

KEY TAKEAWAYS

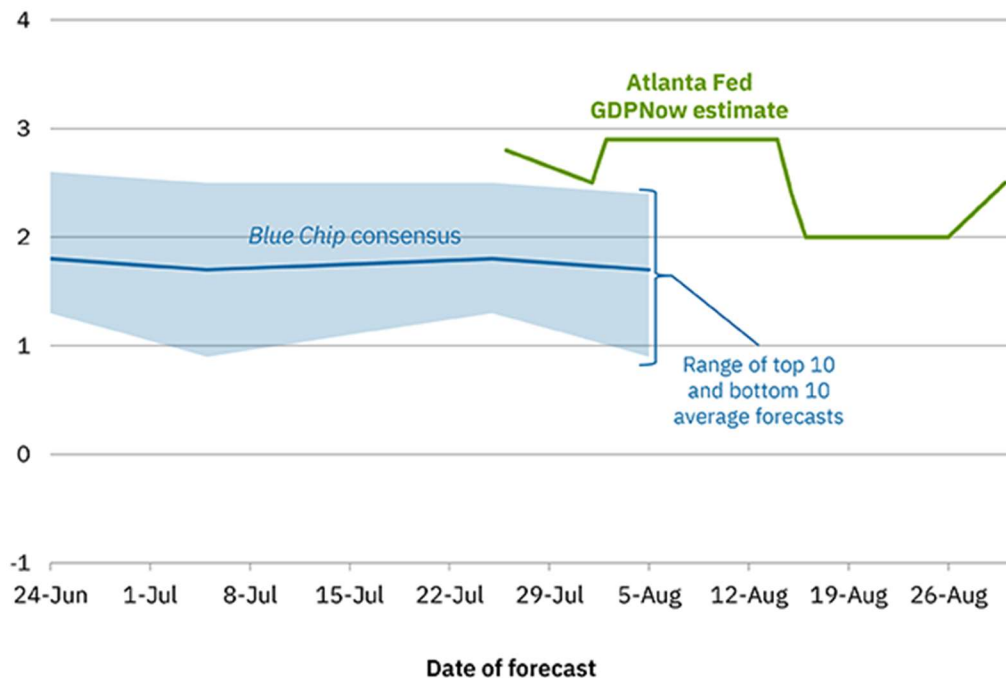
- The equity markets had a big early month scare, continuing the fall that started mid-July, culminating in a 10% drop, before recovering most of the losses by month end.
- The U.S. 10-year Treasury Yields saw a huge drop in yields to start the month, falling 50 bps in 4 days, before snapping back to the 4% mark. The market settled down and held under 4%.
- Crude oil had a lot of swings during the month on continual geopolitical risks versus the “economic” slowdown in the U.S. and more focus on China.

The U.S. Economy

The second look at 2nd quarter GDP was another surprising jump, coming in at 3.0%, well above the 2.8% first report. Core PCE, the imbedded inflation measure, eased to 2.8% down from 2.9% initially reported. The 3rd quarter estimates for GDP from GDPNow is continuing to look like a repeat of 2nd quarter at around 2.5% with the Blue-Chip consensus forecast still just under 2%, as shown in the chart below. Economic activity strengthened, and the PCE deflator fell, but remains north of the sweet spot of “2%” inflation. So, growth is picking up and inflation is still working lower, seems to be just right. Though the Fed speak continues to be setting up for a September rate cut.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2024: Q3

Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source : <https://www.frbatlanta.org/cqer/research/gdpnow>

Stocks and Bonds

The U.S. 10-year Treasury yield started with a drop of over 0.50% to start the month, on fears of the Yen carry trade unwinding and a weak employment report; from over 4.15% to nearly 3.65% in 4 days. The JCB (Japanese Central Bank), which had raised rates a few basis points, freaked out and said no more rate hikes if the market is unstable. Of course, now the market will never be stable if there is any hint of another rate hike by the JCB. Nonetheless, the broad markets settled down and the Yen and economic slowdown panic quickly dissipated. Yields then spent the rest of the month in a fairly tight range around 3.85%. The Jackson Hole Fed meeting left little doubt the Fed is focused on at least a September rate cut, with the markets now pricing in 3 cuts by year end. The nearly 20 basis point drop in yields provided another solid tailwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF rallied +1.98% for the month. The U.S. 10-year Treasury bond yield ended the month at 3.91%, down from July's close of 4.11%.

The Dow Jones Industrial Average climbed +1.76%, the S&P 500 gained +2.28%, and the small cap iShares Russell 2000 ETF lost -1.01%. The international markets traded stronger than the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index jumped +4.90%, and the MSCI Emerging Markets iShares Core ETF Index popped +3.09%.

