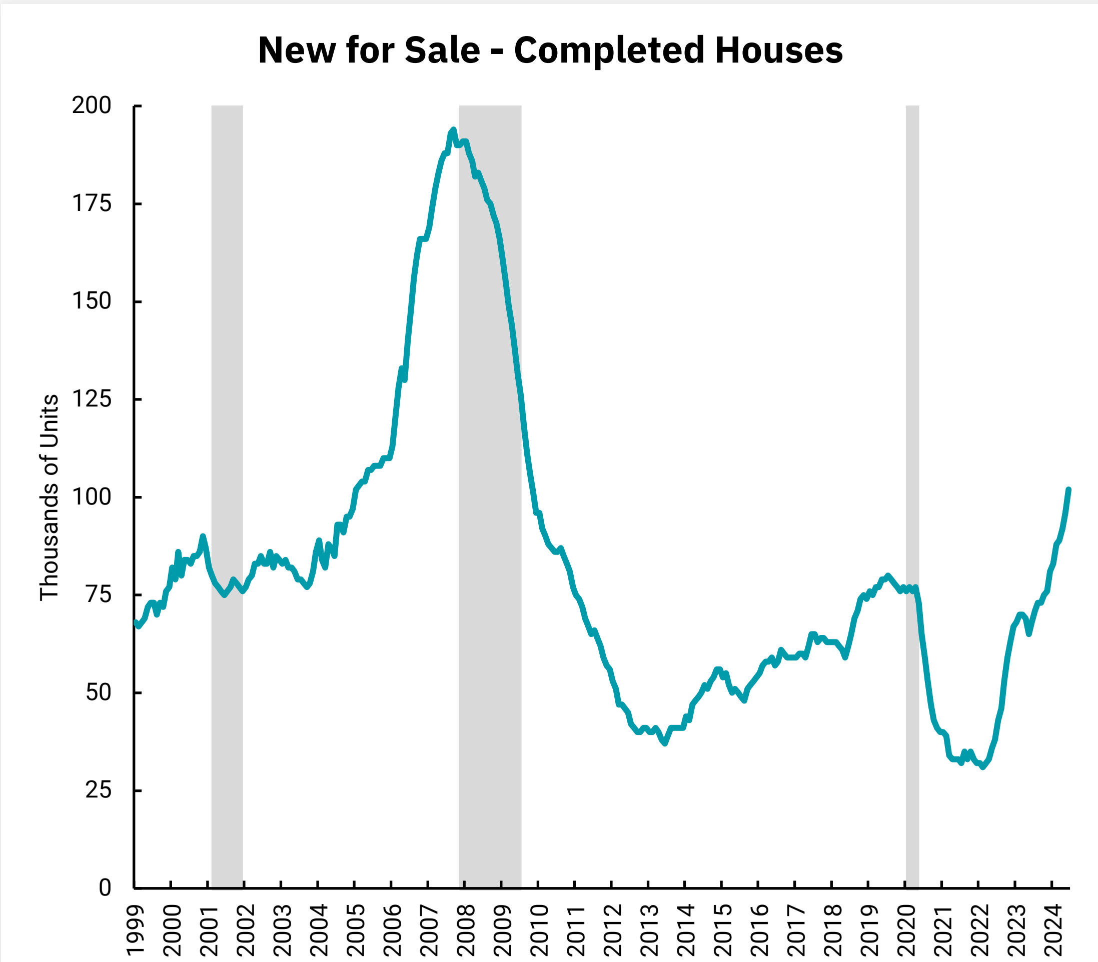
INVESTMENT MANAGEMENT

Weekly market update

Chart of the week (Jul. 26, 2024)



We have commented before on the bi-furcated nature of our economy and the varying impacts of inflation and rates. While the job market remains on stable footing, we know inflation's negative impact on lower-income households is growing as delinquencies on credit cards and autos are increasing. Meanwhile, in the corporate world, the impact of higher rates is materially different between larger and smaller companies. Even with the rotation from large-cap to small-cap equities over the last month, year-to-date performance still reflects the larger impact higher rates have had on small companies.

The housing market is no different. If you already have a home with a low fixed-rate mortgage or no mortgage at all, the housing market may seem fine. This applies to most homeowners right now, as more than 90% of mortgages are at rates below the current level. For those in this group, higher rates are not increasing their interest expense. Meanwhile, home prices continue to rise, so they're building more equity.

However, the housing market is a mess if you are trying to buy a home. The large number of low-rate mortgages means that existing homeowners have little incentive to sell, reducing the supply of homes for sale overall and helping keep prices firm. This leaves new homes as the primary source of available housing. However, that, too, is in short supply. Our chart this week shows the impact of the Financial Crisis when the investment in housing fell off a cliff and stayed below replacement levels for the better part of the last decade. This overall dearth of supply is why the impact of higher rates has been muted on the housing market.

