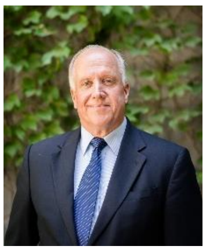
fortress ASSET MANAGEMENT

2024 – 2nd Quarter Review & Outlook

Economic and Investment Review



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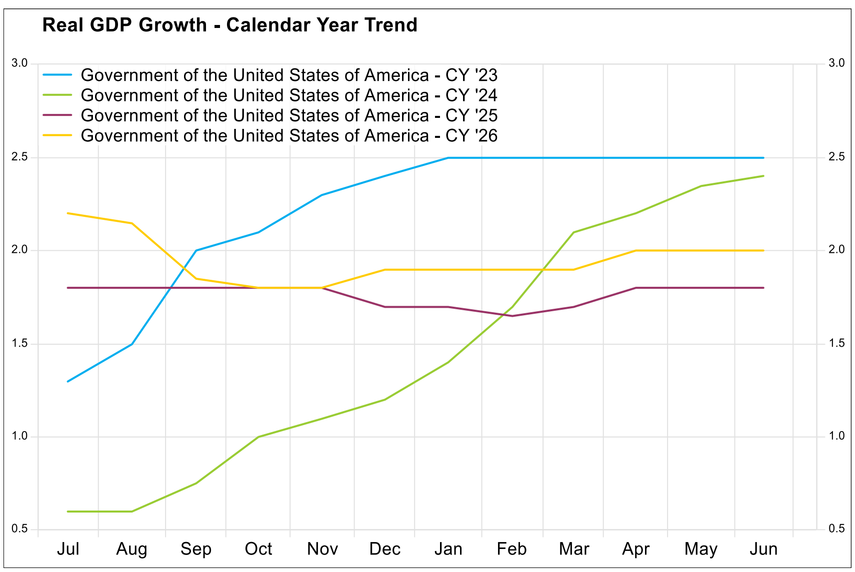
Chief Investment Officer

Economic Growth: U.S. economic growth easily outpaced expectations at the beginning of the year for the first half of 2024. Goldman Sachs estimates the GDP grew at a 1.9% annualized pace in the first half. GDP estimates for 2024 have risen from 0.60% a year ago to 1.20% at year-end 2023 to 2.40% currently. The long-expected recession has largely been pushed off the table for the remainder of the year.



Source: FactSet

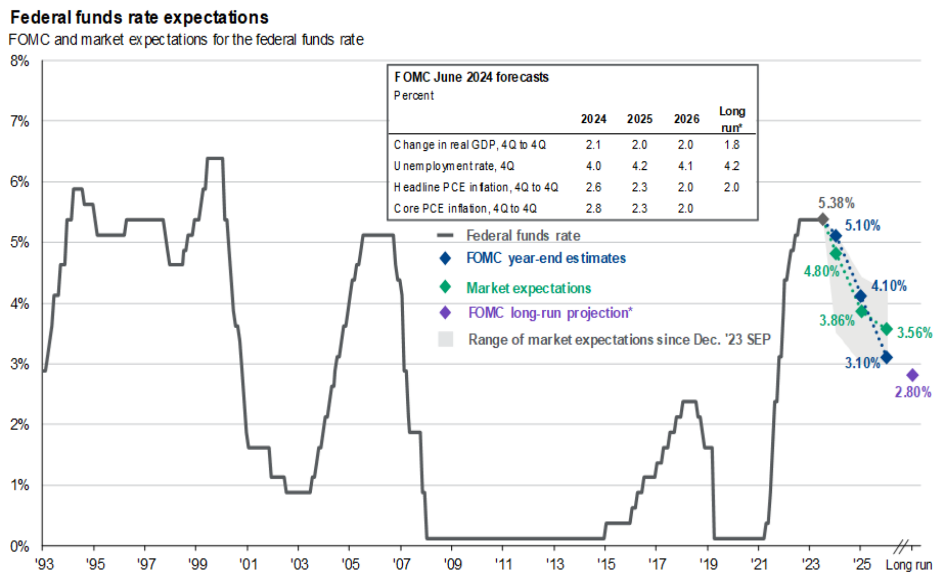
Economic momentum continues to power forward as consumers have proven more resilient than most economists and strategists predicted. Consumers remain supported by a strong labor market, but lower-income households are showing some signs of stress. Spending on nondurable goods has slowed and auto and credit card delinquencies have moved higher. However, business spending continues to be robust, particularly for AI-related technologies. The housing market continues to be constrained by high prices, comparatively high mortgage rates, and tight supply.

