

OBSERVATIONS

- Markets were mixed again last week with the S&P 500 declining by -0.8%, while small caps (Russell 2000 Index) gained +3.5%. Meanwhile the yield on a 10-year Treasury moved down -4 basis points to 4.20%.<sup>1</sup>
- Six months after approving Bitcoin ETFs, US regulators have followed up and approved Ether ETFs (the world's second largest cryptocurrency). Bitcoin ETFs have taken in \$17 billion in net inflows since going live earlier this year and expectations for Ether ETFs are muted with \$3-\$4 billion of net inflows expected.<sup>1</sup>
- Existing home sales fell in June by -5.4% month-over-month (MoM) from May to 3.89 million (annualized rate). The supply of houses for sale increased by +3.1% MoM to reach about 4.1 months of supply.<sup>1</sup>
- New home sales decreased by -0.6% MoM to reach 617k (annualized rate), but both May and April saw upward revisions. Compared to June-2023, new home sales were down -7.4% year-over-year (YoY).<sup>1</sup>
- Initial unemployment eased by -10k last week falling to 235k new claims and there were approximately +11k more claims than this week last year.<sup>1</sup>
- Durable goods orders fell a surprising -6.6% MoM in June, but most of this decline was caused by the volatile non-defense aircraft component (Boeing shipments of airplanes) and durable goods ex transport came in ahead of expectations growing +0.5% MoM.<sup>1</sup>
- The US economy surprised to the upside in Q2 with initial estimates of real GDP growth hitting 2.8% (annualized rate), which was double Q1's 1.4% growth rate—consumer consumption and capital spending by business both contributed to the acceleration in economic growth.<sup>1</sup>
- The Fed's preferred inflation gauge—the PCE Price Index—was mixed in June. The headline PCE Price Index fell to 2.5% YoY down from May's 2.6% YoY figure. Core-PCE (which removes food and energy) remained at 2.6% YoY the same rate as in May, but core-PCE for the past three months annualizes to only 2.3% YoY.<sup>1</sup>

EXPECTATIONS

- The Fed meets this week, and markets widely expect it to keep rates unchanged but signal that the first rate cut since July-2020 is likely to occur in September as well as provide some guidance on how many further rate cuts may be expected in the final months of 2024 and into H1-2025.<sup>1</sup>
- Despite some high-profile companies missing estimates including Tesla, Ford, and UPS, Q2 earnings season continues to be decent. With about 41% of companies reporting, 78% have issued a positive earnings surprise, which is better than the 5-year (77%) and the 10-year (74%) averages for positive surprises.<sup>2</sup>

ONE MORE THOUGHT: Geopolitics, Small Caps, and a Pickup in Equity Volatility<sup>1</sup>

As we suspected, geopolitical factors came to the fore in July. In a span of weeks, we saw the near assassination of former President Trump, his official acceptance to run as the Republican Presidential nominee, the withdrawal of President Biden from the race, and Vice President Harris securing (at least unofficially) enough delegates to run as the Democratic candidate for President in November. These political events, coupled with a better-than-expected inflation print for the CPI index early in the month set the stage for a rotation in equities and for bonds to rally. The Bloomberg US Bond Aggregate (the Agg) closed on 1-July at 4.46% but traded steadily lower throughout the month ending last week at 4.20%. Meanwhile, small caps (Russell 2000 Index) moved sharply higher while the S&P 500 has traded flat (+0.1%) as most of the Magnificent Seven—Tesla, Apple, Microsoft, Meta, NVIDIA, Alphabet, and Amazon—declined during the month. Further evidence of slowing inflation, firmer expectations for a September

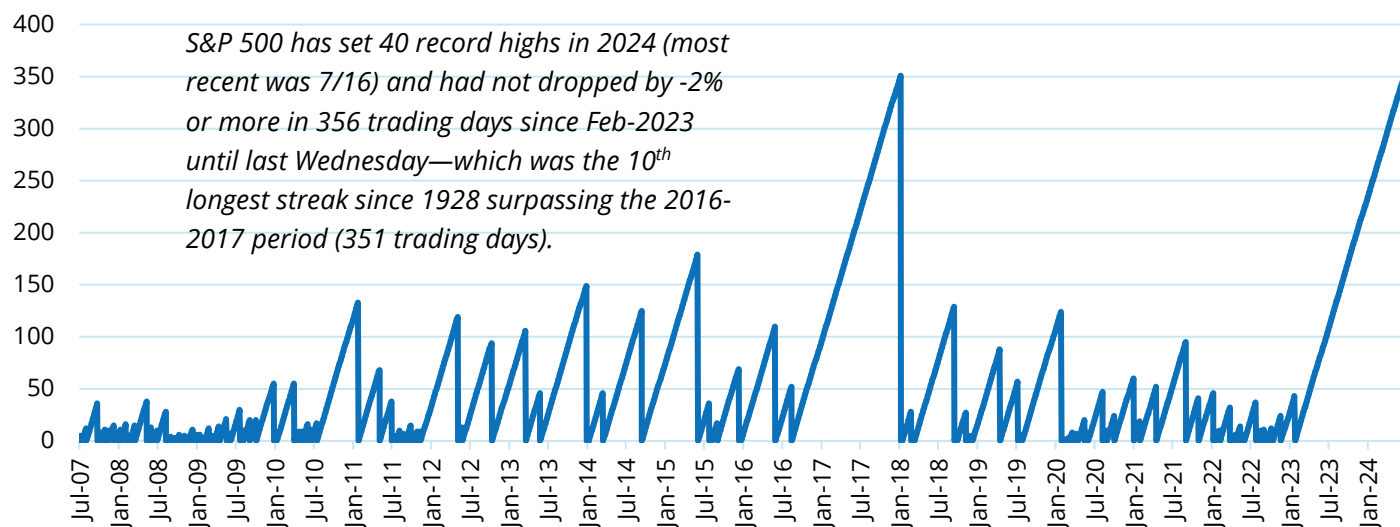
<sup>1</sup> Bloomberg LP 7/26/2024

<sup>2</sup> [https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight\\_072624.pdf](https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_072624.pdf)

rate cut, rising chances of a Trump presidency, and the narrowing of the gap between large and small-cap earnings growth became the primary fuel for the small cap rally. After gaining only 1.7% in the first six-months of 2024, small caps gained +10.4% month-to-date in July through last Friday (26-July). As for large caps, there was a rotation out of large cap growth names and into less expensive, more rate-sensitive stocks including real estate, utilities, and financials. Volatility in the equity markets—as gauged by the VIX index—picked up in July but remains muted by historic standards, while volatility in bonds—the MOVE Index—eased lower throughout the month. As we head into the lighter volume trading days of August, political headlines are likely to remain center stage. VP Harris will likely name her running mate soon, and the Democratic National Convention will be held mid-August. Announcements about an upcoming presidential debate between Harris and Trump as well as a VP debate could easily push the next batch of macro data and the Federal Reserve’s annual Jackson Hole conference out of the headlines. With only three days left in July, August is likely to see a continued rotation away from growth stocks and broadening equity leadership. But when traders return in full force after Labor Day, the stage could be set for Fed action on rates, new economic policy announcements from both major parties, and corporate America will begin to offer guidance on the prospects for 2025. Given this, we would expect volatility to pick up as the market digests all that is to come.

**CHART OF THE WEEK**

**Momentum in US Equities**  
 (Number of Days Since -2% Decline - S&P 500)



Source: Bloomberg LP as of 7/26/2024

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