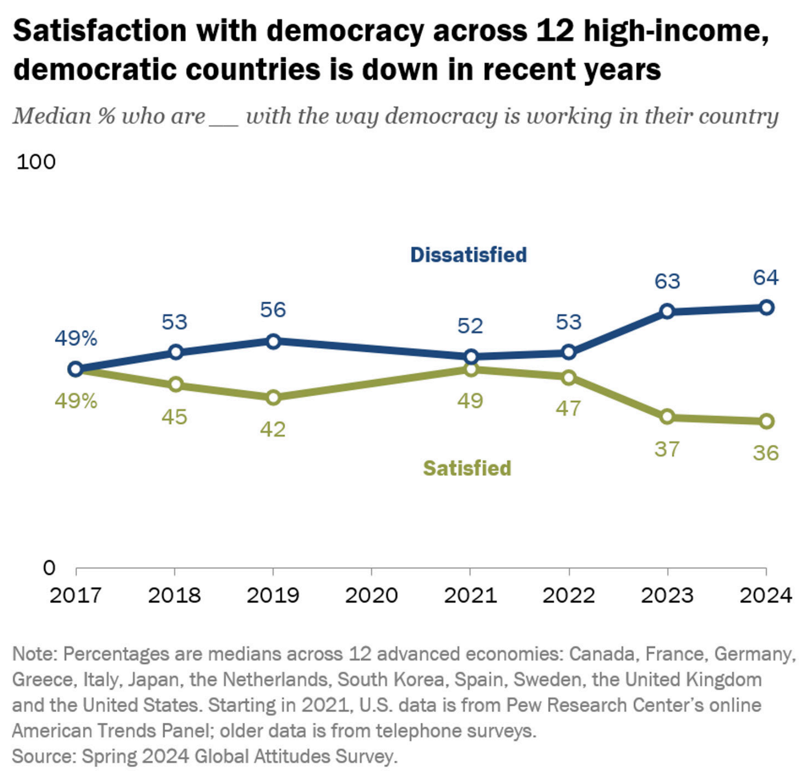
Monthly Commentary
June 2024

Geopolitics: In the "Year of the Election", results to date have been less disruptive than originally feared. Marie Pen's far right party in France failed to win an absolute majority and Macron was able to hold on to the Presidency but in a weaker state, leaving the country to face an uncertain political future. In England, the Labor Party won in a landslide, the first time in 14 years that Conservatives have found themselves out of power. Unlike his Labor Party predecessor Jeremy Corbyn, however, newly elected Prime Minister Keil Staman is expected to be quite centrist in his policy making.

This is not to say markets haven't been affected. Both France's CAC Index and Mexico's Bolsa stock exchanges are down substantially from pre-election highs as the market awaits to see what effect the elections have on policy.

The political turmoil seen in this year's elections is, not surprisingly, evidence of an increasingly unhappy electorate. In a recent Pew Research Center poll, a median 64% of citizens in 12 economically developed nations said that while representative democracy was their preferred mode of governing, they were dissatisfied with the way it was working. In 2021, a median 49% of the population across these nations said they were satisfied; today, just 36% hold this view.



Source: Pew Research Center

About Kensington

Kensington Asset Management specializes in data-driven, quantitative investment solutions spanning across the global investment landscape. Our focus is to help provide investors with confidence through quantitative analytics, by attempting to participate in rising markets, while taking steps to help avoid exposure during times of market decline or volatility. Kensington Asset Management was founded by Bruce P. DeLaurentis, a quantitative pioneer with over 40 years of trading experience through numerous market cycles.

Investment Philosophy

Kensington believes that the best way to generate steady, above average positive returns is to employ an investment methodology that has the potential to recognize and measure consistent and repeating behavioral patterns in the financial markets. With that goal in mind, Kensington has developed clearly defined quantitative decision models that strive to minimize subjectivity in this decision-making process. The overarching goal is to capture sufficient returns in positive market conditions, while protecting capital, with rigorous mitigation during down markets.