Considering everything, Dr. David Kelly, Chief Global Strategist for J.P. Morgan Asset Management, expects that the U.S. economy will achieve a soft-landing into 2025. Jan Hatzius, Chief Economist for Goldman Sachs, predicts economic growth of 2.5% in the second half of the year. He sees consumer spending continuing to grow based on a strong labor market and positive wealth effect from increased investment valuations.

The labor market remains healthy and has rebalanced post-COVID. The job openings rate has declined with only a slight increase in unemployment to 4.1%. The surge in migrant workers and the recovery in the participation rate of the working-age population has moderated wage growth. Job gains may slow due to tighter labor supply, fewer job openings, and productivity growth, but the unemployment rate should remain low.

Fed Chairman Powell recently stated that there has been "a lot of progress" on the inflation front but wants "to be more confident that inflation is moving sustainably down to the Fed's stated 2% target before initiating a cycle of rate cuts. Year-over-year CPI declined from 3.3% in May to 3.0% in June. However, headline CPI has made very little headway over the past three quarters. Hatzius places the blame on what he calls “catch-up inflation” in services. Inflation in insurance and shelter lagged other areas resulting in little overall improvement. Powell does not expect inflation to reach the 2% target this year but acknowledged the progress being made.

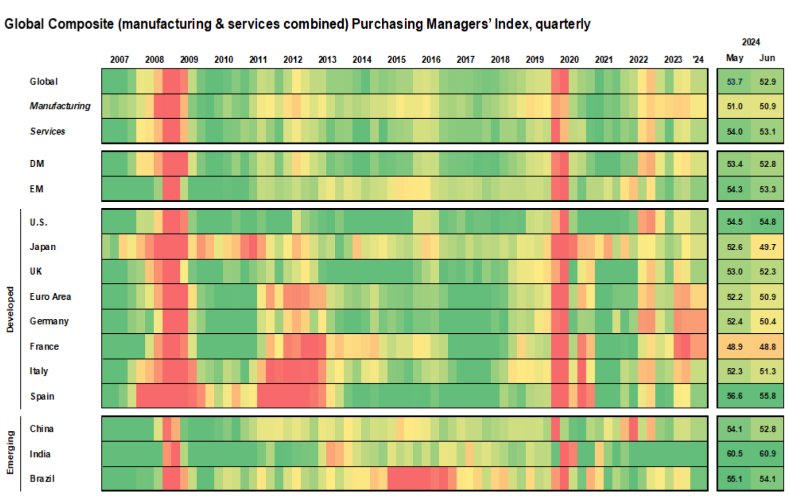
The Fed expects to announce just one 25 basis point (0.25%) rate cut before the end of 2024; however, the market is anticipating two cuts. September



Source: FactSet, Federal Reserve, JPMorgan Asset Management

looks like the most likely starting point, with consideration for a second cut in December.

Despite headwinds like the Russian-Ukraine war and the Israel-Hamas war, global economies appear to be trending up. The Global Purchasing Managers’



Source: JPMorgan

Index indicates that economic activity momentum is improving as indicated by the green squares on the chart. Europe has benefited from rising real wages and an improved manufacturing picture. The European Central Bank reduced its policy rate by 0.25% in June signaling their intended support.

China is hampered by a real estate slump, but growth is expected to continue around 5%. Reshoring and strong demand for AI-related exports should benefit other Asian countries.

Equity Markets

The U.S. large-cap equity market continued to move higher in Q2. The resilience of the market is remarkable given higher-for-longer interest rates, ongoing regional wars, and political chaos. Strong earnings growth, the expectation for lower rates, and AI development and application have provided support and stimulus for the market.

