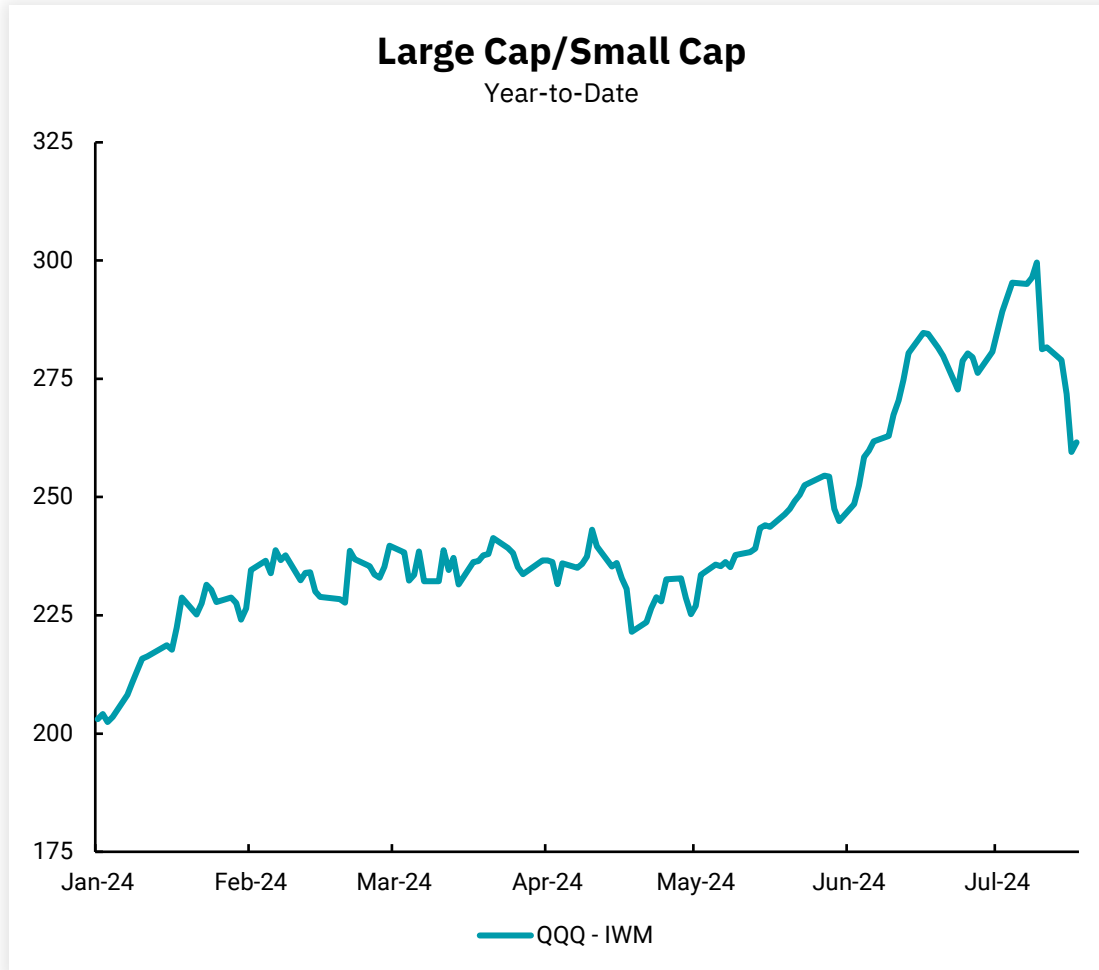


Weekly market update



Chart of the week (Jul. 19, 2024)



We have written before about the concentration of equity returns within the domestic stock market. Large-cap growth stocks have dominated performance, leading to significant performance differentials between "passive" indexes. Investors were "paid" in the form of excess performance if they were overweighted towards these high-flyers, and a broadly diversified approach led to less positive returns.

With this in mind, this week's chart gives a visual perspective of the difference in year-to-date performance between the NASDAQ 100 index, ticker QQQ, and the Russell 2000 small cap index, ticker IWM. Until recently, it was clear the performance differential was material.

However, while the year-to-date differential still favors QQQ, the rotation from large-cap to small-cap has been violent since the recent release of a somewhat benign [Consumer Price Index \(CPI\)](#) inflation report for June. Overweighting large versus small caps has been a hugely profitable trade, which inevitably led to some investors becoming a bit too aggressive, setting the table for the move we have seen. Yes, valuations of large-cap stocks were higher, yet we know that valuation is not a good timing tool.

When the June inflation report was released, monetary policy expectations shifted towards a lower-rate environment than we're in now. The Federal Reserve's high interest rate policies have been significantly impacting smaller companies, as their access to capital can be more expensive and variable in nature than larger companies' access. And so, when the Fed starts to cut rates, it should provide a slightly better earnings environment for small-cap companies.