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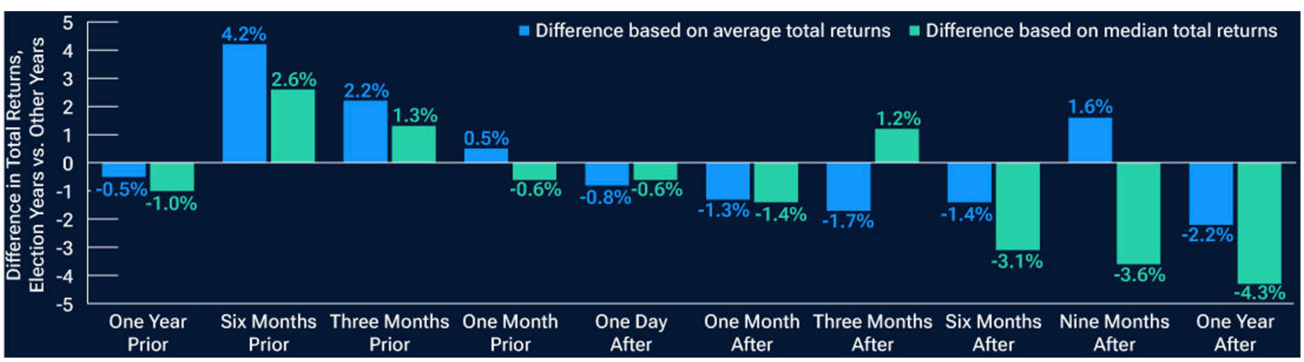
Stock Market: True to form in 2024, large-cap stocks turned in another positive month in June with the S&P 500 gaining 3.47% and the Nasdaq 100 up 6.18%. The small-cap Russell 2000 trailed as it has in most months this year, declining -1.08%. Overseas markets were mixed with the MSCI EAFE Index down 55 basis points while the MSCI Emerging Markets Index was up strongly, gaining 4.26% during the month.

Taking quarter and year-to-date as a group, the indices performed in similar fashion, with the S&P 500 and Nasdaq 100 both outperforming while the Russell struggled. The S&P 500 gained 3.92% in the second quarter, the Nasdaq 100 was up 7.82%, while the Russell 2000 actually fell, down a disappointing -3.92%. For the first half, the S&P 500 returned 14.48%, the Nasdaq 100 a hefty 16.98%, and the Russell 2000 a modest 1.02%. The S&P 500 notched 31 all-time closing highs in the January-June period, the most in this century other than the post-pandemic year of 2021.

Overseas developed and emerging markets trailed the U.S. large cap indices but were comfortably ahead of the Russell 2000.

