WEEKLY MARKET RECAP | July 29, 2024

Week in Review

Equity Markets:

The rotation in the markets continued last week. The S&P 500 finished the week down 0.82% and the NASDAQ finished down 2.08%, marking both indexes' second consecutive negative week. The Dow Jones 30 finished up 0.77% and, again, small-caps shined finishing the week up 3.47%[1]. The recent rally from small caps has brought the Russell 2000's year-to-date performance to 12.34%, narrowly behind the S&P 500's return of 15.35% and the NASDAQ's 16.08% return.

Earnings results are nearly halfway complete with 41% of companies having already reported results. So far, earnings continue to be a bright spot for the market. 78% of S&P 500 companies have beaten earnings estimates but only 60% have exceeded analysts' expectations for revenue[2]. The estimated blended earnings growth rate for Q2, which includes reported results and analysts' estimates for companies yet to report, stands at 9.8%[2]. If earnings meet the estimates, it will mark the highest growth rate since Q1 2021[2].

Fixed Income Markets:

The bond market traded in a tight range last week. The 10-year Treasury Yield finished the week down a modest 5 basis points at 4.2%. The short end of the yield curve experienced a significant mid-week steepening seeing demand for shorter maturities increase. The 2's/10's spread midweek reached the lowest level of inversion since the first inversion over two years ago. Midweek, the yield curve inversion hit -0.09%. Following the better-than-expected GDP and labor market reports the 2-year Treasury rallied and finished the week with a yielding 4.36%.

Economic:

Economic reports continue to come in mixed. The first estimate for second-quarter GDP was double the growth in the first quarter showing the economy grew at an annual rate of 2.8%. The reading also came in well above economists' estimates of 2.1%. The Fed's preferred inflation gauge, the Personal Consumption Expenditures Index, came in as expected. The headline reading rose 0.1% in June and 2.5%% on an annual basis. This is a slight tick down from the 2.6% increase in May. The core reading, which excludes food and energy, rose 0.2% and 2.6% on an annual basis which was in line with economists' estimates. Following the prior week's surprise increase in unemployment, this week's number came in lower than the 238,000 economists were expecting. Initial unemployment claims were 235,000; while the number is elevated relative to recent history still shows a strong labor market.

Looking Ahead

Equity Markets:

The recent rout in Large-Cap Growth has weighed on the index-level returns, but areas of the market that have lagged for the previous 18 months have started to gain momentum. We believe the market broadening is healthy and reiterates the need for investors to have conviction in their strategic allocations. The market reversal has occurred with no warning. Over the past three weeks, small caps have gained significant ground on their large-cap counterparts and have returned 11.5%, while large caps have declined 1.5%[2]. Prior to the rally, small-caps were essentially flat on the year.

The market trend reversal has also been accompanied by elevated volatility. The VIX, which tracks investors' expectations for equity volatility over the next 30 days, has increased 55% over the last two weeks. We anticipate these bouts of volatility to continue through the election. Short-term market dislocations provide opportunities for investors that implement a systematic rebalancing program to "trim high and add low" and remove the emotional impacts of portfolio allocations.

Fixed Income Market

The headline event for the week is going to be the Fed's policy meeting and the press conference held by Chairman Jerome Powell. The markets have priced in a 94.87% probability of the Fed keeping their policy rate in the current range of 5.25-5.5%[3]. Market participants will eagerly await the comments from Chairman Powell following the conclusion of the two-day meeting. We anticipate policymakers to lighten their tone and prepare the market for rate cuts starting in September. Following a string of favorable inflation reports and a softening labor market, it appears the all-clear has been signaled for the Fed to start loosening financial conditions.

The Fed Fund's Futures market has priced in a 90% probability of a rate cut occurring in Sepember[3]. We still believe the 10-year Treasury Yield will remain rangebound in the 4-4.50% range through the end of the year. Our positive long-term outlook for the fixed-income market remains and believe investors should focus on high-quality because we do not believe investors are being fairly compensated for taking on credit risk at current spreads.

Economic:

The Fed's policy meeting and slew of earnings will not be the only headline events for the week. On Tuesday, the Job Openings and Labor Turnover Survey (JOLTS) Report will be released along with the S&P CoreLogic Case-Shiller Home Price Index and the Consumer Confidence Index from The Conference Board. Wednesday will begin with the ADP National Employment Report and will end with Chairman Powell's press conference announcing the latest monetary policy developments. Thursday the ISM will release their manufacturing PMI. To finish the week will be the Non-Farm Payroll Report. All eyes will be on Friday's employment report as we have seen a string of increases in unemployment.

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

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) FactSet Research, Inc
https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_072624C.pdf

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