Monthly Mosaic | August 5, 2024

Perspective

The "dog days of summer" marked by the rising of Sirius (the Dog Star) in the morning sky along with the Sun was long attributed to the hot summer days of July and the resulting summer doldrums. Yet, July has been anything but dull. On the political front we saw a failed assassination attempt on former President Trump followed by the Republican Convention and Donald Trump choosing his running mate, J.D. Vance. Meanwhile, on the heels of a poor debate performance we saw a defiant President Biden, the presumptive Democratic Nominee, declare he would "stay in the race" only to concede to his party's leadership and pass the torch to his running mate Kamala Harris. On the economic front there was favorable inflation news pointing to improving price levels at the same time labor numbers came into balance, providing a path by which the Fed may begin cutting rates. Within the markets, as anticipated, we saw the Mag 7 stocks give way to the rest of the stocks in the markets and the breadth of market strength increased during the month.

Politically, very unique circumstances led to the current state of the Presidential race, though we don't see a significant shift in policy on either side. The most notable change is the narrowing of Donald Trump's lead in swing states and tightening of the national polls. If Kamala Harris is able to maintain momentum into the Democratic National Convention in August we may see more uncertainty about potential outcomes of the election which may impact market short-term expectations. Additionally, the escalation in the Middle East between Israel and Iran along with lack of progress toward a cease fire in Gaza may seed protests domestically, adding to uncertainty. While concerns at the U.S. southern border have calmed, it has been largely attributed to the summer heat and an increase in crossing "encounters" and "got-aways" is expected as the dog days of summer give way to cooler fall temperatures. Nonetheless, the geopolitical landscape has certainly become more uncertain but likely not notably different than at the beginning of the month.

In the equity markets, the Mega-cap names have finally given way to the rest of the market and diversification certainly paid off. Small-cap stocks led the way in July returning over 10% for the month while Large-caps were up just over 1% with International stocks getting a bid, returning almost 3% for the month. While the S&P performance was muted by the negative returns in the Mega-caps, earnings is proving to be quite strong across most sectors. With 75% of the S&P 500 reporting, almost half of companies have beat expected revenue numbers and over 80% have beat expected earnings projections. Sales growth is good at 4.5% with only the Materials and Consumer Staple sectors posting negative growth with the earnings growth for the S&P 500 over 11%. Those revenue and earnings numbers have not yet been reflected among the smaller companies which tend to report a bit later in the quarter but so far are falling short. Currently, with 50% of the Small-caps reporting only 4 of 11 sectors have positive earnings growth. As we close out the third quarter and move toward the end of the year we will pay close attention if the growth reflected in the Large-cap names translates to the bottom line of their Small-cap counterparts. Internationally, growth looks strong in the Asia Pacific region with lower growth in Europe. If U.S. yields continue to pull back, a weaker dollar may provide a tailwind for international investments.

On the economic front, GDP growth came in at 2.8% and the Feds preferred inflation measure, core PCE, came in at 2.6% for the second month. The relief provided by lower inflation and the potential trend of lower price levels has pushed the probability of rate cuts to 100%. Recent weakness on the jobs number last Friday resulted in a broad sell-off with many economists calling for a 50bp cut in September. Continued moderation on the wage front and cuts in the private sector point to potential economic weakness. The bond market had already priced in 75bp of cuts for the remainder of 2024, but on results of Friday's jobs report bonds rallied. With the yield curve no longer inverted we expect the Fed to follow suit. We anticipate longer term rates moderating between 4 - 4.25% into the end of the year as the fed cuts to normalize the short-end of the curve. Unless there is a significant shift in the economic data between now and September's Fed meeting, the only question appears to be how aggressive the Fed will cut rates into the end of the year.

Monthly Recap

- Unemployment ticked up to 4.1% as more workers entered the workforce.
- Headline CPI fell to 3.0% for June providing cover for the Fed and a potential catalyst to begin cutting interest rates.
- Former President Trump survived an assassination attempt at a rally the Saturday ahead of the Republican National Convention. The convention went on as scheduled where J.D. Vance was named the vice presidential running mate to Donald Trump.
- Service outages paralyzed banks, airlines, television networks and health systems around the world when Crowdstrike, a cybersecurity company, deployed a software update with defective code impacting customers running the Windows operating system.
- President Joe Biden dropped out of the 20024 presidential race after proclaiming his intent to “stay in the race”. Mounting pressure from Democratic Party leadership and donors’ public concern motivated the President to step aside and endorse his running mate Vice-President Kamala Harris.
- The Fed maintained the Federal Funds Rate at 5.25% - 5.50% marking the eigth consecutive meeting they held rates at the July 2023 level, noting that employment and inflation may have reached a balance which may allow them to begin easing in the future.

Markets

	Total Return as of: 7/31/2024		
Market Indices	MTD %	YTD %	1-Year %
S&P 500 Index	1.22%	16.69%	22.46%
NASDAQ Composite	-0.73%	17.71%	24.21%
Russell 2000 Index	10.16%	12.06%	14.74%
MSCI EAFE Index	2.93%	8.43%	12.33%
MSCI Emerging Markets	0.30%	7.81%	6.64%
BBG US Aggregate Bond	2.34%	1.61%	5.70%
WTI Crude Oil	-6.56%	8.74%	-4.25%
Gold	4.96%	18.64%	25.89%

Interest Rates

	Close 7/31	Prior Month	Year Ago
Fed Funds Target	5.50%	5.50%	5.50%
6-Month US Treasury	5.09%	5.32%	5.47%
2-Year US Treasury	4.26%	4.76%	4.88%
10-Year US Treasury	4.03%	4.40%	3.96%

The Month Ahead

AUGUST 2ND
Unemployment Rate & Average Hourly Earnings

AUGUST 13TH
U.S. Producer Price Index

AUGUST 14TH
Consumer Price Index Report

AUGUST 15TH
Retail Sales, Industrial Production

AUGUST 22ND
S&P Global - U.S. PMI

AUGUST 30TH
Personal Spending & Personal Consumption Expenditures Index Report

Questions?

Your Wealth Management team is here to answer.

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