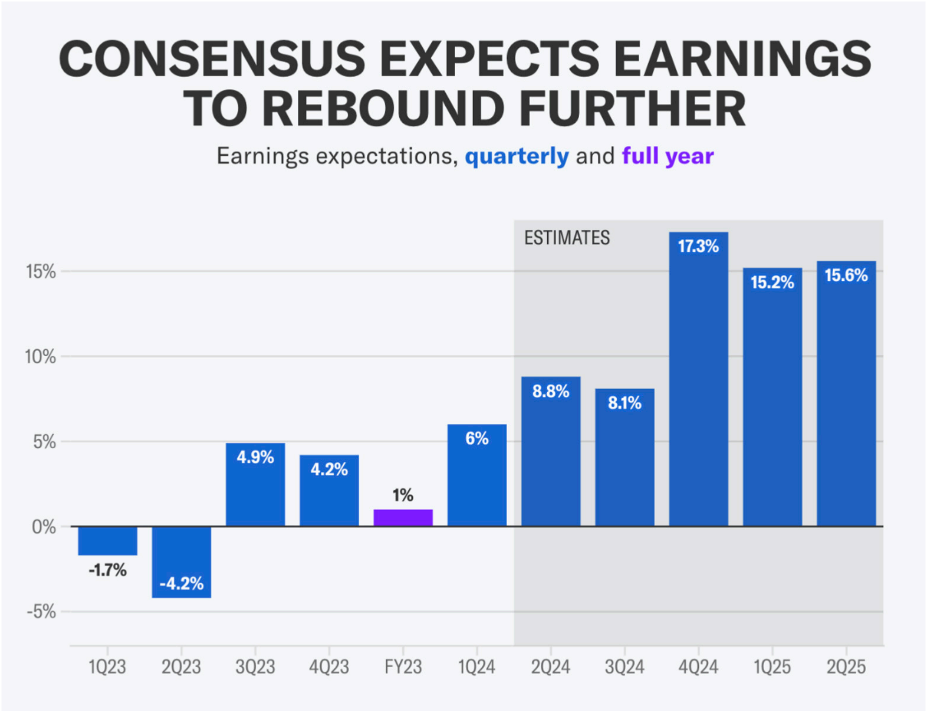
As we have pointed out before, the third year of the Presidential election cycle is historically a strong one, and 2024 has been no different. It's important to note, however, this period of relative strength (i.e., relative to non-election years) is concentrated in the months leading up to the election and reverses subsequently. As shown in the chart below, historical outperformance ends in the month immediately prior to the election and then meaningfully underperforms for the following twelve months.



Source: T. Rowe Price from December 31, 1927, to December 31, 2023

The likely (and somewhat surprising) reason, according to T. Rowe Price, is more than half (54%) of the 12-month periods following the 24 presidential elections in their study overlapped an official U.S. recession, as identified by the National Bureau of Economic Research (NBER). This is a far higher percentage than for other years of a Presidential Term.

Shifting to the near-term outlook, markets will be keenly focused on earnings. Analysts are forecasting a year-over-year increase of 8.8% in second quarter earnings for the S&P 500 Index. FactSet's noted analyst John Butters says the increase is more likely to be 12% if actual earnings exceed the analyst's forecast by the same percentage magnitude they have over the past four quarters. That strong growth in earnings is expected to continue looking out to the remainder of 2024 and into 2025 as reflected in the chart on next page.



Source: Factset

Fixed Income: Fixed income markets saw solid returns in June, led by government bonds with the 30-Year Treasury bond up 1.89% and the 10-Year up 1.29%. Mortgage-Backed Securities Index (MBS) advanced 1.17%, U.S. Corporate Investment Grade Index returned 64 basis points and high yield corporates gained 0.94% in the month.

The positive returns were not enough to offset a lackluster quarter and year to date performance, with the 30-Year Treasury down -6.20% year to date, the 10-Year Treasury off -1.99%, Mortgage-Backed Securities Index losing a little less than a percent (off 98 basis points) and U.S. Corporate Investment Grade Index a negative -0.49%. Only the U.S. high yield sector was able to stave off losses, up 2.58% over the past six months.

Bond investors did enjoy a respite from the gloom in June on the back of a steady drop in inflation and clear indications of a slowing economy. Taking inflation first, core inflation (Core CPI) - which excludes food and energy - has decelerated over the past few months, falling from the 0.4% monthly increase reported in March of this year to 0.1% in June. The Core PCE price index - the Federal Reserve's preferred gauge to measure underlying inflation - edged 0.1% higher in June, the softest increase since November of 2023.

