Monday, July 15, 2024

SUMMARY-

I. Stocks see heightened volatility and the start of significant rotation.

II. Inflation cools and equities heat up in response.

III. Earnings season continues with additional economic reports this week.

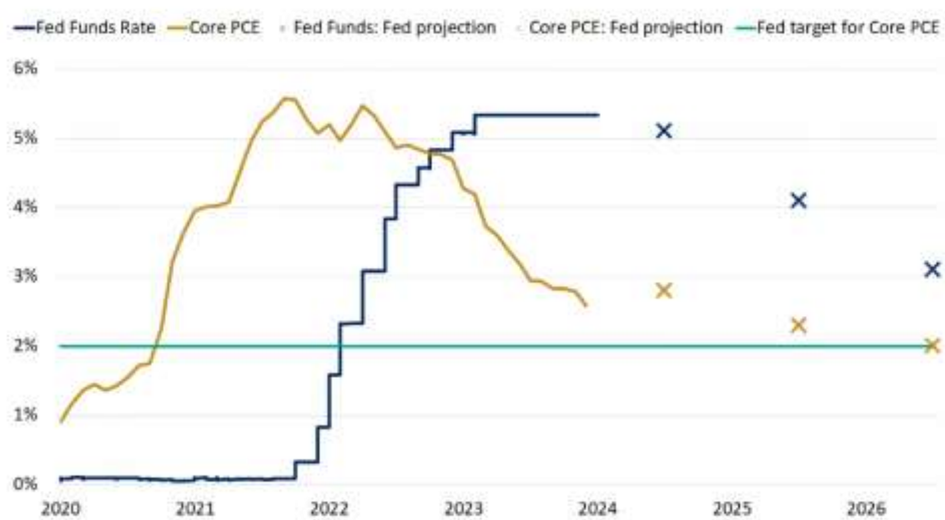
IV. Calls for Biden to step aside preempted by failed Trump assassination coverage on eve of RNC Convention.

Good morning:

Last week's start to earnings season, along with better-than-expected inflation data, combined last week for another bullish week for both stocks and bonds. The trading action was more volatile day-to-day, particularly amongst mega-cap tech stocks, as well as many of the lagging sectors of late. With rate cuts now clearly on the near-term horizon, a noticeable level of sector rotation was behind much of the price swings as money managers took some profits from recent winners and redeployed the capital to sectors that have been lagging the broader market. Although Friday's rebound in the NASDAQ enabled it to finish the week with a small gain of 0.2%, the Dow led major large-cap averages advancing 1.6%. However, it was the small-cap Russell 2000 Index that was the clear winner, posting its best week of the year adding 5.4%. The broadening out, which we have been saying is both healthy and overdue, is a very bullish sign for more potential gains to come for equities.

Thursday's CPI report showed a decline in prices from May to June of 0.1% - the first month-to-month drop since May 2020. Annual inflation fell to 3.0% from 3.3% the prior month. While this is still notably above the Fed's 2.0% inflation target, softening labor data, services inflation, and shelter/rent price hikes are expected to result in the inflation rate continuing its descent in the coming year. We continue to be in a somewhat counterintuitive market where weaker economic news is celebrated as disinflationary and supportive to a Fed easing cycle. However, such weakness will quickly become problematic if the economy softens too much and slips into recession.

