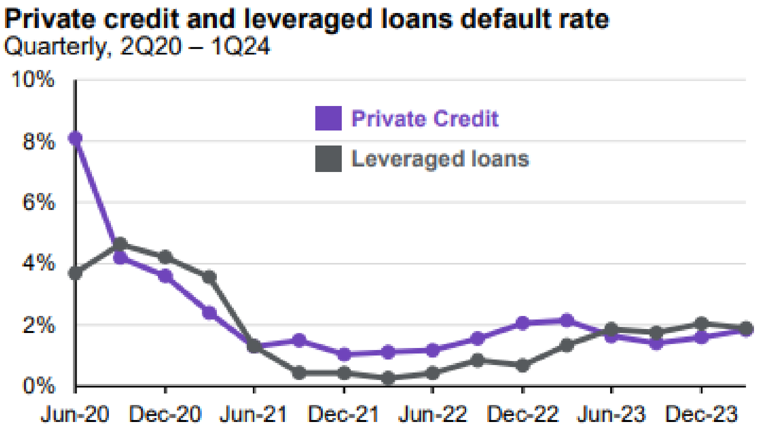
Portfolio Perspective: Japan has been a country we have been selectively overweight. In local currency (yen), these favorable trends have led to Japanese equities being the strongest performing geography. The sizable depreciation in the yen has muted the return for dollar-based investors.

Refer to appendix for disclosures and data sources

Structural trends in private credit point to favorable conditions for the asset class.



Source: PitchBook, LDC, J.P. Morgan Asset Management. As of 3/31/24



Source: Cliffwater, LDC, J.P. Morgan Asset Management. As of 5/31/24

Markets are relying less on high yield bonds and syndicated loans to finance private equity transactions. The private credit market is now equal in size to both the high yield bond and leveraged loan market.

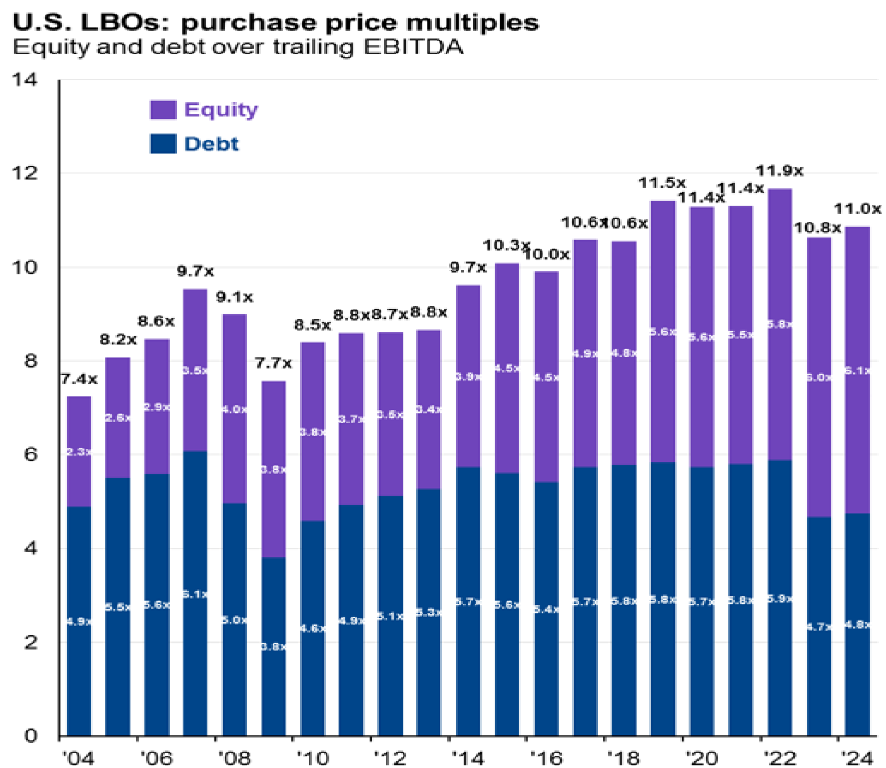
Default rates within private credit remain muted. Over time we'd expect them to trend higher. We believe yields in private credit offer reasonable compensation for accepting credit (default) risk.