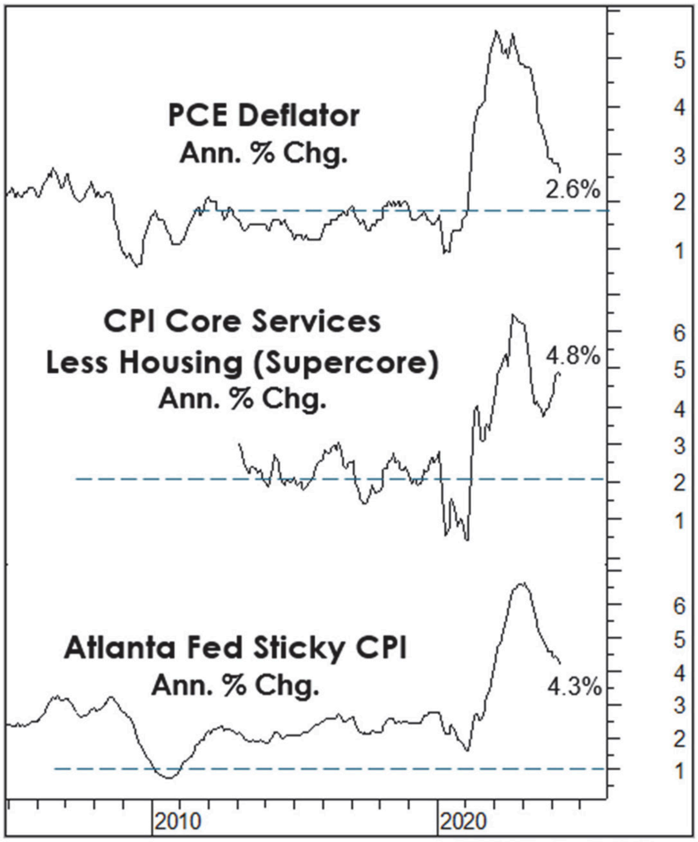
On the economic front, labor markets weakened noticeably in June with weekly unemployment claims ticking up, and both job openings and job quit rates trending downwards. And even though non-farm payrolls showed an increase of 206,000 jobs, there were 111,000 in downward revisions to the April and May numbers. The revisions took the 3-month average of payroll gains down to 177,000, the slowest pace since January of 2021.

Consumer sentiment as expressed in retail sales has also cooled with month-over-month sales edging up 0.1% in May, below forecasts of 0.2%, and April sales being downwardly revised to a decline of -0.2%. The housing sector is seeing a similar deterioration with both building permits and existing home sales slowing measurably over the past few months.

While all this paints a picture of a slowing economy, it's important to note economic activity is still growing, albeit moderately. The latest Atlanta Fed's GDPNow model estimates real second quarter GDP growth at a 2.5% clip. Monthly wages continue to increase at a healthy pace, growing 0.4% in May and 0.3% in June, both above forecasts, supportive of increased spending in the coming months assuming unemployment doesn't move measurably higher.

Lastly, by the measure of corporate credit and credit spreads, the economy is doing just fine. As corporate credit and derivatives trader Fil Zucchi pointed out in early June, "year-to-date corporate issuance has already crossed the $1T mark and is on pace for the first $2T year aside from the Covid/Fed influenced 2020 and 2021. And if the mere volume of issuance were not enough, both Investment Grade and High Yield risk spreads are scraping the tightest levels in decades." The plentiful liquidity and investor willingness to lend to lower grade credits is indicative of an economy that while certainly having pockets of stress remains overall in good health.

Federal Reserve and Monetary Policy: The Federal Reserve continues to be measured in its response to economic and inflation data, preferring to wait for additional evidence before cutting rates. The hesitation is understandable since while commonly used inflation rates have fallen, investor expectations of future inflation remain higher than Chairman Powell would like, not to mention inflation, by some alternative measures, remains quite elevated.



Source: The Leuthold Group | As of July 7, 2024

Given that there is little likelihood that the economy faces recession, Powell can afford to wait. That said, he himself has stated the Fed won't wait until the policy goal of 2% inflation is attained. "You don't want to wait until inflation gets all the way down to 2%," he said. "If you waited that long you probably waited too long because inflation will be moving downward and would go well below 2%, which we don't want."

