Monthly Mosaic | July 2, 2024

Perspective

Markets continued their run with the Nasdaq and S&P posting new highs during the month. This strength has been to our surprise as markets are often marked with volatility in the first half of an election year. With both the Democrat and Republican front-runners being largely unchallenged during the primary season, uncertainty surrounding possible outcomes was reflected by lower market volatility. But as the month closed, uncertainty may have returned on the heels of President Biden's performance in Thursday's Presidential debate which has led to back channel discussions of potentially replacing President Biden as the Democratic nominee over concerns of his mental acuity. Meanwhile questions remain around the appeal process for Trump's "hush-money" case and the timing of the related sentencing on July 11th just days ahead of the Republican National Convention in Milwaukee. Additionally, the Supreme Court has provided guidance on Presidential immunity for "official acts" which will likely delay proceedings against former President Trump for his obstruction trial and he may potentially avoid prosecution for the Jan. 6th accusations.

As indicated previously, elections ultimately have very little impact on the markets and we tend to look past the candidates but turn attention to their agendas and initiatives. For example, energy initiatives regarding a "Green New Deal" or "Drill, Baby, Drill!" would ultimately influence our investment energy opportunity set, yet the economic landscape remains favorable for energy overall as we move into the second half of the year. As inflation numbers continue to move downward, it appears the Fed has the ammunition to provide relief to short-term rates and the market has priced in two rate cuts by January. Yet predicting rates tends to be a losing game and I believe markets may be too optimistic on rate cut predictions. First, Fed Chair Powell has already suggested more patience was needed until there is a clear trend on inflation subsiding. Second, the FOMC has reduced the drawdown of bonds maturing on their balance sheet beginning June 1st with excess maturities of both Treasuries and Mortgage Backed Securities reinvested into Treasuries. This has already resulted in a notable reduction in Treasury yields for maturities between 6 months and 15 years. Regardless, sustained downward pressure on rates (short or long) will result in a reduced cost of capital for investors as we move into 2025. Additionally a strong consumer should enable economic growth through the remainder of the year.

Moving into the second quarter earnings season, growth continues to look healthy through the remainder of the year. With the "Mag 7" still strong with expected double digit earnings growth through the remainder of the year. Market breadth is expected to expand and earnings growth for the remaining stocks in the S&P 500 are expected to increase from low single digit growth this quarter to 17% by the end of the year, matching the forecasted growth for the Mag 7 stocks. As earnings grow into current price levels, valuations will come in line with historical averages and concerns over high valuations should subside.

Globally markets appear to have benefited from central bank easing abroad and prospects look good. Pessimism in Europe may have been overdone as stabilized manufacturing and wages have provided a favorable backdrop for expansion. China remains stressed as they work through their real estate problems. Korea and Taiwan should remain strong as they benefit from the global demand for technology while economic reforms in India should also provide attractive opportunities.

Fixed income markets continue to provide attractive yields to investors and the opportunity to lock in higher yields above 5% are available for investors seeking income. Additionally, the asymmetric return characteristics of bonds provides attractive returns in the event the economy weakens and rates fall from current levels.

Monthly Recap

- May opened with the European Central Bank and the Canadian Central Bank both cutting interest rates.
- The Fed maintained the Federal Funds Rate at 5.25% - 5.50% for the seventh consecutive meeting, with Fed Chair Powell emphasizing patience and noting significant progress with labor markets in better balance and inflation easing substantially from the peak.
- The U.S. administration proposed restrictions on technology investment related to AI into China. The "targeted draft rules" would require banning and notification of certain U.S. investment in artificial intelligence and other tech sectors in China that may pose a threat to U.S. national security. Chinese electric vehicles from 25% to 100% to protect U.S. manufacturers from Chinese subsidies and unfair trade practices.
- Former President Donald Trump and incumbent President Joe Biden held their first debate last Thursday as both sides await the impact on polls to determine potential next steps.
- May inflation reports were favorable, with both PCE and core PCE coming in at 2.6% confirming softening inflation numbers consistent with CPI and core CPI at 3.3% and 3.4% earlier in the month.

Markets

	Total Return as of: 6/28/2024		
Market Indices	MTD %	YTD %	1-Year %
S&P 500 Index	3.59%	15.29%	24.54%
NASDAQ Composite	6.27%	17.47%	30.77%
Russell 2000 Index	-0.93%	1.73%	10.03%
MSCI EAFE Index	-1.61%	5.34%	11.54%
MSCI Emerging Markets	3.94%	7.49%	12.55%
BBG US Aggregate Bond	0.95%	-0.71%	2.63%
WTI Crude Oil	8.20%	26.11%	31.46%
Gold	-0.02%	9.27%	16.48%

Interest Rates

	Close 6/28	Prior Month	Year Ago
Fed Funds Target	5.50%	5.50%	5.25%
6-Month US Treasury	5.32%	5.38%	5.43%
2-Year US Treasury	4.76%	4.87%	4.90%
10-Year US Treasury	4.40%	4.50%	3.84%

The Month Ahead

JULY 5TH
Unemployment Rate & Average Hourly Earnings

JULY 11TH
Consumer Price Index Report

JULY 18TH
Conference Board's Leading Index

JULY 25TH
U.S. GDP Q2

JULY 26TH
Personal Spending & Personal Consumption Expenditures Index Report

JULY 31ST
FOMC Projection & Fed Rate Decision

Questions?

Your Wealth Management team is here to answer.

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