Portfolio Perspective: The current yields and credit quality on newly invested private credit portfolios offer an attractive risk/return profile. We have a favorable view of the asset class for investors comfortable with illiquidity.

Refer to appendix for disclosures and data sources

OPPORTUNITIES – PRIVATE EQUITY

Average private equity transaction multiples have moved lower over the last couple of years.



Source: Golub Capital, PitchBook, LDC, J.P. Morgan Asset Management. As of 3/31/24

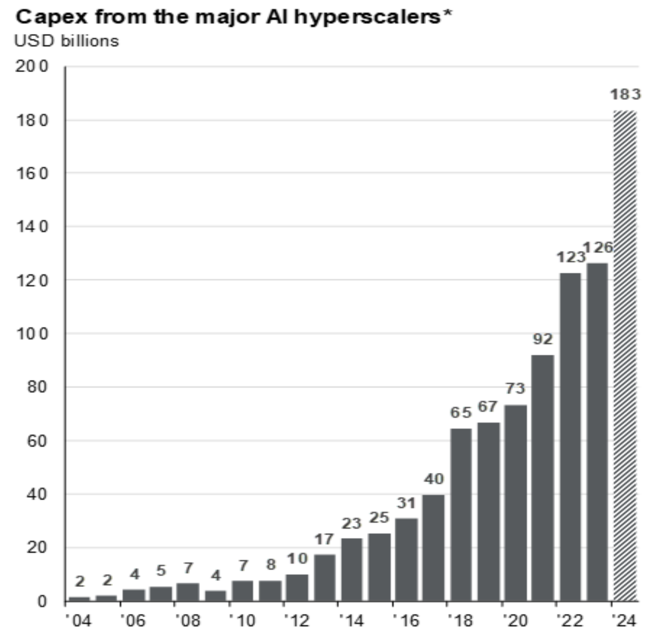
Portfolio Perspective: Private equity is more appealing given reasonable valuations and less leverage. We are becoming more constructive on the asset class.

Refer to appendix for disclosures and data sources

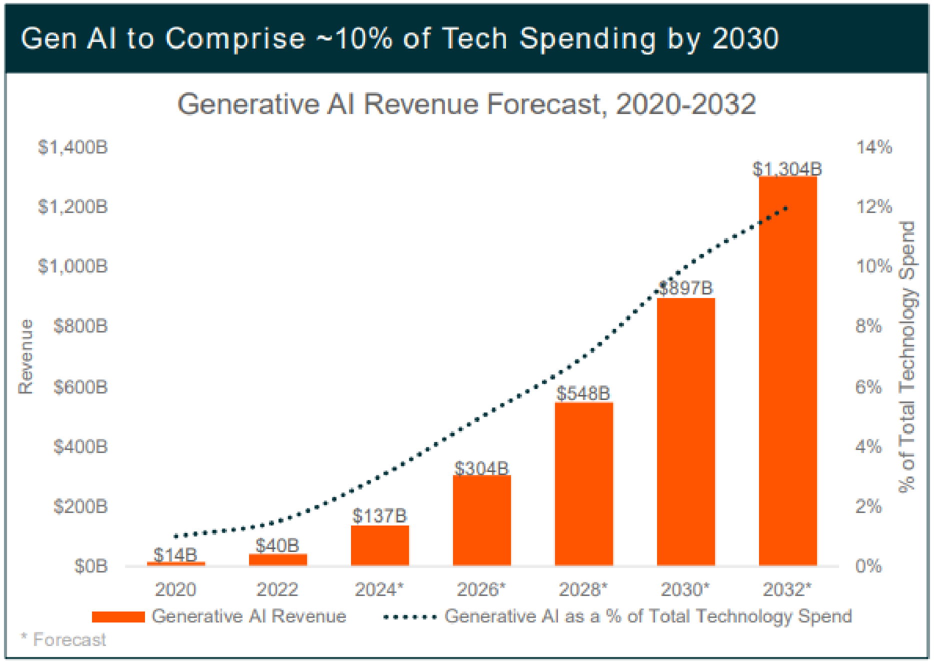
SUMMARY	POSITIONING
Expect for interest rates to remain higher for longer and project a deceleration in economic growth.	We have tilted portfolios toward companies with higher quality balance sheets, strong free cash, and less economic variability.
We expect the equity market to gradually broaden as growth expectations between the largest companies and rest of the market converge.	We maintain a balanced posture toward both leading growth companies alongside overlooked companies, whose fundamentals are poised to improve on a relative basis.
Bonds offer attractive absolute yields and possess risk/reward profiles that we deem to be attractive.	We increased allocations to bonds during the quarter where appropriate.
Yields on corporate bonds (investment grade and high yield) do not offer sufficient compensation should economic conditions ease.	We prefer to stay up in quality and have reduced exposure during the year to corporate bonds.
Yields on shorter dated bonds could move lower if/when the Fed begins to cut rates. Heighted levels of Treasury issuance pose a risk of higher yields on longer dated maturities.	We have elected to maintain a more neutral interest rate posture given these competing factors.

