Krilogy.

WEEKLY MARKET RECAP | June 24, 2024

Week in Review

Equity Markets:

For the eighth week out of the past nine, the S&P 500 ended positive. The S&P 500 has recorded 31 new all-time highs so far in 2024[1]. Despite the market's concerns about a slowing economy, an overly restrictive Fed, and stick inflation; the S&P 500 has rallied 15.36% year-to-date. The rally so far has been led by a small group of cohorts though. Breadth remains narrow, a measurement by Morgan Stanley shows market breadth at 20%[2]. This means that only 20% of the individual companies in the S&P 500 are outperforming the broad index. There is a high concentration of outperformance in Mega-Cap Growth. This has only widened the spread of the Russell 1000 Growth and Value Indices. Year-to-date, the Russell 1000 Growth Index has returned 20.49% compared to its value counterpart's return of 6.85%[3].

As we move into the next earnings season, narrow breadth could be a pivotal factor. Currently, analysts are expecting earnings to grow 8.8% from last year[4]. This is a slight downward revision from the prior week's estimate of 9%.

Fixed Income Markets:

It was a quiet week in the bond market and the 10-year Treasury Bond traded in a very tight range. It closed the week with a yield of 4.25%, only 0.05% higher than the prior week's close of 4.2%. Across the yield curve, rates ticked up incrementally. The 2's/10's spread remains inverted and closed the week at -0.45%.

With little news on the economic front, there was very little movement in the Fed Fund's Futures Market. The market is pricing in a 67% probability of the first rate cut occurring in September and a total of 2-3 cuts for the year[5].

Economic:

Retail sales missed expectations last week showing only a 0.1% increase in May. Considering that April retail sales declined 0.2%, the fractional growth could be a sign that the consumer could finally be slowing. The Conference Board's Leading Economic Index fell 0.5% in May. The decline marked the 25th month out of the last 26 the index has fallen. The lone month that did not decline was February 2024, a reading of 0.0% so the index was flat for the month. The monthly decline was the smallest decline since November 2022. The index still indicates slower economic times ahead, but the recent improvement shows the potential slowdown may not be as severe. The housing market continues to cool as higher rates and lack of supply have put a cap on sales. Existing home sales fell 0.7% in May according to the National Association of Realtors.

Looking Ahead

Equity Markets:

At the beginning of the year, we believed valuations and earnings improvements would be the catalyst for a major move in the market. Earnings have improved and come in better than expected, but valuations have continued to climb. Currently, the S&P 500 is trading at 21.6x forward four-quarter earnings[6]. The narrow breadth will likely put pressure on the market as disappointing earnings from the largest companies would likely lead to a dip at the index level.

Narrow breadth can present opportunities going forward. This would likely require improving economic numbers and continued progress on the inflation front. We view the narrow breadth as a short to intermediate-term risk for the market. To navigate the volatility we expect to see through the end of the year, we believe investors should evaluate their current portfolio to ensure over concentrations do not exist and still align with their strategic allocations which should be constructed to achieve long-term financial goals.

Fixed Income Market

We believe that the bond market will move in a sideways manner staying range-bound through the elections in November. The markets are pricing in a September rate cut, but it would not be surprising to see the Fed not take action until after the election unless there are significant changes in economic growth and/or the labor market.

Economic:

More housing market reports will be released this week. The S&P/Case-Shiller Home Price Index will be released on Tuesday, followed by new home sales on Wednesday, and pending home sales on Thursday. There will be two reports that will provide a timely check-in on the consumer. The Consumer Confidence Index will be released on Tuesday and the final University of Michigan Consumer Sentiment Index will close the week out on Friday. There have been recent signs of the consumer losing strength and these reports are likely to garner more attention than they have recently. The third, and final, reading of first-quarter GDP will be released on Thursday. The Fed's preferred inflation gauge will be the headline release for the week. The Personal Consumption Expenditures Price Index will be released on Friday. Market participants are forecasting Core PCE to increase by 2.6%, which would be a slight improvement from the previous reading of 2.8%.

**** *See Important Disclosures on the following page*

Sources:

1)CNBC
https://www.cnbc.com/video/2024/06/18/sp-500-hits-31st-record-close-of-2024.html

2) Morningstar, Inc.
https://www.morningstar.com/news/marketwatch/20240624103/expect-the-stock-markets-winners-to-keep-on-winning-until-this-happens-morgan-stanleys-top-strategist-says

3) JPMorgan Asset Management
https://am.jpmorgan.com/content/dam/jpm-am-aem/americas/us/en/insights/market-insights/wmr/weekly_market_recap.pdf

4) FactSet Research, Inc.
https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_062124.pdf

5) CME Group
https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html

6) LSEG I/B/E/S
https://lipperalpha.refinitiv.com/wp-content/uploads/2024/06/TRPR_82221_752.pdf