Market Update

June 24, 2024

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This week in the markets....

A few things have happened since our last report and a quick synopsis before the end of the second quarter makes sense.

The ECB changed policy and cut rates in early June

- The FED did not change rates and expect to only change rates once this year
- Markets have rallied as inflation has continued to move lower although much more slowly than expected. May CPI was 3.3% monthly increase rather than 3.4% expected. PPI (producer inflation) fell more than expected as well (-.02% vs. .01% increase expected).

As we come closer to the end of the quarter volatility will likely return to the forefront as managers adjust holdings, individual investors prepare for the election, and corporate stock buybacks are put on hold for upcoming earnings releases in July. The Fed meeting in July will likely not present any changes in policy and I think it unlikely that the September meeting will see change due to the election. I think the November/December timeframe will see the single reduction in rates this year, a big change considering that enthusiastic voices called for six interest rates cuts this year starting in March.
Ukraine will become a hotter conflict in the next month as the Ukraine begins a coordinated push to retake Crimea.

Israel claims to be close to finishing Rafah operations, but Hezbollah is threatening to escalate matters. My grandfather used to say that when it was raining and the sun was shining at the same time that the "devil was beating his wife", that how it feels right now in geopolitics and economics and markets. Our hope is that the rain clears up and sun keeps shining.

Gold Prices

Amid recent signs of stabilizing U.S. inflation and speculation surrounding the Federal Reserve's interest rate decisions, gold prices have found themselves at the center of financial markets' attention. Prices rose for the first time in four weeks, influenced by these economic indicators and ongoing political uncertainties in Europe, demonstrating gold's role as a haven during turbulent times. The expectation of rate cuts, stemming from softer U.S. CPI prints and Federal Reserve Chair Powell's comments on needing more robust data before considering rate adjustments, signals a complex interplay between monetary policy and gold's valuation.

	06/19/2023	1/1/2024	06/19/2024	12 MO ROR	YTD ROR
DOW	34300.477	37566.22	38835.00	13.22%	3.04%
S&P 500	4409.7083	4745.20	5487.00	24.43%	15.04%
NASD AQ	13689.454	14873.7	17862.00	30.48%	18.99%

June ECB Meeting

On June 6th, the European Central Bank (ECB) cut its key interest rate from 4% to 3.75%. The reduction was the first rate cut in 5 years and widens the gap in borrowing costs between Europe and the United States, where the Federal Reserve (the “Fed”) is not expected to cut rates until September at the earliest.

US Treasury Bond Yields

As of 06/19/2024

US1MO	5.31%
US3MO	5.40
US6MO	5.36
US1Y	5.09
US3Y	4.44
US5Y	4.24
US10Y	4.22
US30Y	4.35

USD Exchange Rate

The discussion of the USD average exchange rate is crucial, especially in light of recent developments influenced by the Federal Reserve's (Fed) hawkish stance on maintaining higher interest rates into 2024. This approach has led to a noticeable rise in the USD against currencies like the CAD, NZD, and a general strengthening in global markets. Notably, expectations of fewer rate cuts than previously anticipated have dampened risk appetite, significantly affecting market dynamics and the US Dollar Index, which rose to 105.70 despite fluctuations in US Treasury yields. Furthermore, geopolitical uncertainties in Europe and soft expectations for the Yen have also contributed to bolstering the dollar's position.

June FED Meeting

Powell pointed to the substantial progress seen in the second half of last year as an example. Still, he said officials now think “it’s probably going to take longer to get the confidence needed to loosen policy,” compared to what they thought in March. That’s precisely what officials’ forecasts showed. Wall Street’s best bet for the first rate cut is currently September, according to futures, and those odds improved markedly after the release of the May CPI. “The belief that components boosting inflation in the first quarter were not indicative of current cost pressures needed to be validated. May’s report provides strong evidence on that front,” Matt Colyar, an economist at Moody’s Analytics, said in a note Wednesday. “The Fed is banking it can wait a few more months until inflation falls further.”

Consumer Spending

Retail sales rose 0.1% in May, below the pace that economists projected, the Commerce Department said Tuesday. And April sales were revised downward — a 0.2% decline, from unchanged. Sales rose 0.6% in March and 0.9% in February. That comes after sales fell 1.1% in January, dragged down in part by inclement weather. Economists said the report reflected an increasingly cautious consumer. But they point to a silver lining: a weaker-than-expected retail sales report increases the likelihood that the Federal Reserve will start to cut interest rates in a few months.

Consumer spending, a key driver of economic growth, is influenced by a variety of factors including income levels, employment rates, inflation, and consumer confidence. From an investment perspective, shifts in consumer spending can significantly impact various sectors of the stock market, particularly retail, consumer goods, and technology. Recent trends suggest an increase in spending on Internet of Things (IoT) technologies within consumer goods, indicating potential growth in this sector. However, there are also signs of caution, with some companies adjusting their revenue outlooks due to perceived tightening of consumer spending. Additionally, the rise in socially responsible spending could influence the performance of companies with strong environmental, social, and governance (ESG) practices. It's also important to note that changes in consumer spending patterns, such as a shift towards experiences over durable goods, could have broader implications for the market.

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