Monday, June 24, 2024

SUMMARY-

I. Dow leads averages higher as AI stocks take a breather.

II. Consumer sentiment weakening due to persistent inflation as spending patterns continue to normalize.

III. Consequences of government COVID response will be far-reaching.

IV. Rising debt service and entitlement programs expected to grow meaningfully in next decade.

Good morning:

The S&P 500 and the NASDAQ nudged their record levels higher again last week, posting fractional gains and recording their eighth positive week out of the past nine. The Dow climbed more than 1% but remained more than 2% below its record high set a month earlier. Large cap value-oriented stocks, particularly in the consumer discretionary, financial, and industrial sectors led the market higher in a rare but welcome example of broadening equity participation. The only losing sector was technology, where some obvious profit taking occurred in several of this year's hottest AI leaders. As the style box chart of returns below illustrates, nearly all the equity market categories have a long way to go to close the gap with the tech companies that dominate the large-cap growth category YTD.

U.S. equity size and style total returns as of 6/21/24 (%)

1 week

	Value	Core	Growth
Large	1.2	0.7	0.3
Medium	0.9	1.0	1.2
Small	0.8	0.8	0.8

YTD

	Value	Core	Growth
Large	6.8	14.2	20.5
Medium	4.7	5.2	6.2
Small	-2.6	0.4	3.5

Source: John Hancock Investment Management

Approaching the midpoint of 2024, the U.S. stock market’s top-performing sectors are the same pair that led the market in 2023. As of Friday, information technology led year to date with a nearly 29% average return followed by communication services with a 25% advance. In full-year 2023, information technology's average return was about 58% and communication services posted 56%. Investors also took note of U.S. crude oil prices that rose for the second week in a row, climbing above the $80-per-barrel level for just the second time since late April. On Friday afternoon, oil was trading around $81—up from a recent low of less than $73 on June 5th. However, higher oil and the resulting higher gasoline prices (just in time for the summer driving season) may add inflationary pressure in the coming months.

The effects of broader inflation over the past several years, particularly on lower and middle-income Americans are beginning to emerge. Despite record highs in the stock market, a growing economy and low unemployment, many consumers report feeling worse. The University of Michigan Consumer Sentiment Index fell to a seven-month low in June, reflecting a pessimistic view of personal finances and overall business conditions. For perspective, the index is 30% below its pre-pandemic level and only slightly above the 2008–09 average when unemployment was north of 8% and the economy was coming out of a severe recession. The reason is undoubtedly the rapid rise in both prices and mortgage rates over the past few years. With headline CPI having its largest four-year increase in the past 40 years, and wage growth for most failing to keep pace, many consumers are feeling the pinch. Some are tightening their budgets, while others spend down their savings. In either case, the result is slowing economic growth forecasts for coming quarters.

Consumers still don't feel great about the economy
(University of Michigan consumer sentiment)

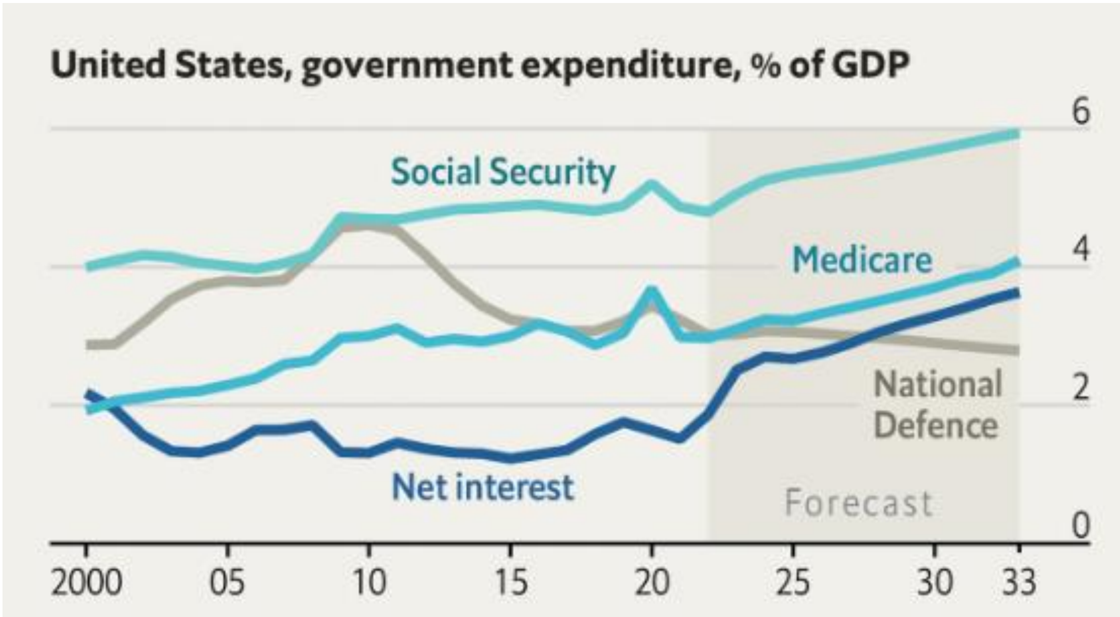
Source: Bloomberg

As many economists predicted, the effects of the global pandemic and the world's major central banks and governments unprecedented response to it continue to reverberate more than four years from its onset. Economic shutdowns and employment disruptions were softened by massive COVID relief bills. However, borrowing and then injecting trillions of dollars into our economy may have kept the economy moving forward but it also triggered the worst hyperinflation in more than four decades. Consumers initially spent on merchandise, particularly items for the home where many felt confined. Later, spending on goods was replaced by a desire for experiences after the world reopened. While retail merchandise spending seems to have finally normalized to pre-pandemic levels, spending on services like travel and entertainment continues to remain strong. However, even when this too eventually normalizes, the massive increase to U.S. national debt will remain.

