Week in Review

Equity Markets:

The S&P 500 continued its skid notching the third negative week in a row. The S&P ended the week down 2.05% and is now 5.7% below its all-time high of 5,669 set on July 16. The NASDAQ finished last week in correction territory, down 10.1% from its most recent high on July 10. The recent market rotation stalled last with the Dow posting its first negative week after a four-week winning streak, closing the week down 2.10%[1]. All major indices struggled last week as investors moved to risk-off positioning as recession concerns increased.

The S&P is three-quarters of the way through earnings reports. Thus far, 78% have exceeded analysts' earnings estimates while only 59% have beaten revenue estimates[2]. Companies in the S&P continue to expand their net profit margins which currently sit at 12.3% for the index.

Fixed Income Markets:

The bond market had a significant rally this week. The 10-year Treasury Yield closed the week 0.4% lower and the first time the closing yield was below 4% since January. The 2's/10's inversion closed the week at -0.08% as the soft labor market report and softer policy tone caused the yield curve to steepen. This marked the smallest inversion since the yield curve first inverted two years ago in July 2022.

The Federal Reserve once again held off on cutting interest rates. A pivot in the policy statement indicated that policymakers are watching the economic numbers much more closely and are willing to cut rates if softness in reports continues[3]. The combined impacts of the Fed changing its policy tone and the soft labor market report caused a big shift in the market's expectation for the rate market. Going into the week the Fed Fund's Futures Market had priced in between two and three rate cuts this year. At the close of the week, the market had priced in between four and five cuts, with an 88% probability of the policy rate ending the year between 4-4.5%[4].

Economic:

The labor market continues to cool, which showed up in all three major reports released last week. The JOLTS report showed that job openings dropped by 46,000, hiring slowed, and workers quitting their jobs decreased by 121,000 in June. The ADP Private Payroll Report missed expectations only increasing by 122,000. The headline report for the week was the Non-Farm Payroll Report released on Friday. Job growth slowed for the third month in a row and July showed a gain of 114,000, well below the 12-month average of 215,000. The unemployment rate also increased from 4.1% in June to 4.3% in July, which was also worse than expected.

Looking Ahead

Equity Markets:

Volatility has returned to the markets again following months of hyperbolic moves up. The VIX, which measures investors' expectations for volatility over the next 30 days, jumped 40% last week. At the beginning of the quarter, we believed a reemergence of volatility was likely due to the narrow breadth and market multiples reaching high levels. We are moving into a seasonally tougher period for equity markets; when combined with political uncertainty and varying monetary policy regimes across the globe are likely to lead to a higher level of volatility than the markets have recently experienced.

Investors should prepare themselves for the potential bouts of turbulent markets through the end of the year. We believe that a thoughtfully developed strategic asset allocation, that aligns with your long-term investment goals, is key to long-term investment success. During times of market volatility, having a systematic rebalancing program can help investors maintain their desired risk exposures and allocation developed to achieve a desirable expected return.

Fixed Income Market

Economic data continues to slow and we believe that policymakers are going to lower rates in September. The market has become extremely optimistic again with the pace of rate cuts though. The markets are pricing in at least a 1% decrease in the Fed Fund's Rate by year end[4]. We won't count out that level of cuts this year, but that would likely mean a significant slowing in the economy before year-end. We believe the Fed will not be overly dovish going forward and will remain data-dependent. As of now, we remain in line with 0.5% of cuts and the potential for 0.75% by year-end. This still leaves room for yields to compress lower, and we believe sentiment could push the 10-year Treasury Yield below 3.5% in the short term.

We had a positive view of the fixed-income markets all year due to attractive yields and the potential negative correlation benefits during a risk-off drawdown in the equity markets. We believe the negative correlation benefits still stand but are neutral on the rate outlook in the near term. But, for long-term bond investors, our opinion is still positive at the current rate level due to secular deflationary pressures. Current yields still present a positive outlook moving forward.

Economic:

This week's economic calendar will be significantly lighter than last week's. To get the week started, the ISM will release its Services PMI. Wednesday the Federal Reserve will release their Consumer Credit Report. With no major reports on Friday, the weekly unemployment claims report on Thursday 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) FactSet Research, Inc
https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_080224A.pdf

3) Federal Reserve Board
https://www.federalreserve.gov/newsevents/pressreleases/monetary20240731a.htm

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

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