Week in Review

Equity Markets:

The markets continued their recovery last week. The S&P 500 finished the week up 1.47% as market breadth increased. Small-caps were the top performers last week with the Russell 2000 ending the week up 3.62%[1]. The prospects of lower borrowing costs helped propel more economically sensitive stocks higher. The spread between growth and value was narrow last week but growth stocks still hold the advantage for the year. Year to date the Russel 1000 Growth Index is up 21.95% and the value index is up 13.59%[1].

Second quarter earnings results are nearly complete with 477 of S&P 500 companies having already reported. So far, results are better than expected with 79% of companies beating earnings estimates and 60% exceeding earnings expectations[2]. With only a few major announcements left, many have started looking forward to third-quarter results. Analysts are expecting earnings to grow by 5.7%, which is down from the 8.7% projected on July 1[2].

Fixed Income Markets:

The fixed-income markets were the highlight of the week. On Wednesday, the minutes from the Federal Reserve's Policy Meeting last month were released. The meeting minutes revealed that the majority of participants were in favor of a rate cut at their meeting in September as long as inflation reports continue on the current trajectory. The minutes were confirmed on Friday when Chairman Powell spoke at the Jackson Hole Economic Symposium. Chairman Powell said, "The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks."[3]

Bonds rallied and yields fell following the announcements with the 10-year Treasury yield falling 0.08% to close at 4.81%. The yield curve steepened as shorter-term maturities rallied on the news of the policy shift. The 2-year Treasury yield fell 0.16% for the week and closed at 3.90%.

Economic:

The Conference Board's Leading Economic Index declined by 0.6% in July. The index has shown negative readings since early 2022. But, the rate of decline has slowed significantly this year. This indicator had been flashing warning signs of a recession but more recent readings indicate economic weakness with the possibility of avoiding a recession. The recent decline in interest rates helped home sales in July. For the first time in four months, existing home sales increased month over month and came in at 1.3%. New home sales spiked 10.6% from a year ago; marking the largest increase since May 2023.

Looking Ahead

Equity Markets:

As we look through the end of the year, we still anticipate bouts of elevated volatility. Historically, we are entering a seasonally volatile period, and even more so during election years[4]. The S&P 500 closed last week a mere 35 points below its all-time high. The drawdown at the beginning of the month was volatile and quick but was only an 8.3% fall from the mid-July high. The rapid recovery presents a great opportunity for investors to review their desired risk appetite given the historical spike in volatility. We believe reviewing your portfolio allocations and risk exposure during the recovery is superior to making an emotional decision during a sell-off. Altering your strategic allocation during a sell-off has the potential to negatively impact your portfolio's ability to achieve returns that align with your long-term objectives and goals.

Fixed Income Market

The dovish tone by Chairman Powell was anticipated by the markets given the improving inflationary data. Now that policymakers have indicated a pivot, we believe it is time for investors to reevaluate their current allocations within their fixed-income allocations. Once rate cuts begin, cash alternatives, such as money markets, will see a quick reduction in yield. Identifying what percentage of their current allocation to cash and cash alternatives are earmarked for risk taking would be prudent. Reviewing opportunities to extend duration past *zero* to continue to reap the rewards of the relatively higher rate environment is a good exercise.

We believe the Fed will continue to be data-dependent on the path to lower rates. This could mean a slower path back to their terminal rate. We see the 10-year yield in the range of 3.25-4% through the end of the year.

Economic:

On Tuesday, we will get two more housing market updates with the S&P/Case-Shiller Home Price Index followed by the pending home sales report on Thursday. The Conference Board will release its Consumer Confidence Index on Tuesday as well. Following a strong first estimate of 2.8%, we will receive the second estimate for second-quarter GDP on Thursday. Friday will be the headline released for the week. The Fed's preferred inflation gauge, the Personal Consumption Expenditure Price Index (PCE) will be released along with the final reading of the University of Michigan Consumer Sentiment Index.

**** *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) LSEG I/B/E/S
https://lipperalpha.refinitiv.com/wp-content/uploads/2024/08/TRPR_82221_762.pdf

3) Reuters
https://www.reuters.com/markets/key-quotes-powells-speech-feds-jackson-hole-conference-2024-08-23/

4) Fox Business
https://www.foxbusiness.com/markets/stock-market-october-perfornance-election-years

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