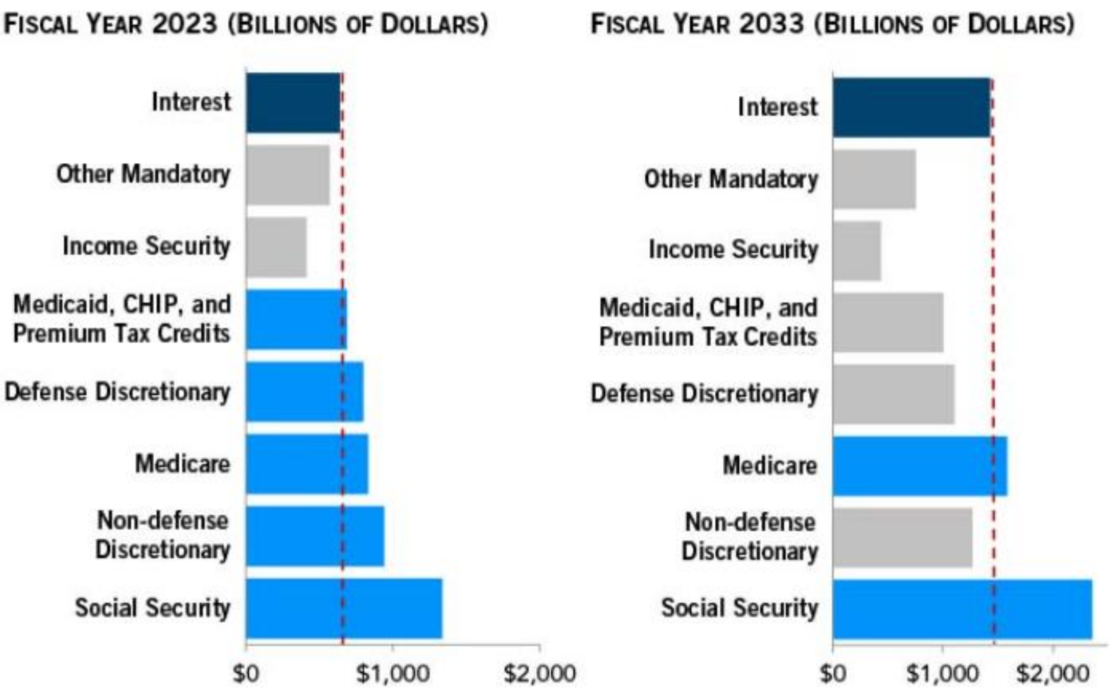
Retail sales have now normalized following a period of outsized spending
(Control-group retail sales year-over-year change %)

Source: Bloomberg

It is the servicing of this debt, especially at higher interest rates, that may have the farthest-reaching consequences for our country. Along with Social Security and Medicare, interest on our national debt is expected to continue to rise to new highs as a percentage of both our GDP and our annual budget.



Source: The Economist



Source: Congressional Budget Office – Medicare spending illustrated is in excess of receipts.

Although the repayment of any installment debt enables the borrower to repay their obligation over time in "cheaper" dollars (due to inflation), our current record debt by every measure may nevertheless prevent spending on other critical areas of growth, infrastructure, or security. Or worse, it may lead to even more borrowing and money printing. For these additional reasons, we strongly believe in the ownership-based asset classes (primarily equities), that have proven over long periods of time to be good hedges against inflation.

Have a great week!

Mark and Jeff

Mark S. Loftus, CFP®
Managing Partner & Founder, LPWP
Registered Principal, RJFS

Jeffrey C. Preusser, CFP®
Senior Partner, LPWP
Registered Principal, RJFS

O: 630.566.9200 // T: 844.890.8750 // F: 630.566.9292
1901 Butterfield Road, Suite 100, Downers Grove, IL 60515
www.loftus-preusser.com

DISCLAIMER:

If you no longer want to receive this Monday Outlook email, simply reply to this email with “REMOVE” or “OPT OUT” in the subject line and we will remove you from our email list.

Opinions expressed in this email are those of the author and are not necessarily those of Raymond James. The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material nor is it a recommendation.

The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete.

All investments are subject to risk regardless of strategy selected. Individual investor's results will vary. Past performance does not guarantee future results. Forward looking data is subject to change at any time and there is no assurance that projections will be realized. Diversification and strategic asset allocation do not ensure a profit or protect against a loss.

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.

Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

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

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.

Every investor's situation is unique, and you should consider your investment goals, risk tolerance and time horizon before making any investment. Prior to making an investment decision, please consult with your financial advisor about your individual situation. The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation.

This information is not intended as a solicitation or an offer to buy or sell any security referred to herein.

Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Bond prices and yields are subject to change based on market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. Holding bonds to term allows redemption at par value. 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. Every type of investment, including mutual funds, involves risk. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein.

Certified Financial Planner Board of Standards, Inc. (CFP Board) owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™, and CFP® (with plaque design) in the United States, which it authorizes use of by individuals who successfully complete CFP Board’s initial and ongoing certification requirements.