Your Weekly Investment

Insights

August 5, 2024

Key **Takeaways:**

- Rotation in equity leadership in July.
- Labor market showing signs of cracking.
- Investors shift to beaten down areas of stock markets; value outperforms growth.
- Investors flock to safety of bonds on expectations of Fed rate cuts.
- Gold prices supported.

Tide Shifts in Equity Markets – July 2024 Market Recap

The MSCI AC World Index was higher for the sixth month out of the seven months this year. Global equites were driven higher by optimism around economic data that suggested the Fed may be able to cut interest rates as early as September. However, there was a leadership shift in equity returns. While large cap growth and technology have dominated equity returns for most of the year, July saw a rotation out of the leaders (e.g., large cap growth and Nasdaq) and into the areas that have been neglected (e.g., small and midcap and value stocks). In addition, bond yields plunged as investors priced in aggressive rate cuts this year and next. In this weekly insights, we review July from an economic and asset class perspective.

- **Labor market cracking:** The U.S. economy added fewer jobs than expected in July (114K vs. 175K est.) and the prior two months saw net downward revisions of 111K. The unemployment rate increased to its highest level since October 2021 (4.3%). Additionally, individuals receiving unemployment benefits (i.e., continuing jobless claims) increased to the highest level since November 2021 (1.877 million).
- **Inflationary pressures receding:** The Fed's preferred inflation gauge, PCE Core, was unchanged in June at 2.6% YoY. Inflation as tracked by the Consumer Price Index declined for the first time since May 2020 led by a drop in energy prices.
- **Housing at a standstill:** Sales of previously owned homes fell to the slowest pace of the year amid elevated mortgage rates and average selling prices of homes hitting their highest level on record.
- **Manufacturing recession continues:** Manufacturing saw its biggest one month drop since June 2022 with employment and production plunging.

Global Equities - Investors rotate out of recent winners: The MSCI AC World Index was higher for the third straight month despite investors fleeing the recent technology/growth trade.

- **Growth sectors underperform:** The tech-heavy Nasdaq and Russell 1000 Growth Index were lower for the first time in three months as investors began to rotate out of expensive tech/growth winners.
- **Small-caps lead U.S. gains:** The Russell 2000 Index posted its best monthly return since December 2023 as investors piled into smaller, more rate sensitive companies on the prospect of Fed rate cuts.

Fixed Income - Bond prices rally on expectations for rate cuts: The Bloomberg Aggregate Index was higher for the third straight month, and by the most since December as bond yields plummeted.

- **Investors flock to quality:** Investment grade corporate bonds posted their best return since December. Municipal bonds were also higher for the second straight month.

Commodities - Energy prices tumble: The Bloomberg Commodity Index fell by the most since May 2023. Crude oil fell on a softening global demand outlook.

- **Investors flock to quality:** Gold prices rallied given increased bets for Fed rate cuts.

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Weekly Economic Recap –

Job Growth Slows, Putting Pressure on Fed for Rate Cuts

Consumer confidence as tracked by the Conference Board increased in July and was higher than consensus estimates as consumers increased their expectations for the economy and labor market. However, the gain was offset by consumers' gauge of current conditions, as the gauge fell to its lowest level in more than three years.

Job openings as tracked by the JOLTS report increased more than estimates but fell slightly from the prior month. The number of vacancies per unemployed worker remained steady at 1.2-to-1. Hiring eased to the lowest rate since the onset of the pandemic and layoffs fell to the lowest in two years.

The Federal Reserve kept interest rates unchanged at their July meeting (5.25% - 5.50%) and continued to reaffirm the stance of needing more confidence before cutting interest rates. The press release stated, "there has been some further progress toward the Committee's 2% inflation objective." Fed Chairman Powell confirmed this stance during his press conference stating, "the path ahead will be dependent on how the economy evolves… the job is not done on inflation."

Manufacturing activity fell deeper into contraction territory in July (46.8). In addition, the employment index fell to the lowest since June 2020 (43.4) and consumer sentiment weakened.

The U.S. economy added much fewer jobs than expected in July (114k vs. 175k est.) and the unemployment rate increased to its highest level since October 2021 (4.3%). Those working part-time for economic reasons increased to 4.57 million, the highest since June 2021.

Key **Takeaways:**

- Job openings increase more than expected.
- Fed keeps rates unchanged; Powell stresses “data dependence.”
- Unemployment rate climbs as job growth slows.
- Global equities plunge amid recession fears.
- Bond yields plummet as investors flock to quality.
- Commodities broadly lower; Gold the only area of strength.

