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Market Stats & Commentary

Market Vital Signs as of 6/30/2024

Stock Indexes	June	YTD	1 Year
S&P 500	3.59%	15.29%	24.56%
Dow Jones Industrial Average	1.23%	4.79%	16.02%
NASDAQ Composite	5.96%	18.13%	28.61%
Russell Mid Cap Index	-0.66%	4.96%	12.88%
Russell 2000 Small Cap Index	-0.93%	1.73%	10.06%
MSCI EAFE Developed Int'l Index	-1.61%	5.34%	11.54%
MSCI Emerging Markets Index	3.94%	7.49%	12.55%
Bond Indexes			
BBgBarc US Aggregate Bond Index	0.95%	-0.71%	2.63%
BBgBarc US Corp High Yield Bond Index	0.92%	2.49%	10.34%
Interest Rates	6/30/24	12/31/23	6/30/23
Fed Funds Target Range	5.25%-5.50%	5.25%-5.50%	5.00%-5.25%
10 Yr U.S. Treasury Rate	4.37%	3.94%	3.81%

June was a month of the haves and the have nots. Large cap tech was a have and pretty much everything else in developed global markets was a have not. I specify the developed markets because the emerging market was a notably strong performer.

Interest rates nudged down a bit in June, helping bond indexes to robust (for a bond index) returns for the month. Inflation numbers continue to trend down, not uniformly, but the trend is definitely down, and this is providing a tailwind to the bond market. More on that in a minute…

You Can't Fight the Fed

One of the first rules of thumb I learned in investments was "You can't fight the Fed". If the Fed is trying to push the economy in a certain direction, it will eventually move in that direction. After 18 months of consumer demand being amazingly resilient in the face of historic rate hikes, there are finally signs that consumers are pulling back. I realize that my last sentence may sound a bit happier than one might expect when discussing a slowdown in consumer spending, however, a slowdown in demand is the most straightforward way to get inflation back to the Fed's stated goal of 2%.

Consumer Spending

So what is consumer spending doing? Well, as of the end of May it was flatlining. The graph to the right is retail sales and food services spending in the U.S. since 2014. Two things jump out to me: 1) We are still way above the long-term trend. 2) Consumer spending has really stagnated in the last 6 months.

Anecdotally, restaurants and stores definitely do not seem to be as crowded as of late in my part of the world.

Inflation

The logical next question is if this stagnating demand is affecting prices. Fortunately, fresh inflation data was released this morning and it was something we have not seen for quite some time. The headline CPI index rose 3.0% year over year (yawn) **but the month over month number *FELL* by .1%.** Month over month CPI has only fallen one other time since the pandemic – July 2022 when it fell by a whopping .006% - so this feels meaningful. One number does not make a trend, but you can't start a trend without an inflection point.

It appears that the rule of thumb still stands – it may take a while, but you still can't fight the Fed.

What Does This Mean for Stock Prices?

Judging by the market reaction to the CPI report, it means interest rates drop and the haves and haves nots from June completely reverse. Many of the large cap tech stocks that have driven the S&P 500 and NASDAQ higher fell sharply while mid caps and small caps had a very big up day. Personally, I see this as a good thing as it broadens out what had become a very narrow market and bodes well for the "average stock" rather than just a handful of giant tech companies. Will there be follow through in the coming days? Only time will tell.

However, once the relief from increasing assurance on rate cuts wears off, investors will no doubt start worrying about how slow will the slow down get. Getting the economy to move in the direction you want is one thing – being able to stop the ball rolling once it is moving can be another thing. Much like Goldilocks and her porridge preferences, markets don't like things being too hot or cold. The economy is cooling but no one wants to see it get cold – everyone wants it "just right". In economic speak, this is called a soft landing. So far, the Fed has managed to impressively keep the porridge just right and Chairman Powell has recently made remarks emphasizing the risk of keeping policy restrictive for too long. This seems notable because until recently all public language had been geared toward the dangers of taking a foot off the brake too soon. To hear Powell talk about the danger of waiting too long to lower rates feels like a definite shift in Fed thinking.

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Investing involves risk and you may incur a profit or loss regardless of strategy selected. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions. Prior to making an investment decision, please consult with your financial advisor about your individual situation.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

Index Descriptions

S&P 500: Representing approximately 80% of the investable U.S. equity market, the S&P 500 measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested.

Dow Jones Industrial Average Total Return: The Dow Jones Industrial Average is a composite of 30 stocks spread among a wide variety of industries, such as financial services, industrials, consumer services, technology, health care, oil & gas, consumer goods, telecommunications, and basic materials. The index represents approximately 23.8% of the U.S. market, and is price weighted (component weightings are affected by changes in the stocks' prices). Maintained by the Averages Committee, components are added and deleted on an as-needed basis.

Russell Midcap: A subset of the Russell 1000 index, the Russell Midcap index measures the performance of the mid-cap segment of the U.S. equity universe. Based on a combination of their market cap and current index membership, includes approximately 800 of the smallest securities which represents approximately 31% of the total market capitalization of the Russell 1000 companies. The index is created to provide a full and unbiased indicator of the mid-cap segment.

Russell 2000: Based on a combination of their market cap and current index membership, this index is comprised of approximately 2,000 of the smaller securities from the Russell 3000. Representing approximately 10% of the Russell 3000, the index is created to provide a full and unbiased indicator of the small cap segment.

NASDAQ: The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.

MSCI EAFE (Europe, Australasia, Far East) Index: A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. As of June 2, 2014, the index consists of 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Market Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2, 2014, the index consists of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and the United Arab Emirates.

Bloomberg Barclays U.S. Aggregate (BCAG): A representation of SEC-registered, taxable, and dollar denominated securities. The index covers the U.S. investment grade fixed rate bond market, with index components for asset-backed securities, government and corporate securities, and mortgage pass-through securities. Must be rated investment grade (Baa3/BBB- or higher) by at least two of the following rating agencies: Moody's, S&P, Fitch; regardless of call features have at least one year to final maturity, and have an outstanding par value amount of at least $250 million.

Bloomberg Barclays U.S. Corporate High Yield: Covers the universe of fixed rate, non-investment grade debt which includes corporate (Industrial, Utility, and Finance both U.S. and non-U.S. corporations) and non-corporate sectors. The index also includes Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. Must publicly issue, dollar-denominated and non-convertible, fixed rate (may carry a coupon that steps up or changes according to a predetermined schedule), and be rated high-yield (Ba1 or BB+ or lower) by at least two of the following: Moody's, S&P, and Fitch. Also, must have an outstanding par value of at least $150 million and regardless of call features have at least one year to final maturity.

U.S. government bonds and Treasury notes are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. U.S. government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury notes are certificates reflecting intermediate term (2-10 years) obligations of the U.S. government. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise.

International investing involves special risk, including currency fluctuations, differing financial accounting standards, and possibly political and economic volatility.

Investing in emerging markets can be riskier than investing in well established foreign markets.