The S&P 500 was up 4.28% in the period but was bifurcated with growth stocks returning 9.59% and value stocks declining -2.10%. It was largely the same story year-to-date and one

2024 Q2 Returns				
EQUITY	Q2 2024	YTD 6.30.24	1 Year 6.30.24	3 Years Annualized
S&P 500	4.28	15.29	24.56	10.01
S&P 500 Value	-2.10	5.79	15.29	9.59
S&P 500 Growth	9.59	23.56	32.52	9.42
Dow Jones Ind Avg	-1.27	4.79	16.02	6.43
NASDAQ Composite	8.47	18.57	29.61	7.78
S&P Mid Cap 400	-3.45	6.17	13.57	4.47
S&P Small Cap 600	-3.11	-0.72	8.66	-0.26
MSCI EAFE	-0.31	5.34	11.54	2.89
MSCI Emerging Mkts	5.29	7.49	12.55	-5.07

Source: FactSet

year through June 30. The index was up 15.29% YTD and 24.56% for one year. There were even greater discrepancies between growth and value stocks for the longer periods.

A large part of the strong equity market performance was driven by a relatively small group of stocks. The group of stocks known as the “Magnificent 7” was responsible for 61% of returns

3 Months Total Return Change - Top/Bottom 5

Performance of “Magnificent 7” stocks in S&P 500*

Indexed to 100 on 1/1/2021, price return

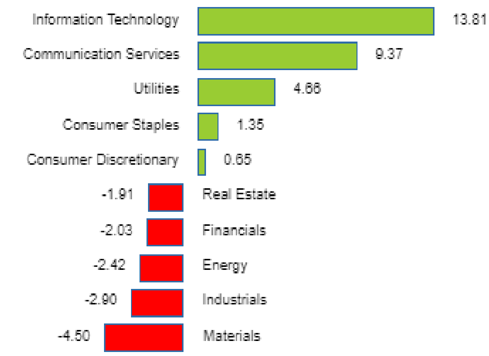
Source: JPMorgan Asset Management

for the S&P 500 index on a year-to-date basis.

There is some concern for the sustainability of market performance produced by such a narrow group of stocks. Broader market performance generally coincides with a longer-lasting positive market cycle. However, there is good reason for such strong performance from the majority of the “Magnificent Seven.” These companies are generating very strong earnings growth as some of the initial beneficiaries of artificial intelligence.

All of the Mag 7 except for Tesla fall in one of two economic sectors. Taking that into consideration, it is not surprising to see Information Technology and Communication Services leading the other sectors on a 3-month and YTD basis. The other sectors are

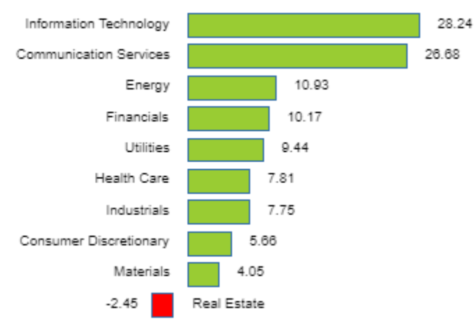
3 Months Total Return Change - Top/Bottom 5



lagging considerably but a number of them are performing quite well on their own for one year.

Source: FactSet

YTD Total Return Change - Top/Bottom 5



Source: FactSet

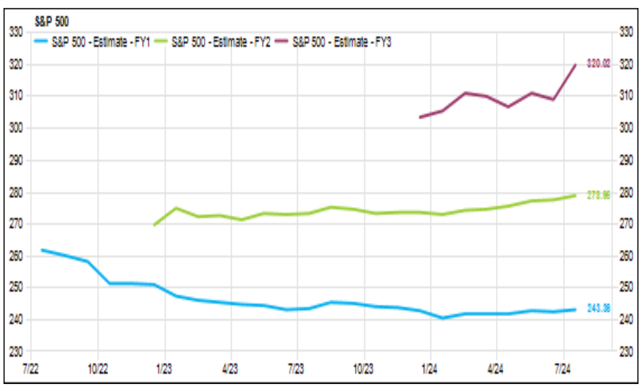
The NASDAQ index continues to be a star performer with a one-year return of 29.61%. Small-cap stocks continued to lag in the quarter due to less access to capital and higher related borrowing costs. The S&P Small Cap 600 was down -3.11% in Q2 and -0.72 YTD. However, the index has had a resurgence since the end of June, increasing by over 8% so far in July.