Moderating inflation should allow Fed to cut rates soon

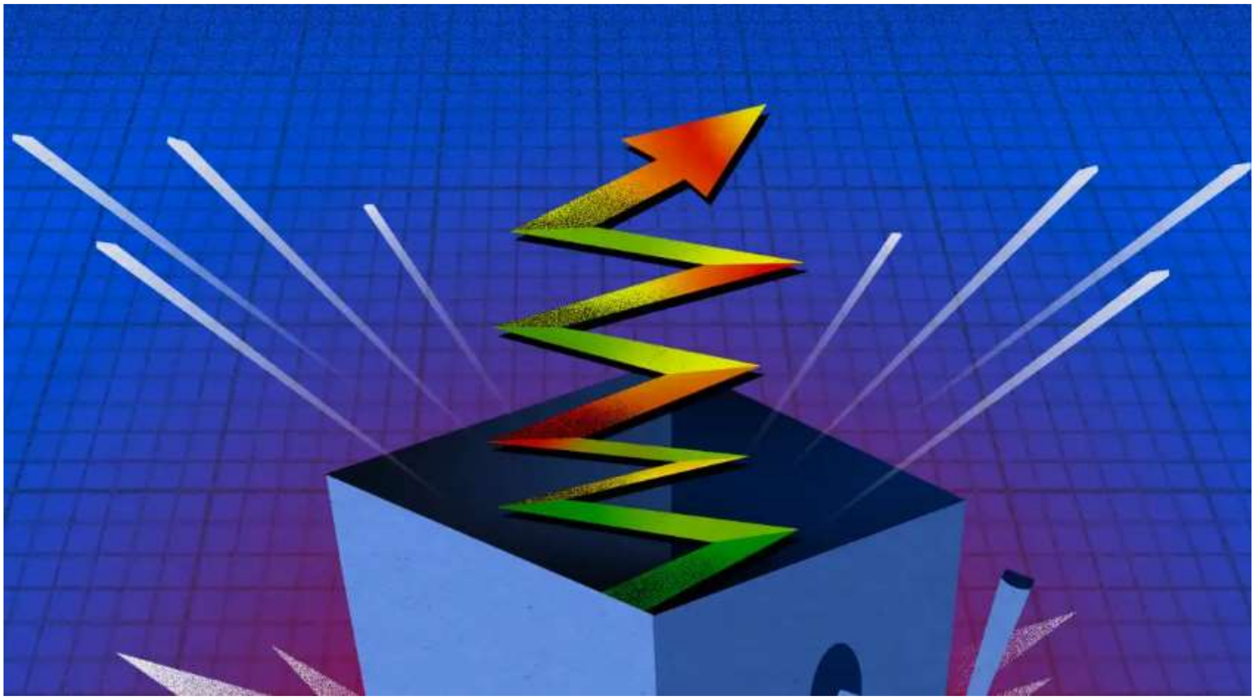


Source: Federal Reserve Bank of St. Louis and June FOMC summary of economic projections.

In a recent Monday Outlook, we also suggested that the lack of equity market volatility in the first half of 2024 was unusual and to expect more fluctuation in the second half. Part of this prediction was the sector rotation and further broadening out of the market that took center stage last week but has a long way to go. The other catalyst we sited was the upcoming election and the market's potential reaction to uncertainty over the outcome and any major shifts in policy that may result. Our expectation was for continued positive market momentum barring any significant exogenous events.

The political turmoil was starting to create heightened levels of anxiety this month after President Biden's debate performance led to numerous calls from fellow Democrats for Biden to decline the nomination or even step down now. However, Saturday's attempted assassination of former President Donald Trump has taken the degree of political tension to levels not seen in decades. Although the investigation into the incident and its perpetrator(s) is still being investigated, markets are clearly breathing a nervous sigh of relief today that the attack was unsuccessful, and the Republican convention is going on as scheduled this week. With the Democratic National Convention to follow next month, the volume of political rhetoric is not likely to diminish in the coming months. Remember, perhaps more than anything, markets hate uncertainty. We expect some portfolio managers to begin handicapping the outcome of national elections and any likely policy changes as the election draws closer. Hopefully we will see a cooling of both tempers and rhetoric between the major political parties with no further bloodshed after such a traumatic event for our nation.

This week's agenda for the markets includes several new economic reports including housing starts and retail sales data, in addition to another week of important Q2 earnings reports. Market strategists will likely be watching closely to see if last week's broadening-out trends continue, or if leadership reverts to the Magnificent 7 names. Regardless, the shooting incident in Pennsylvania will undoubtedly occupy most of the news cycle and serve to keep tensions elevated. This could easily spill over to market psyche and result in renewed volatility. Longer term investors are encouraged to focus on long-term market performance and not be swayed by most market-moving events that arise in the short-run.



Have a great week and as we pray for cooler heads, calm, and unity for our nation at this historically difficult time!

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The Dow Jones Industrial Average (DJIA), commonly known as “The Dow” is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market.

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

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

The Magnificent Seven are a group of companies including Alphabet, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla. Raymond James makes a market in these stocks. This is not a recommendation to purchase or sell the stocks of the companies mentioned.

Market return and statistical data obtained from: https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US