The market is anticipating a rate cut of 50 basis points, as evidenced by the Fed funds futures, and while those instruments can be notoriously volatile, the 2-Year Treasury yield has already dropped more than 50 basis points from its peak at the beginning of May, confirming trading sentiment.

Managed Income Strategy – Manager Commentary

Bonds continued to rally in June, driven by market participants' hopes that the Federal Reserve could cut rates as early as September. The 10-Year Treasury yield dropped from 4.51% to 4.36% during the month, as inflation data showed slight cooling.

The Managed Income model remains in a Risk-On state, as conditions remain favorable for fixed income. As noted last month, credit spreads remain near cycle lows. Therefore, the portfolio management team has increased its allocation to senior loan/floating rate assets to supplement core high yield positions. During the month, the high yield and senior loan/floating rate sectors exhibited positive returns, driven primarily by the underlying yield of these positions. For now, we continue striving to mitigate portfolio pricing volatility while still providing a meaningful current yield.

Dynamic Growth Strategy – Manager Commentary

The major equity indices forged ahead in June, with the AI and mega cap narrative continuing to lead the way. The Nasdaq Composite returned just shy of 6% during the month, with the S&P 500 increasing over 3%. However, the Dow Jones Industrial Average was more muted, returning slightly over 1%, and the equally weighted S&P 500 Index was negative for the month. This lack of market breadth continues to underscore the strength of the so-called "Magnificent Seven" stocks, all of which outperformed the S&P 500 for the month.

As was the case during May, the Dynamic Growth model remained positioned in a Risk-Off state for the month of June, with the portfolio positioned entirely in cash equivalents.

Since the move to Risk-Off during the last week of April, the Dynamic Growth model has been inclined to take a "wait and see" approach, taking a patient stance to wait for a pullback to revert to Risk-On mode. As we mentioned last month, the Dynamic Growth model has been favoring "countertrend" price action over "trend," leading to Dynamic Growth remaining on the sidelines. Should the equity markets continue to advance with low volatility, we would expect the Dynamic Growth model to generate a Risk-On signal.

Active Advantage Strategy – Manager Commentary

The Active Advantage model remains positioned in a fully Risk-On state, with a balanced posture across fixed income and equities.

For the fixed income component of the portfolio, floating rate/senior loan is the largest position. However, we are actively monitoring other fixed income segments, such as investment grade corporates and high yield, based on recent macro trends. A continuation of these trends could lead to rotation into these sectors as we move into the third quarter.

For the equity portion of the portfolio, Active Advantage is still tilted primarily to S&P 500 exposure. Given model guidance, we will continue to evaluate the portfolio positioning. Should equities continue to advance in July, we would anticipate Active Advantage adding more growth equity exposure.

Defender Strategy – Manager Commentary

June 2024 was a month marked by slightly increased market volatility and mixed economic signals. The global equity markets experienced fluctuations driven by inflation concerns, central bank policy shifts, and geopolitical tensions. The Federal Reserve's indication of higher for longer interest rates added to the market uncertainty. Despite these headwinds, international equities, driven significantly by the surge in AI-related stocks, particularly in the U.S. and Japanese markets, did very well. The S&P 500 and key tech stocks experienced notable gains, partly due to the high expectations surrounding artificial intelligence and its potential to revolutionize various sectors. Other markets such as Europe, U.S. Small Caps, and Gold were more flat to negative on the month.

The Kensington Defender Strategy navigated this challenging environment with a focus on tactical allocations and selective growth opportunities, reflecting our risk management practices. We believe that our disciplined investment approach and focus on asset classes with strong momentum will enable the Kensington Defender Strategy to navigate the current market environment effectively, delivering value to our investors over the long term.

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Disclaimers:

Investing involves risk, including loss of principal. Past performance does not guarantee future results. There is no guarantee any investment strategy will generate a profit or prevent a loss.

