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Market Stats & Commentary

Market Vital Signs as of 8/30/2024

Stock Indexes	**August**	**YTD**	**1 Year**
S&P 500	2.43%	19.53%	27.14%
Dow Jones Industrial Average	2.03%	11.75%	22.06%
NASDAQ Composite	0.65%	18.00%	26.21%
Russell Mid Cap Index	2.03%	12.14%	20.16%
Russell 2000 Small Cap Index	-1.49%	10.39%	18.47%
MSCI EAFE Developed Int'l Index	3.25%	11.96%	19.40%
MSCI Emerging Markets Index	1.61%	9.55%	15.07%
Bond Indexes			
BBgBarc US Aggregate Bond Index	1.44%	3.07%	7.30%
BBgBarc US Corp High Yield Bond Index	1.63%	6.18%	12.44%
Interest Rates	**8/30/24**	**12/31/23**	**8/30/23**
Fed Funds Target Range	5.25%-5.50%	5.25%-5.50%	5.00%-5.25%
10 Yr U.S. Treasury Rate	3.91%	3.94%	4.10%

Source: Raymond James

What started off as a miserable month for stocks ended up being remarkably uniform and positive. The only major stock index to be negative was the small cap index, which was coming off a 10%+ gain in July.

Interest rates went down over the course of the month, with the 10 year U.S. Treasury yield falling from 4.05% to 3.91%. This provided a nice tailwind for the bond indexes and also helped support stocks after a very rough first week of August.

As I mentioned last month, August and September are not typically great months for stocks, so to get through the month broadly positive, I will take that as a win!

Q2 Earnings Reports and Q3 Earnings Guidance

Now that 99% of the companies in the S&P 500 have reported Q2 earnings we can look at overall trends in how companies did versus estimates in Q2 and what the guidance for Q3 looks like. Here are some data nuggets from the earning reports of S&P 500 constituents:

- 79% beat earnings estimates for Q2.
- YOY growth rate of earnings of S&P 500 companies was 11.3%.
- Of the 109 companies that have issued Q3 earnings guidance, 59 have guided lower than prior earnings estimates and 50 have guided higher than prior earnings estimates.
- Looking out over the next 12 months, the energy sector was the largest issuer of downward guidance while information technology has been the largest issuer of upside guidance.
- The 12 month ***forward*** P/E (based on estimates) of the S&P 500 is 20.6 as of 9/6/2024. This is above the 5 year and 10 year averages of 19.4 and 18.0 respectively.

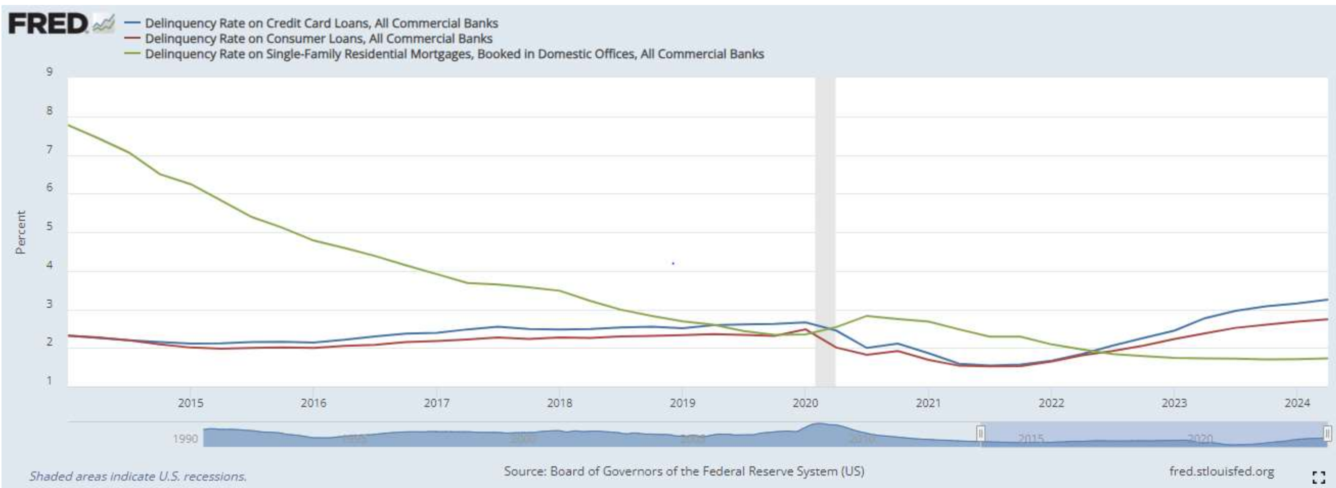
Data Courtesy of FactSet. Entire Publication Can Be Found Here:
https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_090624A.pdf