Developed International stocks (MSCI EAFE) declined slightly in Q2 but had positive returns YTD and for one year ending June 30, 2024. International markets continue to lag the S&P 500 but many related stocks enjoy attractive fundamental tailwinds that should provide support to perform well in the future.

The MSCI EAFE index is forecasted to have earnings growth of 5.40% in 2024 and 5.91% in 2025. The NTM (Next Twelve Months) PE multiple for the international index is 13.9X compared with the 10-year average of 14.3X.

Emerging market stocks (MSCI EM) rebounded by 5.29% in Q2. The index is now up 7.49% YTD and 12.56% for one year. Dr. Kelly states that “peak pessimism towards China appears to be behind us, and Emerging Market earnings estimates have improved on the back of AI tailwinds. EPS growth is forecasted to be strong for the next two years. The consensus forecast for 2024 is 18.3% and 25.0% for 2025.

Calendar year earnings estimates for the S&P 500 typically get revised downward as time passes. Surprisingly, estimate revisions have been positive for most of this year. Expectations for 2024 and 2025 S&P 500 earnings growth have been trending up over the last 5 – 6 months.



Source: FactSet

Earnings growth is forecasted to be 11.2% in 2024 and 14.6% in 2025.

The S&P 500 is currently at about 5,480 and is trading at 22.6X the 2024 consensus earnings estimate of 242.11 and 19.7X the 2025 estimate of 277.52. The 10-year average FY1 PE is 19.7X.

Our year-end forecast for the S&P 500 is 5,600 and 5,650 for twelve months. Like many others, we have raised the forecast over time due to an expectation for declining interest rates, stronger-than-expected earnings growth, and due to the evolving weightings of individual companies within the index. The forecast is based on 11.2% earnings growth in 2024, compared with the consensus estimate which is also 11.2%. Earnings growth of 12.9% is used for 2025, compared with the consensus estimate of 14.6%. P/E multiples are forecasted to regress slowly towards the long-term mean but remain elevated due to the expectation for declining inflation and interest rates, strong EPS growth, and increased AI efficiencies.

Goldman Sachs forecasts that the S&P 500 will reach 5,700 in twelve months. Raymond James also forecasts 5,700 for twelve months. Ed Yardeni, president of global strategy company Yardeni Research, had a higher forecast than most others earlier on but maintains a forecast of 5,400 by year-end.

Fixed Income Markets

The Fed has been on hold for longer than most anticipated causing fixed income returns to be relatively flat for the quarter and remain negative on a year-to-date basis. The Bloomberg U.S. Aggregate Bond Index was up just 0.07% in Q2 and declined -0.71% YTD. However, the index is up 2.63% for 12 months through June 30th. Municipal bond returns