Recent data, however, shows a shift might be underway. New homes for sale have been rising and are now above levels we saw going into the pandemic. Prices, overall, remain high, but as supply rises, we may begin to see the trend toward price cuts expand. If we look a bit more granular by region, we can see the biggest increase in new homes for sale is in the South, where we are back to pre-Financial Crisis levels. The West, Midwest and Northeast are still well below those levels—but back to, or slightly above, pre-pandemic levels.

The Fed's expected adjustment in monetary policy could bring some rate relief. Still, underlying demand remains at levels that likely will prevent significant price decline or a material improvement in affordability. The fact is: despite the recent increase in new homes for sale, we remain in a supply-constrained housing environment.

Source: Federal Reserve Bank of St. Louis.

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Commentary (Jul. 26, 2024)

Domestic Equities

- U.S. stocks saw mixed results for the week. The Nasdaq Composite Index was down about 3.5% for the week as investors rotated out of big tech stocks. One beneficiary of this rotation has been small-cap stocks. The Russell 2000 Index was up over 3.5% for the week. The Russell 1000 Value Index was also positive for the week, while the Growth Index was negative.
- As earnings season gets into full swing, investors are keenly focused on whether the big tech reports can justify the high multiples reached by the names tied to AI. Alphabet beat earnings expectations, but weaker-than-expected spending on AI sparked a selloff mid-week.
- Small cap stocks have benefited from softer inflation data which boosts hopes that interest rate cuts are on the horizon. Better earnings reports would go a long way to support the rally, as the first quarter was weak.

Bonds

- The U.S. Treasury yield curve bull-steepened, with short-term rates moving lower, led by the two-year, while long-term rates were roughly flat. Notably, the 2s30s curve turned positive for the first time since January.
- Bond investors increased bets that the Federal Reserve will cut rates in September after personal consumption expenditures (PCE) inflation data showed only a slight rise in June.
- Emerging market government debt led fixed income returns during the week, with the sector benefitting from a weaker U.S. dollar and lower rates in China.
- Internationally, the People's Bank of China surprised markets by cutting its medium-term lending facility by 0.20%. The Bank of Canada also announced a 0.25% cut to the overnight rate, in line with expectations.

International Equities

- Foreign stocks slumped as investors digested new economic data, disappointing earnings news and central bank policy actions while monitoring critical developments in the U.S. presidential election.
- Foreign-developed markets struggled for the second straight week as markets within the Asia-Pacific region tumbled while losses across Europe were more muted. The Euro-area Purchasing Managers Index fell as Germany, the region's most important economy, struggles to find its footing.
- Key markets across Asia and Latin America tumbled during the week as weakness in Asian technology stocks weighed on emerging market returns. South Korea’s gross domestic product (GDP) unexpectedly shrank by 0.2% over the last quarter, primarily due to sluggish consumer spending, which may prompt their central bank to cut rates at its next meeting.

Economics

- The Bureau of Economic Analysis (BEA) reported that both personal income and disposable personal income increased by 0.2% in June, mostly due to increases in compensation for employees. Consumer spending rose 0.3%, primarily due to increased spending on services. The consumer savings rate slightly declined to 3.4%.
- The BEA also reported the Personal Consumption Expenditures Price Index (PCE inflation) was 0.1% in June and 2.5% over the prior 12 months. Core PCE inflation (which excludes food and energy) rose 0.2% in June and was 2.6% over the prior 12 months.
- The June Job Openings and Labor Turnover Survey (JOLTS) will be released on Tuesday. The July jobs report will be released on Friday.

