MARKET MINUTE

JULY REVIEW 2024

This month's Market Minute reflects the views of our Investment Office and was composed by
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OVERVIEW

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 ongoing improving inflation data, set the stage for a rotation in equities and for bonds to rally. The 10-Year US Treasury yield significantly declined from June's closing yield of 4.40% to 4.03%.[1] Although the move in the 10-year yield was impressive, the decline in the 2-year yield from 4.75% to 4.26%[1] clearly reflects the bond market's excitement that multiple cuts in the Fed Funds rate are imminent. With confidence that the direction of rates is lower, the equity market rally spread beyond the Magnificent Seven and into small caps and less expensive, more rate-sensitive stocks including real estate, utilities, and financials.

With the US stock market near record high levels, unemployment at only 4.1%[1], and the economy growing at close to a 3% rate, one may ask why lower rates? To paraphrase Lord Tennyson, Ours is not to reason why; ours is but to follow the Fed!

U.S. EQUITY MARKETS As of July 31, 2024

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	4.5%	4.5%	9.5%	17.2%
S&P 500	1.2%	1.2%	16.7%	22.1%
Russell 2000	10.2%	10.2%	12.1%	14.2%
Russell 1000 Growth	-1.7%	-1.7%	18.6%	26.9%
Russell 1000 Value	5.1%	5.1%	12.1%	14.8%

The big story of July in terms of equities was some normalization of volatility—moving higher from historical low levels—and a significant rotation out of the Fab 5 to previously less loved parts of the market this year such as small caps and more dividend-oriented names. In fact, small cap stocks (Russell 2000 Index) gained +10.2% in July versus the S&P 500 which gained only +1.2%. Keep in mind that, at the end of June, small caps had gained only +1.7% for the first six months of the year compared to the S&P which had already gained +15.3%. Similarly, the first half of the year had been a momentum-driven market (the MSCI US Momentum Index +25.6%) powered by a small number of names such as NVIDIA, Apple, Microsoft, Alphabet, and Amazon. Whereas more dividend-oriented stocks (MSCI US High Dividend Yield Index) had gained only +5.8% through the end of June. However, this reversed in July as softer inflation data seemed to pave the way for the Fed to begin cutting rates in the Fall and perhaps secondarily momentum for a second Trump Presidency—featuring a push for more deregulation—spurred investors to take profits from the Fab 5 and re-invest a broader swath of US equities. In July, the MSCI US Momentum Index fell by -2.1% while the MSCI High Dividend Yield Index gained +4.6%. In terms of sector performance, every part of the S&P 500 gained except IT (S&P 500 IT Subsector -2.1%) and Communications Services (-4.1%). Given this, it should be no surprise that value-oriented stocks (Russell 1000 Value Index +4.7%) led more growth-oriented names (Russell 1000 Growth Index -1.7%) for the month.

INTERNATIONAL EQUITY As of July 31, 2024

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	2.3%	2.3%	8.1%	9.7%
MSCI EAFE	2.9%	2.9%	8.4%	11.2%
MSCI Emerging Markets	0.3%	0.3%	7.8%	6.3%
MSCI EAFE Small Cap	5.7%	5.7%	6.2%	9.1%

Meanwhile international developed market equites led US large caps (S&P 500 Index) for July with the MSCI EAFE Index gaining +2.9%. Similar to the US, more value-oriented names outpaced the growth peers (MSCI ACWI ex US Value Index +2.7% vs MSCI ACWI ex US Growth Index +1.1%) and small caps led large caps (MSCI ACWI ex US Small +5.6% vs MSCI ACWI ex US +1.3%), but not to the same extent as in the US. Emerging market equities (MSCI EM Index) lagged in July, gaining only +0.3%—weighed down by Chinese equities (MSCI China Index) which actually fell by -1.3% for the month. International developed market equity returns were boosted in July by a weaker dollar, which accounted for approximately more than 70% of their US-dollar based return. Unlike in the US, which has seen macro data generally indicative of moderate economic growth, both Europe and China have been hit with a series of weaker-than-expected economic indicators which suggest that Europe could be teetering once again on the edge of a mild recession, while China's economy will struggle to meet their government's 5% growth target this year.

FIXED INCOME As of July 31, 2024

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
Bloomberg US Aggregate	2.3%	2.3%	1.6%	5.1%
Boomberg Global Aggregate	2.8%	2.8%	-0.5%	3.0%
Bloomberg US High Yield	1.9%	1.9%	4.6%	11.1%
JPM Emerging Market Bond	1.8%	1.8%	3.7%	8.6%
Bloomberg Muni	0.9%	0.9%	0.5%	3.7%

The overall decline in interest rates generated solid returns across the fixed income universe. The Bloomberg Aggregate index posted a +2.34%, while a stable economy and solid corporate fundamentals continue to support corporate spreads at relatively tight levels. (Bloomberg Investment Grade Corporate Index +2.38% and the Bloomberg U.S. Corporate High Yield 1.94%). Emerging market debt (JPM Emerging Market Bond - posted +1.82%) continued to perform well due to its quality, attractive yields and EM central bank rate cuts. For Muni investors, curve normalization will contribute to a stronger technical environment, as investors will look to longer-duration income alternatives as short yields move lower (Bloomberg Municipal Bond Index returned +0.91%).

CONCLUSION & OUTLOOK

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. We believe 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.

SOURCES

1 ***Bloomberg LP***