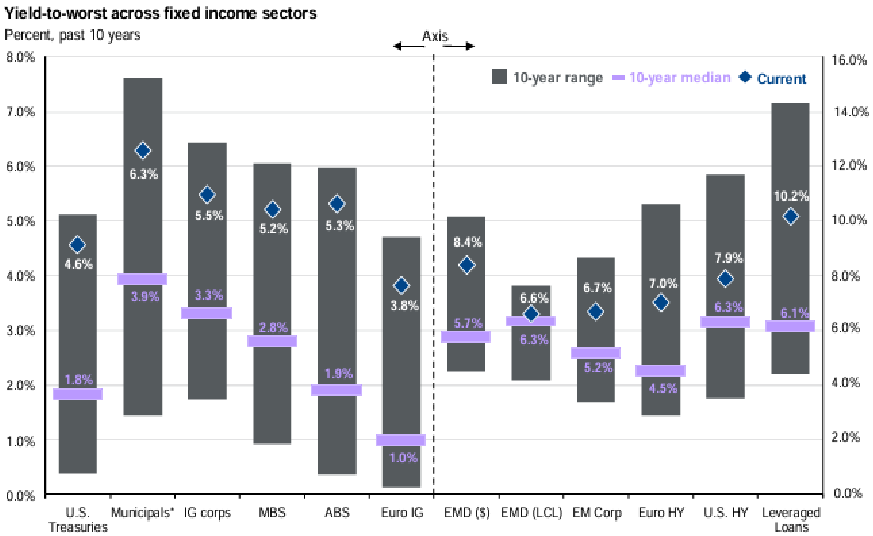
2024 Q2 Returns				
FIXED INCOME	Q2 2024	YTD 6.30.24	1 Year 6.30.24	3 Years Annualized
Bloomberg US Agg Bond	0.07	-0.71	2.63	-3.02
ICE AMT-Free Nat'l Muni	0.10	-0.33	2.97	-0.73
Markit iBoxx USD Liquid High Yield Index	1.14	2.28	10.14	1.88

Source: FactSet

were similar to the taxable bond returns. High Yield bonds fared somewhat better with returns of 1.14% for the quarter, 2.28% YTD, and 10.14% for one year.

The 10-year U.S. Treasury has largely traded between 4% and 5% over the past year. The yield reached the 5% level in October 2023 and is currently 4.24%. The consensus estimate for year-end is 4.40%. The shape of the yield curve may begin to flatten by year-end if the Fed follows through as expected.

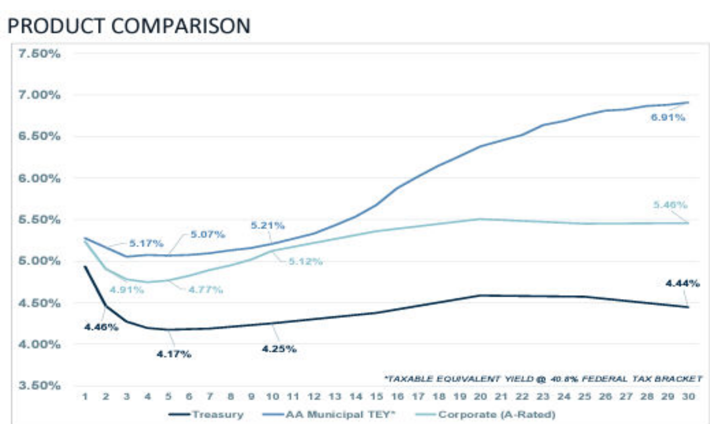
Investors may feel that they lack incentive to buy bonds due to 5%+ money market rates. However, as short-term rates decline, the yield curve should assume its upward-sloping shape making intermediate and long-term bonds more appealing. The income offered by bonds has significantly improved from just a few years ago. Investors



Source: JPMorgan Asset Management

continue to have the opportunity to pick up bonds with higher rates than we have seen for most of the past ten years.

Municipal bonds are the desired choice for all points on the yield curve for investors near the top tax brackets.



Source: Raymond James

Real Assets

The Real Estate asset class continues to struggle particularly in the areas of office and retail. The Dow Jones U.S. Real Estate Index declined -1.65% for the quarter, and -2.79% YTD, but is up 4.88% for one year.

Commodities have performed well YTD and for one year with returns of 11.08% and 15.01% respectively.

2024 Q2 Returns				
		YTD	1 Year	3 Years
Real Assets	Q2 2024	6.30.24	6.30.24	Annualized
Dow Jones U.S. R/E	-1.65	-2.79	4.88	-1.89
S&P GSCI	0.65	11.08	15.01	12.69

Source: FactSet

Asset Allocation

U.S. large-cap equity has been the place to be for a year and a half. Still, it is important to maintain appropriate allocations based on personal criteria, risk tolerance, and goals. Investors willing to accept less liquidity may wish to increase their allocation to alternative investments, particularly to private equity and private credit in order to improve return potential.

Disclosures

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