Old Second WEALTH MANAGEMENT | RIVERSTREET ADVISORS, LLC

Monthly Mosaic | June 6, 2024

Perspective

As May opened with the Fed maintaining the Fed Funds Rate at 5.5% and messaging a "higher for longer" theme, economists contemplated slower growth resulting from a higher cost of capital. Additionally, inflation data reported during the month provided little support for future Fed rate cuts. Despite this, markets maintained their resilience with the S&P 500 returning almost 5% for the month. All major indexes were up, leaving the perma-bears with the typical cry that markets are overheated.

Not surprising is the pessimism in the markets in consideration of strong year-to-date returns on the heels of a strong performing market in 2023. True to form, markets tend to maintain strength through our arbitrary measuring stick of a calendar year-end. In fact, Dimensional recently published an article "What Goes Up Might Not Come Down" indicating the US market has ended on a new high 933 of the last 5,099 weeks (about one of six weeks since 1926), and the subsequent weekly return after those new highs was 0.26% which is slightly above the average weekly return of 0.22%. Momentum tends to sustain and a reminder that the market is a forward looking indicator of economic expectations provides optimism as we move into the second half of the year. While there has been softening of some economic data, both revenue and earnings surprised to the upside for the first quarter reporting season and earnings growth of 25% is projected over the next 12 months. Valuations above historical levels should not be a concern and in consideration of growth expectations, those valuations appear appropriate.

This market strength is not surprising for an election year, yet the timing has been surprising as the primary season usually results in higher market volatility. We do expect uncertainty heading into the national conventions followed by a rally headed into the elections. While this seems to be contrary to economic forecasts projecting slower growth in consideration of the Fed's stance on higher interest rates; don't lose site of the economic levers available to stimulate economic activity in the near term. First, despite the "higher for longer" mantra by the Fed, don't forget the Fed slowed the roll-off of their balance sheet which results in less restrictive monetary policy. On the fiscal side, over $990 billion of COVID funds remained unspent entering 2024. $390 Billion is being disbursed from the Response and Relief Act enacted in the first quarter, while the remainder is expected to be disbursed through the remainder of the year.

Last, on the global front we have begun to see central banks ease beginning with the Swiss central bank in March followed by Sweden, Hungary, Czech Republic and Canada. Most recently the European Central Bank cut rates by 25bp and the Bank of England is slated to meet on June 20th. This global easing will undoubtedly provide stimulus as we move into the end of the year.

Monthly Recap

- The Fed maintained the Federal Funds Rate at 5.25% - 5.50% marking the sixth consecutive meeting they held rates at the July 2023 level, though they did reduce the "run-off" rate on the Fed's $7.36 Trillion balance sheet by $35 billion per month.
- The U.S. raised tariffs on Chinese electric vehicles from 25% to 100% to protect U.S. manufacturers from Chinese subsidies and unfair trade practices.
- The Biden administration and Trump campaign have agreed to have debates between the candidates on June 27th and September 10th.
- Former President Donald Trump was found guilty of falsifying business records in his New York 'hush money' case.

Markets

	Total Return as of: 5/31/2024		
Market Indices	MTD %	YTD %	1-Year %
S&P 500 Index	4.96%	11.30%	28.17%
NASDAQ Composite	6.98%	11.83%	30.42%
Russell 2000 Index	5.01%	2.68%	20.08%
MSCI EAFE Index	3.87%	7.07%	18.53%
MSCI Emerging Markets	0.56%	3.41%	12.39%
BBG US Aggregate Bond	1.70%	-1.64%	1.31%
WTI Crude Oil	-4.56%	17.31%	25.08%
Gold	0.55%	12.31%	17.52%

Interest Rates

	Close 5/31	Prior Month	Year Ago
Fed Funds Target	5.50%	5.50%	5.25%
6-Month US Treasury	5.38%	5.40%	5.44%
2-Year US Treasury	4.87%	5.04%	4.40%
10-Year US Treasury	4.50%	4.68%	3.65%

The Month Ahead

JUNE 7TH
Unemployment Rate & Average Hourly Earnings

JUNE 12TH
Consumer Price Index Report, FOMC Projection & Fed Rate Decision

JUNE 21ST
S&P Global - U.S. PMI & Conference Board's Leading Index

JUNE 28TH
Personal Spending & Personal Consumption Expeditures

Questions?

Your Wealth Management team is here to answer.

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