A quick aside regarding the energy sector… You may be saying to yourself – hey, wait a minute, isn't there a conflict going on in the Middle East right now? Shouldn't that push energy prices higher? Normally, yes. However, markets see energy demand weakening as a result of the slowing economic numbers in the U.S. over the past few months and that has trumped worries about supply disruptions from the Middle East.

What does all thar mean? Well, it means Q2 was a good quarter for corporate earnings, but more companies are guiding Q3 numbers down than up. It also shows that the S&P 500 is historically expensive based on the ratio of current price divided by expected earnings. Thus, the market may be more vulnerable to bad news than good news.

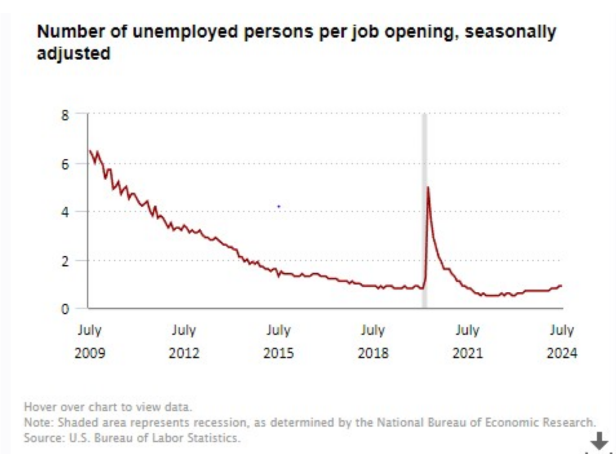
The Economy

We continue to hear retailers talk about customers being forced to make spending "choices", particularly on the lower end of the spectrum. Dollar General and Dollar Tree both missed earnings and lowered forward guidance, with Dollar General saying that their core consumers were visiting stores more frequently but had less money to spend, particularly at the end of pay periods. However, Target and Walmart are both benefitting from more affluent shoppers coming into their stores instead of higher end retailers and grocers to find more "value" for their dollars. So, consumers are making "choices", but there are winners as well as losers in that scenario.



Speaking of the health of the U.S. consumer, the graph above shows the delinquency rates on credit cards, personal loans and mortgages. Notice that both credit card and personal loan delinquencies have climbed to 10 year highs. They are nothing like the recession in 2008 / 2009, but they are elevated and steadily going higher. Fortunately, mortgage delinquencies are still quite low and stable thanks to the Great Refinancing of 2020 & 2021.

The Labor Market



The chart to the left shows ratio of people looking for work to the number of job openings. A number less than 1 indicates a tight job market and a number greater than 1 indicates slack in the job market. At the end of 2021, the number got as low as .5, meaning there were twice as many open jobs as there were people looking to fill them. That number is now back to .9, well within the normal range. With the labor market coming into balance, wage inflation should stabilize and may even go slightly negative, which in turn gives the Fed plenty of room to change course on interest rate policy at its September meeting.

All that being said, the market is still trying to sort out how quickly the porridge is cooling off…

David

Disclosures, Disclaimers & Other Assorted Compliance Fun

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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.