This is for informational purposes only and is not a recommendation nor solicitation to buy, sell or invest in any investment product or strategy. Our materials may contain information deemed to be correct and appropriate at a given time but may not reflect our current views or opinions due to changing market conditions. No information provided should be viewed as or used as a substitute for individualized investment advice. An investor should consider the investment objectives, risks, charges, and expenses of the investment and the strategy carefully before investing.

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Any indices and other financial benchmarks shown are provided for illustrative purposes only, are unmanaged, reflect reinvestment of income and dividends and do not reflect the impact of advisory fees. Investors cannot invest directly in an index. Comparisons to indexes have limitations because indexes have volatility and other material characteristics that may differ from a particular strategy such as the types of securities being substantially different.

Certain information contained herein constitutes "forward-looking statements," which can be identified using forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results, or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained herein may be relied upon as a guarantee, promise, assurance, or a representation as to the future.

Advisory services offered through Kensington Asset Management, LLC, Barton Oaks Plaza, Bldg II, 901 S Mopac Expy – Ste 225, Austin, TX 78746.

Managed Income Strategy

Risks specific to the Managed Income Strategy include Management Risk, High-Yield Risk, Fixed-Income Security Risk, Foreign Investment Risk, Loans Risk, Market Risk, Underlying Funds Risk, Non-Diversification Risk, Turnover Risk, U.S. Government Securities Risk, LIBOR Risk, Models and Data Risk.

Dynamic Growth Strategy

Risks specific to the Dynamic Growth Strategy include Management Risk, Equity Securities Risk, Market Risk, Underlying Funds Risk, Non-Diversification Risk, Small and Mid-Capitalization Companies Risk, Turnover Risk, U.S. Government Securities Risk, Models and Data Risk.

Active Advantage Strategy

Risks specific to the Active Advantage Strategy include Management Risk, Equity Securities Risk, High-Yield Risk, Fixed-Income Security Risk, Foreign Investment Risk, Loans Risk, Market Risk, Underlying Funds Risk, Limited History of Operations Risk, Non-Diversification Risk, Small and Mid-Capitalization Companies Risk, Turnover Risk, U.S. Government Securities Risk, LIBOR Risk, Models and Data Risk.

Defender Strategy

Risks specific to the Defender Strategy are detailed in the prospectus and include general market risk, credit risk, interest rate risk, management risk, equity securities risk, fixed-income securities risk, high-yield bond risk, foreign investment risk, emerging markets risk, real estate and REITs risk, commodities risk, currency risk, subsidiary risk, market risk, underlying funds risk, derivatives risk, limited history of operations risk, turnover risk, models and data risk, momentum risk or risk of the portfolio not performing as expected.

Definition:

Bloomberg US Mortgage-Backed Securities (MBS): An unmanaged index that tracks fixed-rate agency mortgage-backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon, and vintage.

Bloomberg US Aggregate Bond Index: An unmanaged index comprised of US Investment grade fixed rate bond market securities, including government agency, corporate and mortgage-backed securities. Investors cannot invest directly in an index. It is also known as US Aggregate Bond Index.

Bloomberg US Corporate Investment Grade Bond Index: An unmanaged index comprised of US investment grade fixed rate, taxable corporate bond market.

MSCI EAFE Index: An international equities market index that consists of large and mid-cap stocks across developed markets in Europe, Australasia, and Far East Asia. Excludes US and Canadian stocks.

MSCI Emerging Markets Index: An international equities market index that consists of large and mid-cap stocks across 24 emerging market countries that include but not limited to Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, South Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

NASDAQ 100: A market index that comprises of the 100 largest, most actively traded companies listed on the Nasdaq stock exchange.

S&P 500: A capitalization weighted index of 500 stocks representing all major domestic industry groups. The S&P 500 TR Index assumes the reinvestment of dividends and capital gains.

Russell 2000 Index: A market index that consists of 2,000 small-cap US companies that are part of the larger Russell 3000 Index.