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Weekly Market Update

For Week Ending July 26, 2024

Markets

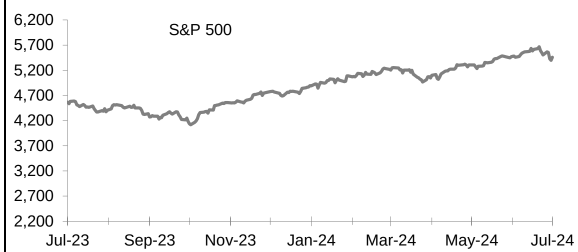
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	40,589.34	0.8%	8.8%	16.6%
S&P 500 Index	5,459.10	-0.8%	15.3%	21.3%
NASDAQ Composite	17,357.88	-2.1%	16.1%	23.8%
S&P 400 Midcap Index	3,074.96	2.0%	11.5%	14.6%
S&P 600 Smallcap Index	1,429.35	3.6%	9.5%	14.5%
MSCI EAFE	8,284.31	-1.0%	6.4%	10.0%
MSCI Emerging Markets	568.78	-1.6%	6.5%	6.6%
Bloomberg US Agg	2,178.46	0.3%	0.8%	3.9%
Bloomberg Municipal 5 Yr	489.75	0.2%	0.2%	2.7%
Bloomberg US Corporate	3,254.06	0.2%	1.0%	5.7%
Bloomberg Glb Agg ex US Hdg	574.99	0.3%	1.8%	6.2%
Bloomberg High Yield	2,586.92	0.3%	4.3%	11.0%
MSCI US REIT Index	2,249.69	0.1%	4.7%	7.2%
Bloomberg Commodity Index	227.15	-1.5%	0.3%	-5.8%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	5.50%	5.50%	5.50%	5.50%
3-Month Treasury	5.29%	5.33%	5.33%	5.40%
1-Year Treasury	4.80%	4.88%	4.76%	5.35%
2-Year Treasury	4.38%	4.51%	4.25%	4.85%
5-Year Treasury	4.07%	4.17%	3.85%	4.12%
7-Year Treasury	4.11%	4.18%	3.88%	4.00%
10-Year Treasury	4.19%	4.24%	3.88%	3.87%
30-Year Treasury	4.45%	4.45%	4.03%	3.93%
Consumer Rates				
30-Year Mortgage	7.15%	7.21%	6.99%	5.83%
Prime Rate	9.25%	9.25%	9.25%	9.25%
SOFR	5.35%	5.34%	5.38%	5.06%
Commodities				
Gold	2,387.19	2,400.83	2,062.98	1,972.07
Crude Oil (WTI)	77.16	78.64	71.65	73.95
Gasoline	3.51	3.50	3.12	3.71
Natural Gas	2.01	2.13	2.33	3.41
Copper	4.12	4.24	3.89	3.95

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	20.12	21.72	5.17	1.84
S&P 500	22.37	23.90	4.94	1.40
S&P 500 Value	17.03	17.70	2.87	2.33
S&P 500 Growth	35.53	32.20	11.07	0.56
NASDAQ	33.87	34.96	6.77	0.78
S&P Midcap 400	17.20	16.93	2.57	1.73
S&P Smallcap 600	16.60	16.20	1.89	2.59
MSCI EAFE	14.77	14.68	1.88	3.21
MSCI Emerging Markets	12.97	15.07	1.72	2.86

Source: Bloomberg

Equity Style



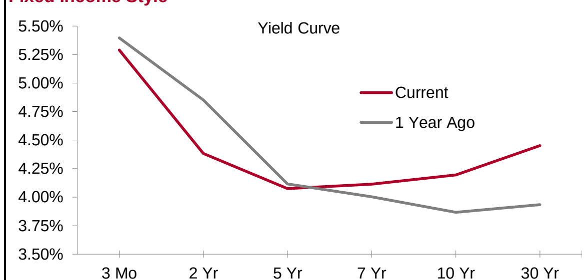
1 Month*	Value	Core	Growth
Large	4.07	-0.26	-3.33
Mid	7.57	5.70	4.02
Small	13.01	11.84	10.69

Year to Date*	Value	Core	Growth
Large	10.09	15.35	20.08
Mid	7.10	11.48	15.66
Small	6.03	9.49	12.92

> 10% | 0% - 10% | <0%

*S&P Indices

Fixed Income Style



1 Month*	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	0.97	1.25	0.43
Corp	1.09	1.41	0.95
HY	1.39	1.75	1.37

Year to Date*	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	2.10	1.49	-3.40
Corp	2.86	2.40	-1.68
HY	4.81	4.38	0.90

> 10% | 0% - 10% | <0%

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%	4.3%
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)	235	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)	19,444	18,485
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)	22,919	22,225
Quarter over Quarter Change	2.8%	2.1%
Year Over Year Change	3.1%	2.4%
ISM Manufacturing	48.50	46.40
Capacity Utilization	78.76	78.60
Markit US Composite PMI	55.00	52.00
U.S. General		
Leading Economic Indicators	101.1	106.2
Trade Weighted Dollar Index	123.5	117.7
EUR / USD	1.09	1.11
JPY / USD	153.76	140.24
CAD / USD	0.72	0.76
AUD / USD	0.65	0.68

S&P 500 Sector Returns

	1 Month	YTD
Information Technology	-3.85%	23.91%
Communication Services	-7.01%	18.83%
Financials	5.77%	16.34%
Utilities	3.47%	14.26%
Energy	1.65%	12.02%
Consumer Staples	1.78%	11.96%
Industrials	3.75%	11.63%
Materials	2.62%	10.88%
Health Care	3.17%	7.68%
Consumer Discretionary	-1.45%	4.63%
Real Estate	7.84%	3.47%

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