Weekly Market Recap –

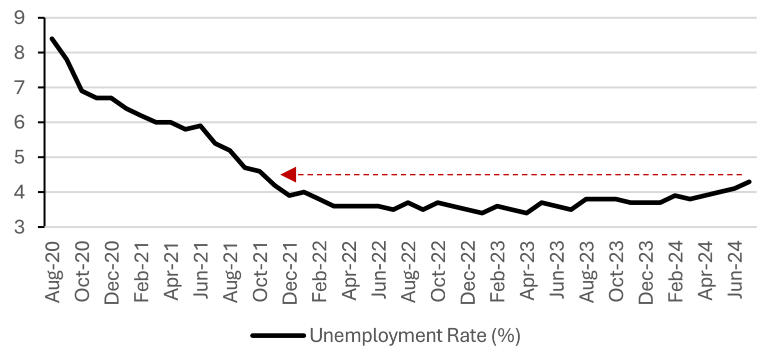
Global Equities Fall Sharply as Recession Fears Surge

Equities: The MSCI AC World Index was lower for the third straight week as investors fear of an economic slowdown amid weak labor market data out of the U.S. All major U.S. averages were lower last week. The small-cap Russell 2000 Index was lower for the first time in four weeks and by the most since March 2023. The Nasdaq was lower for the third straight week as investors continued to rotate out of high valuation technology names.

Fixed Income: The Bloomberg Barclays Aggregate Index was higher for the second straight week and by the most since December 2023. Bond yields tumbled as investors digested weak labor market data, sparking fears of a recession. All sectors of fixed income were higher, with outperformance coming from the safest areas of the market, including investment grade corporate and municipal bonds.

Commodities/FX: The Bloomberg Commodity Index was lower for the fourth straight week. Crude oil prices were lower for the fourth straight week as investors digested the weak jobs data out of the U.S. to suggest an economic slowdown could stifle demand. Gold prices were higher for the first time in three weeks as investors flocked to the safe-haven amid geopolitical tensions and economic growth fears.

Unemployment Rate at Highest since October 2021



Footnotes: Data is as of March 2024.
Source: Bloomberg Finance LP, Verdence Capital Advisors.

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Past performance is not indicative of future returns.

Global Equities Fall on U.S. Recession Fears

U.S. Equities

	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	39,737	-2.1%	1.1%	4.5%	14.9%	6.6%
S&P 500	5,347	-2.0%	-2.9%	5.9%	20.2%	13.0%
Russell 1000 Growth	3,465	-2.5%	-7.2%	5.9%	24.7%	14.0%
Russell 1000 Value	1,755	-2.0%	2.6%	4.1%	13.0%	9.0%
Russell Midcap	3,274	-2.6%	1.6%	2.5%	11.5%	6.1%
Russell 2000	2,109	-6.7%	3.8%	5.0%	8.8%	4.8%
Nasdaq	16,776	-3.3%	-6.9%	6.1%	21.0%	12.2%

International Equities

	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	787	-2.0%	-2.3%	4.0%	15.6%	9.4%
MSCI EAFE (USD)	2,291	-2.0%	-1.3%	1.1%	10.1%	4.3%
MSCI Europe ex UK (USD)	2,560	-2.5%	-1.9%	1.5%	9.9%	3.8%
MSCI Japan (USD)	3,835	-1.6%	-3.0%	-2.4%	10.2%	4.7%
MSCI UK (USD)	1,248	-1.6%	1.8%	3.3%	14.1%	8.7%
MSCI EM (USD)	1,061	-1.0%	-1.3%	1.9%	6.7%	5.5%
MSCI Asia ex Japan (USD)	678	-0.9%	-1.9%	2.8%	6.6%	7.3%

Fixed Income

	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	4.3%	2.4%	4.2%	5.9%	7.7%	3.2%
U.S. Govt/Credit	4.3%	2.3%	4.0%	5.7%	7.6%	3.1%
U.S. 10 Year Treasury	3.8%	3.3%	5.5%	7.5%	6.2%	2.9%
U.S. TIPS (1-10YR)	4.0%	1.0%	2.0%	3.7%	6.3%	3.3%
U.S. High Yield	7.7%	-0.1%	1.8%	3.3%	11.5%	4.3%
EM Bonds (USD)	6.8%	1.2%	2.9%	4.5%	10.3%	4.7%
Municipal Bonds	3.4%	1.0%	2.0%	2.9%	5.5%	1.5%

Commodities

	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	224	-1.2%	-6.0%	-4.8%	-4.8%	-0.9%
Crude Oil (USD/bbl)	$73.5	-4.7%	-9.3%	-5.4%	-6.0%	1.9%
Gold ($/oz)	$2,443.2	2.3%	4.9%	6.1%	26.3%	18.4%
Copper	$410.3	0.0%	-7.4%	-8.7%	6.8%	5.5%
Wheat	$539.0	3.0%	-7.2%	-13.7%	-24.9%	-17.9%
U.S. Dollar	103	-1.1%	-2.4%	-2.0%	0.6%	1.9%
VIX Index	23.4	42.7%	94.4%	59.3%	45.4%	87.9%

Footnotes: Data is as of August 2, 2024.

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