Refer to appendix for disclosures and data sources

Artificial Intelligence spending has thus far been focused on infrastructure to support the processing requirements of Generative AI model training. Over time, spending should gradually shift toward specialized software and services.



Source: J.P. Morgan Asset Management. As of 6/30/24



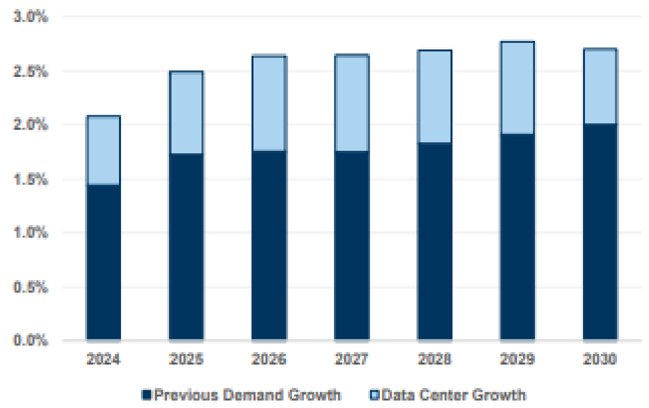
Source: Global X, Mirae Asset Management. 2024

Portfolio Perspective: AI has moved leaps and bounds in the past year. More recently the concept of on-premise AI factories was introduced, indicating significant and rapid adoption may be on the horizon. Our focus extends beyond just the initial AI infrastructure ramp but extends to the long-term beneficiaries of AI adoption and usage.

Refer to appendix for disclosures and data sources

Secular trends associated with renewable energy, electric vehicles, and artificial intelligence are all colliding. Collectively they require a major upgrade to existing energy infrastructure.

Projected Annual Growth Power Demand

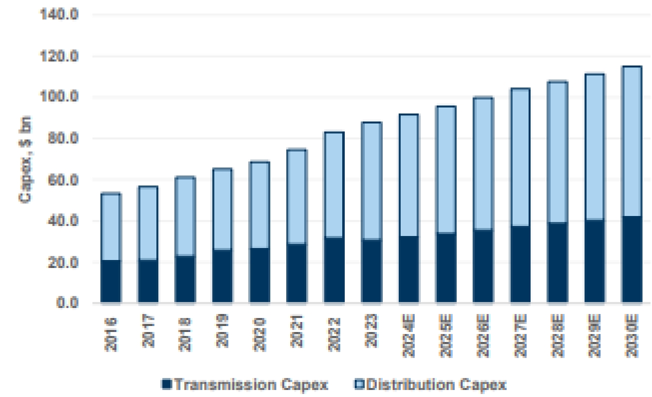


Source: Goldman Sachs Global Investment Research
As of 4/28/2024

Power demand has not increased in the past decade. Demand from electric vehicles and data centers is expected to drive an uptrend in demand.

Projected Electrical Grid Capital Expenditures

Grid capex, $ bn



Source: EEI, Goldman Sachs Global Investment Research
As of 4/28/2024

Necessary spending to support the transmission and distribution of power is expected to lead to a large and sustained spending cycle.

Portfolio Perspective: We have selectively added exposure to assets that we expect to benefit from the further build out in energy infrastructure. Over time we may consider additional exposure to this attractive secular theme.

Refer to appendix for disclosures and data sources

IMPORTANT DISCLOSURES

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