For diversified investors, this broadening of investment performance is a welcome development. Particularly if we continue to see an economic picture that shows overall growth remaining positive while inflation continues to decline towards the Fed's 2% target. We believe it is unlikely that the Fed will make any change to rates at their upcoming July meeting. However, we will be watching to see how their communication shifts to see if they are setting the table for a September move. There are a lot of moving parts that could impact the ultimate Federal Funds rate, as well as the overall economic outcome, but the bottom line is that the market is shifting towards a lower-rate outlook.

Weekly market update



Commentary (Jul. 19, 2024)

Domestic Equities

- The S&P 500 Index notched another new high on Tuesday and then retreated for the rest of the week as investors began to trim the year's biggest winners and piled into beaten-down smaller companies. The index was down over 2% for the week.
- The Russell 2000 Index, which was about flat year-to-date until recently, rose 11.5% in six trading days. Small companies are expected to benefit the most from lower interest rates.
- The tech-heavy Nasdaq Composite Index fell almost 4% for the week. Investors are beginning to fear that chip makers will face more U.S. trade restrictions regardless of who wins the presidential election. Valuations in tech are stretched, and investors are looking for any excuse to take profits off the table. Value and small caps were the beneficiaries of this trade.

Bonds

- U.S. Treasury yields were slightly higher for the week, with several Federal Reserve officials signaling that a July rate cut was off the table but that a cut sometime in the fourth quarter is more likely.
- Across U.S. credit markets, spreads narrowed, with lower-quality names outperforming the broader market. In particular, CCC and below rated credits posted the strongest returns for the week.
- On Thursday, the European Central Bank kept interest rates unchanged but downgraded its outlook for eurozone growth for the remainder of the year. In the post-meeting press conference, President Lagarde would not commit to saying whether the central bank would cut rates in September but stated the meeting was "wide open."

International Equities

- Foreign stock markets faced heightened volatility during the week as global chip stocks fell amid reports of tighter export restrictions to stop companies from exporting critical chipmaking equipment to China.
- Foreign developed markets gave back some of the gains made over the last four weeks as most European markets retreated throughout the week. The largest stocks by market capitalization experienced the most significant declines, as the MSCI Equal Weighted EAFE Index outperformed the cap-weighted index by approximately 1%.
- Emerging markets snapped their recent momentum as markets across Latin America and Asia tumbled. China's second-quarter GDP rose by 4.7% year-over-year, falling short of expectations, while June retail sales also rose but were below expectations. The data has rekindled concerns about the country's economic growth prospects.

Economics

- The Federal Reserve reported industrial production increased 0.6% in June and 1.6% over the prior 12 months. Output increased by 0.4%, while capacity utilization increased to 78.8%.
- The Census Bureau reported monthly retail sales slightly declined in June, totaling \$704 billion. General merchandise rose, while automotive sales declined in the month.
- Additionally, the Census Bureau reported that building permits, housing starts, and housing completions all increased in June.
- Initial claims for unemployment insurance for the week ending July 13 were 243,000, an increase of 20,000 compared to the prior week and above the four-week moving average of 234,750.
- Consumer spending and income will be released on Friday.

Markets

	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	40,287.53	0.7%	8.0%	17.3%
S&P 500 Index	5,505.00	-1.9%	16.3%	22.4%
NASDAQ Composite	17,726.94	-3.6%	18.5%	24.4%
S&P 400 Midcap Index	3,015.30	-0.2%	9.3%	12.4%
S&P 600 Smallcap Index	1,380.44	2.2%	5.7%	10.7%
MSCI EAFE	8,364.07	-2.4%	7.5%	10.8%
MSCI Emerging Markets	577.82	-3.0%	8.2%	9.6%
Bloomberg US Agg	2,172.57	-0.3%	0.5%	3.1%
Bloomberg Municipal 5 Yr	488.71	0.2%	0.0%	2.5%
Bloomberg US Corporate	3,248.48	-0.4%	0.9%	5.1%
Bloomberg Glb Agg ex US Hdg	573.33	0.2%	1.5%	5.7%
Bloomberg High Yield	2,579.31	0.3%	4.0%	10.6%
MSCI US REIT Index	2,248.46	1.7%	4.6%	8.5%
Bloomberg Commodity Index	230.52	-3.1%	1.8%	-2.5%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	5.50%	5.50%	5.50%	5.25%
3-Month Treasury	5.33%	5.33%	5.33%	5.40%
1-Year Treasury	4.88%	4.85%	4.76%	5.28%
2-Year Treasury	4.51%	4.45%	4.25%	4.77%
5-Year Treasury	4.17%	4.10%	3.85%	3.99%
7-Year Treasury	4.18%	4.12%	3.88%	3.87%
10-Year Treasury	4.24%	4.18%	3.88%	3.75%
30-Year Treasury	4.45%	4.40%	4.03%	3.84%

