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WEEKLY MARKET RECAP | July 22, 2024

Week in Review

Equity Markets:

The S&P 500 fell 1.95% last week as the market rotation strengthened. The Russell 1000 Growth fell 3.95% as the Technology Sector struggled[1]. Investor sentiment has shifted in favor of value stocks over the past two weeks. Despite the headline weakness of the other indexes, the Russell 1000 Value finished the week up 0.67%[1]. Another welcome sign of improving the market breadth is small-cap companies improving. The Russell 2000 Index finished the week up 1.69% and is the best-performing major index so far this quarter, up 6.72%[1].

Earnings season has started to peak up steam. So far, 14% of S&P 500 companies have reported quarterly results. Thus far, 80% have beaten earnings estimates and 62% have beaten revenue estimates[2]. The blended earnings growth rate, which combines analysts' estimates and reported earnings, is 9.7%[2]. This is a significant improvement from the 9.1% growth rate from the week prior.

Fixed Income Markets:

The bond market rallied last week as we saw yields fall. The 10-year Treasury Yield fell 7 basis points and closed the week at 4.18%. Over the past few weeks, the yield curve has started a steepening trend. The 2's/10's spread has been inverted for over two years now and closed the week at -0.24%. The current level is a significant improvement from the 1% inversion from early last year[3].

Economic:

Retail sales came in better than expected and came in flat for the month of June. Economists expected a decline of 0.4%. This positive report shines a positive light following some softer consumer reports as of late. The Housing Market Index fell to 42, which continues the pessimistic outlook for home builders. The Conference Board's Leading Economic Index fell 1.9%. The decline in the index has slowed recently which is pointing to a milder economic slowdown. The weekly unemployment report showed continued weakening in the labor market as unemployment claims rose to 243,000. This marks the highest level since August 2023 and surpassed the 229,000 that economists were expecting[4].

Looking Ahead

Equity Markets:

Despite the weakness at the index level last week. We are seeing positive developments that have been overshadowed by the tech rout last week. Earnings results continue to exceed expectations and the improving market breadth is healthy following the concentration we have experienced recently. Valuations contracted slightly last week and the S&P 500 is trading at 21.2x forward four quarter earnings[2].

The recent market rotation into out-of-favor sectors and styles outlines why we believe investors should remain committed to their strategic allocations and remain convicted during challenging market times. For the past year and a half, diversified investors have experienced many challenges but it is important to remember that market momentum can shift unexpectedly, and oftentimes, without a discernible reason.

Fixed Income Market

The weakness in the labor market and the political environment have all but secured rate cuts at some point this year. The labor report last week showed an uptick in layoffs which could be early signs of the labor slowdown policymakers have been looking for. The Fed Fund's Futures Market is showing the probability of a rate cut in September to be 91%, significantly higher than the 59% probability from a month ago[5].

We believe political events have little to no impact on the market in the long run but we do acknowledge the recent high-profile news can impact short-term sentiment. With the recent occurrences we believe policymakers will be watching closely and could lead to a softer monetary policy stance at the next meeting. Political uncertainty could lead to weakening market sentiment and the Federal Reserve could help ease nerves by becoming more dovish.

Economic:

Following a light week of economic news, there will be more noteworthy reports released this week. Existing home sales will be released on Tuesday and will provide a timely look at the housing market following a decrease in mortgage rates. On Thursday, the first estimate of second-quarter GDP will be released. To close the week, the Personal Consumption Expenditure Price Index will be released. The PCE is the preferred gauge of policymakers and will be timely given the next policy meeting takes place at the end of the month.

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

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Sources:

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https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_071924.pdf

3) St. Louis Federal Reserve
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4) Yahoo Finance
https://finance.yahoo.com/news/why-news-surge-unemployment-insurance-201156274.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAEim2BpiErcRkWhyETPO5EMiOlsALNubVx5D0afeeYX5mtV8r8ujA3qtGGs6CTtJesRd0vsRjtVjXagRfivjlRrAC-LJPAiEWHUbITJ6KLtQXZGRpXfY2-bNP6EEduH5EJ-yV2xxrvpWaF7FEObH2wnz3qYu_YDCXQYevKuHn5I-

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

Important Disclosures: