Week in Review

Equity Markets:

The S&P 500 rallied 0.89% last week as we saw a broadening out in market participation. Lower rates helped push recently out-of-favor sectors higher. The top-performing sector in the S&P 500 last week was Real Estate, finishing the week up 4.4%, but it remains the worst-performing sector on the year being up 1.6[1]. Another rotation occurred in the large-cap space. The Russell 1000 Value finished the week up 2.76% while the Russell 1000 Growth finished down 0.39%. The Russell 1000 Value Index narrowed the year-to-date performance gap with its growth peer but is still being outpaced by 15%. Small Caps also had a strong week. The Russell 2000 finished the week up 6.01% bringing its year-to-date return to 6.76%.

Fixed Income Markets:

Following a positive CPI report, Treasury yields fell dramatically. The 10-year Treasury Yield fell to a low of 4.18% last Thursday after closing the previous week at 4.28%. The expectation for rate cuts also significantly increased. Prior to the report, the market was pricing in between one and two rate cuts for the year. According to the Fed Fund's Futures Market, there is now a 90% probability of a rate cut in September and the potential for two more[2].

Chairman Powell testified before the Senate last week. From his comments, it appears members of the Federal Reserve are hesitant to act too quickly and prematurely cut rates. However, there was a slight pivot in town when Chairman Powell acknowledged the risks of keeping rates too high for too long and the negative impacts it could have on the economy.

Economic:

Inflation continues to moderate as we saw last week in the CPI report. Core CPI, which excludes food and energy, rose only 0.1% in June. On an annual basis, the index rose 3.3%. Both of these numbers were better than the expected readings of 0.2% and 3.4% from economists. The headline reading actually fell 0.1% for the month of June and rose 3% on an annual basis. The monthly decrease marked the first decrease since May 2020. The trend of conflicting economic reports continued on Friday as the PPI, Producer Price Index, which measures costs to suppliers surprised to the upside. The PPI rose 0.2% in June, which was higher than the 0.1% expected. The index rose 2.6% on an annual basis. Despite the small miss, the index indicates that inflationary pressures may be stubborn but continue to subside. The consumer continues to pull back. The July Preliminary University of Michigan Consumer Sentiment Index fell to the lowest level in eight months. The index fell to 66 as consumer's concerns about high prices have started to impact their views on the current state of the economy.

Looking Ahead

Equity Markets:

Earnings season is underway, with many of the major banks reporting last Friday. Going into the quarter, analysts were expecting earnings to grow 8.9%[3]. If results meet expectations this will mark the best quarterly earnings since the first quarter of 2022. Following the better-than-expected CPI report, the market significantly broadened with value, small caps, and cyclical sectors outperforming the recently favored technology sector. The quick rotation is one of the reasons we strongly believe that investors should always have high conviction in strategic allocations and diversification.

Valuations remain, in our opinion, stretch with the S&P 500 trading at 21.4x forward four-quarter earnings[3]. While the current level is not yet extreme, we feel that this exposes the market to an increase in volatility and the potential for a short-term pullback. We believe investors should assess their current allocations to ensure they still align with their long-term investment goals. The recent narrow breadth could leave portfolios oversensitive to weakness in single sectors of the market.

Fixed Income Market

We anticipate the bond market to move in a sideways pattern through the end of the year, barring a major breakdown in the economic landscape. The range of the 10-year Treasury yield will likely trade in the 4.2-4.75%. There could be times when the yield exits this range, but we believe it will be short-lived. A major move in yields will occur once the monetary policy stance shifts from restrictive to accommodating, in our opinion.

From a long-term perspective, we still have a positive outlook for fixed-income investors. Current yields still offer suitable total return opportunities for investors. However, we do believe bond investors should have realistic expectations. We believe we are in a cycle that is much different than the previous multi-decade bond bull market that started in the 1980's. We are unlikely to see a steady decrease in rates this cycle but rather a tighter range, and at a higher level, than what we have been used to.

Economic:

This week will be light on the economic front when compared to the last two weeks. On Tuesday, the consumer will be in focus when the Retail Sales report is released. Also on Tuesday, the Housing Market Index from the National Association of Home Builders will be released. The House Starts report will be released on Wednesday to provide another timely view of the housing market. On Thursday, the Conference Board will release the Leading Economic Index and the weekly unemployment report will close the week out.

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

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Sources:

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

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

3) FactSet Research, Inc.
https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_071224.pdf

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