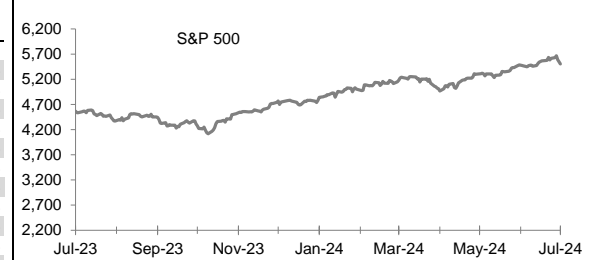
Consumer Rates				
30-Year Mortgage	7.16%	7.19%	6.99%	5.83%
Prime Rate	9.25%	9.25%	9.25%	9.00%
SOFR	5.34%	5.34%	5.38%	5.05%

Commodities				
Gold	2,400.83	2,411.43	2,062.98	1,976.64
Crude Oil (WTI)	80.13	82.21	71.65	71.99
Gasoline	3.50	3.53	3.12	3.58
Natural Gas	2.13	2.33	2.33	3.32
Copper	4.24	4.59	3.89	3.85

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	19.99	21.56	5.14	1.86
S&P 500	22.57	24.11	4.98	1.38
S&P 500 Value	17.17	17.86	2.89	2.32
S&P 500 Growth	37.08	33.54	11.53	0.53
NASDAQ	34.60	35.74	6.92	0.75
S&P Midcap 400	16.80	16.60	2.52	1.79
S&P Smallcap 600	16.41	16.05	1.87	2.61
MSCI EAFE	15.08	15.02	1.93	3.13
MSCI Emerging Markets	13.26	15.50	1.77	2.79

Source: Bloomberg

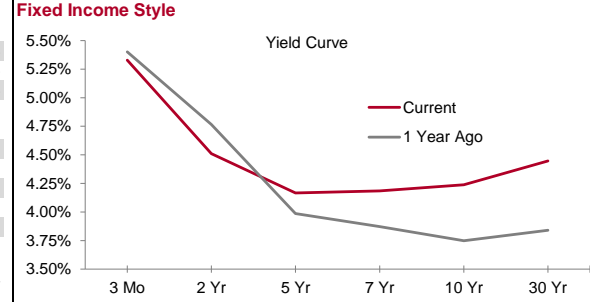
Equity Style



1 Month*				Year to Date*			
	Value	Core	Growth		Value	Core	Growth
Large	2.94	0.41	-1.32	> 10%	8.85	16.30	22.95
Mid	4.61	3.03	1.62	0% - 10%	4.39	9.30	14.02
Small	8.53	7.59	6.70	< 0%	2.10	5.73	9.37

*S&P Indices

Fixed Income Style



1 Month*				Year to Date*			
	Short	Interm.	Long		Short	Interm.	Long
Govt	0.70	0.66	-1.12	> 10%	1.86	1.15	-3.54
Corp	0.78	0.77	-0.32	0% - 10%	2.61	2.10	-1.59
HY	1.23	1.49	0.49	< 0%	4.57	4.07	0.83

1-3 Yrs 1-10 Yrs +10 Yrs

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	3.0%	3.0%
CPI Core Inflation	3.3%	4.8%
Personal Consumption Exp (PCE) Core	2.6%	4.7%
Jobs		
Unemployment Rate (U3)	4.1%	3.6%
Broader Unemployment Rate (U6)	7.4%	6.9%
JOLT Survey (in millions)	8.14	9.31
Jobless Claims (000's)	243	231
Change in Non-Farm Payroll (000's)	206	240
Average Hourly Earnings (Y/Y % Change)	3.9%	4.7%
Consumer & Spending		
Consumer Confidence (Conf Board)	100.4	110.1
Consumer Spending (\$ Bil)	19,338	18,408
Consumer Credit (\$ Bil)	5,065	4,963
Retail Sales (\$ Bil)	704	689
Housing		
Housing Starts (000's)	1,353	1,415
Case-Shiller Home Price Index	320.42	301.47
U.S. Productivity		
Real Gross Domestic Product (\$ Bil)	22,759	22,112
Quarter over Quarter Change	1.4%	2.2%
Year Over Year Change	2.9%	1.7%
ISM Manufacturing	48.50	46.40
Capacity Utilization	78.76	78.60
Markit US Composite PMI	54.80	53.20
U.S. General		
Leading Economic Indicators	101.1	106.2
Trade Weighted Dollar Index	122.8	118.0
EUR / USD	1.09	1.12
JPY / USD	157.48	139.65
CAD / USD	0.73	0.76
AUD / USD	0.67	0.68

S&P 500 Sector Returns

	1 Month	YTD
Information Technology	-3.76%	27.02%
Communication Services	-0.15%	23.47%
Financials	4.30%	14.86%
Consumer Staples	2.19%	12.60%
Utilities	5.14%	12.28%
Consumer Discretionary	1.40%	11.33%
Energy	1.75%	10.35%
Industrials	1.76%	9.34%
Health Care	3.33%	7.10%
Materials	1.17%	6.22%
Real Estate	6.38%	2.92%

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