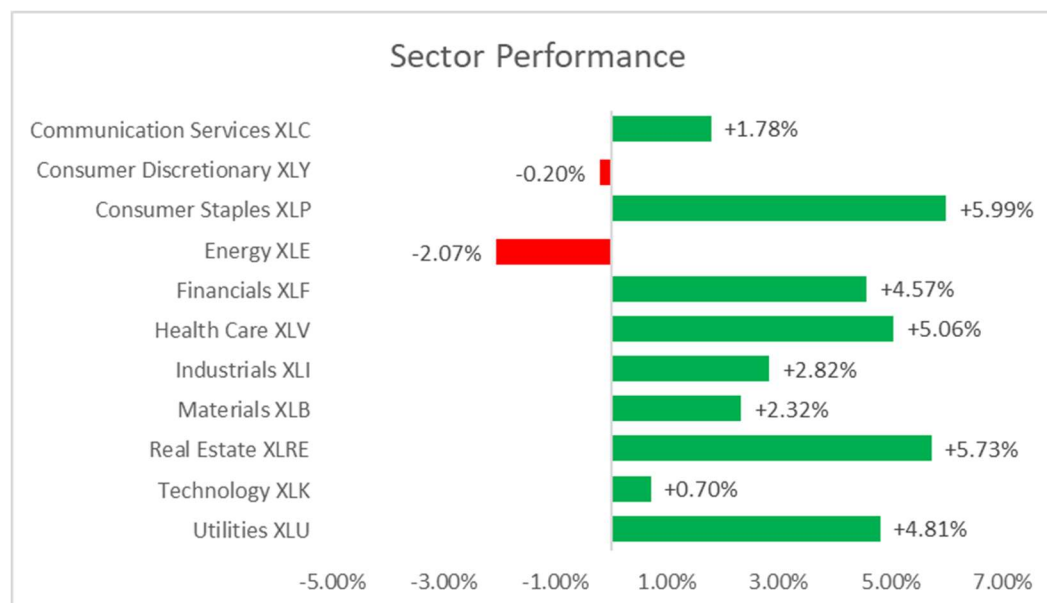
August's performance was generally solid green, except for Energy.

The best performers were...

- Consumer Staples: +5.99%
- Real Estate: +5.73%
- Healthcare: +5.06%

The worst performers were...

- Energy: -2.07%
- Consumer Discretionary: -0.20%
- Technology: +0.70%



Source: <https://www.morningstar.com>

Oil Report

Crude Oil traded mostly in the range of \$73 - \$78, generally forming a downward slope from the early July highs. The apparent escalation in the Israel/Iranian-proxies, never materialized. Ukraine invaded Russia, which caused a stir, but the Russians are taking far more of Donbass than the Ukrainians of Russia, so that also seemed to be a stalemate. China's economy still seems to be growing slower and slower, with many questioning if China can still grow even 5%. The icing on the cake was a rumor that OPEC+ is looking to increase production in October as had been agreed to many months ago. Given markets seem well supplied, that seems unlikely, but the market reacted to the headline. The current NYMEX WTI Crude Oil futures settled at \$73.65 posting a loss of over 5% from the prior month's close of \$77.91 a barrel. RBOB gasoline lead Crude for the month and declined over 14% vs. July's close. The markets were focused on the passing of peak driving season and waning demand. Additionally, so far, the fearmongering of a massive hurricane season, with many major storms hasn't materialized yet. Though September is notoriously a big month for hurricanes, so we aren't out of the woods yet.

The Rest of the Data

The July ISM Manufacturing Index dropped to 46.8 from June's reading of 48.5, remaining below 50. The ISM Services Index increased to 51.4 in July, from June's print of 48.8. Any reading below 50 generally indicates deteriorating conditions, whereas a reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing firmed in the normal range and Services prices firmed toward elevated levels. Consumer confidence increased to 103.3 in August, which compares to an upwardly revised 101.9 in July. The unemployment rate jumped to 4.3%, while the economy added a meager 114,000 jobs in July, a huge miss to expectations of 175,000 jobs. The Consumer Price Index for All Urban Consumers (CPI-U) was up +0.2% in July, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate eased to +2.9% on a non-seasonally adjusted basis. The CPI ex Food and Energy eased to 3.2% over the last year. The economic news got a little noisy, the economic data is good, and inflation, while remaining above the Fed target of 2%, has been showing signs of moderating, but employment growth sagged. The market, with support of the Fed, is pricing in reductions of the current "restrictive" Fed policy. A September rate cut is fully priced in, and November and December are pretty much shoe-ins at this point. The Fed has pivoted to concerns about employment and doesn't want to see any more cooling. Is the Fed's concern merited or as mentioned previously, did Hurricane Beryl have a temporary impact on employment? We will find out September 6th. We will continue to monitor employment along with economic activity and inflation reports.

Summary

This comment, "Have we moved into the Goldilocks scenario, with a soft landing?" Didn't survive the first week of August as the quick swoon had calls for emergency rate cuts and general panic. However, as the month wore on, the comment regained footing. There are some signs that the Fed is cutting rates in a mid-cycle slowdown that is starting to revive. Others are not nearly as sanguine. The Fed has made it clear they at least want a rate cut in September, which is rare this deep in an election cycle. Though this cycle looks like nothing from the past, so the Fed "off-script" isn't really out of the ordinary

this cycle. Friday's jobs report seems to have extra importance, was August one-off weakness or the start of suggesting the Fed is behind the curve?

As always, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/war vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.



Kevin Churchill, CFA®, CFP®
Chief Investment Officer
WaterRock Global Asset
Management



Institutional Asset Management adapted for Private Wealth™

WaterRock Global Asset Management, LLC
Scottsdale, AZ 85260
(808) 896 – 4957

WaterRock Global Asset Management, LLC. ("WaterRock Global") is a Registered Investment Advisory Firm regulated by the State of Washington and the Securities Exchange Commission under the Investment Advisors' Act of 1940 and in accordance and compliance with applicable securities laws and regulations. Investing in the stock market involves risk, including the risk of principal loss. Information in this newsletter is in no way intended as personalized investment advice and should not be interpreted as such. Past performance is not necessarily indicative of future results.