MARKET REVIEW & OUTLOOK

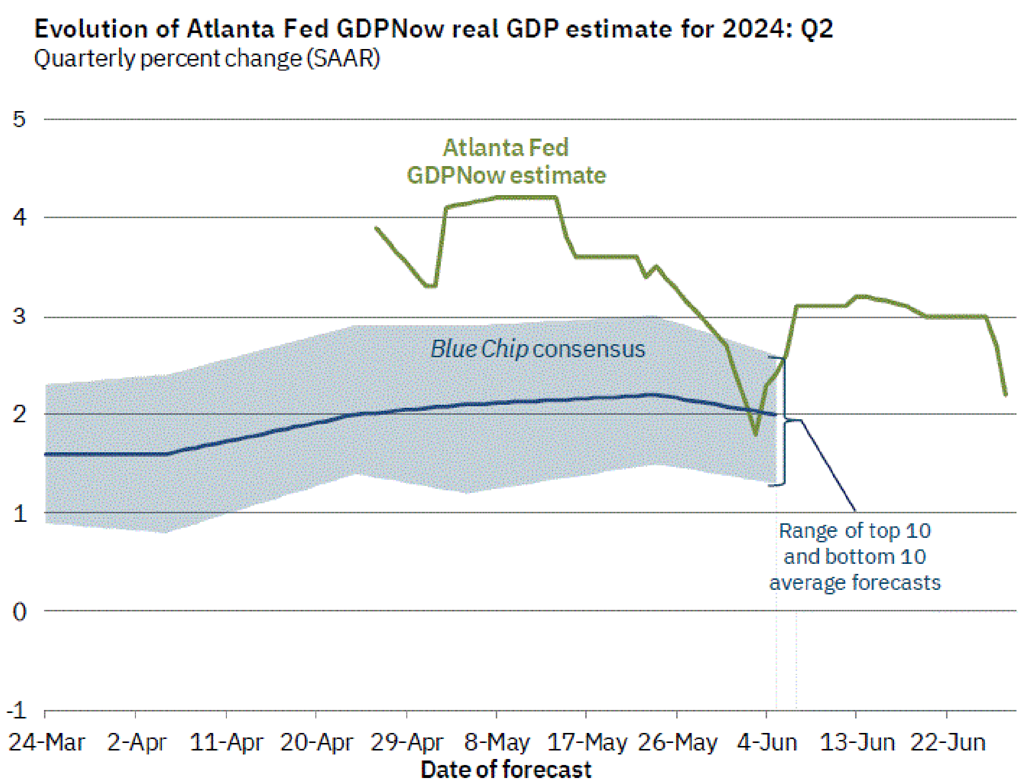
JUNE 2024

KEY TAKEAWAYS

- The equity markets had a strong rally for 3 weeks with many record highs and then shuffled sideways to finish the month.
- The U.S. 10-year Treasury Yields dipped into mid-month but couldn't hold under 4.20% and bounced back near the middle of the range.
- After 6 weeks trapped under $80, Crude oil rallied and held above $80 at month-end.

The U.S. Economy

The final look at 1st quarter GDP came in at 1.4%, slightly higher than the last revision but still below the initial report of 1.6%. The core PCE, the imbedded inflation measure, returned to the initial 3.7%, up from 3.6%. The 2nd quarter estimates for GDP from GDPNow has been volatile and converged near 2% along with the Blue-Chip consensus forecast, which slipped to roughly 2.0%, as shown in the chart below. Economic activity weakened, and the PCE deflator held well north of the sweet spot of "2%" inflation. One report is not a trend, but 2nd quarter estimates are now echoing the results of the 1st quarter. The Fed remains in a bind on whether to tackle inflation or waning growth. The Fed seems to have adopted the hold and hope strategy. 😊



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 the month with a sharp drop in yields, briefly interrupted by the jobs report. By the middle of the month, yields found support at 4.20%, which continued to find sellers and yields drifted back to the middle of the range by month end. The Fed meeting mid-month didn't have any surprises and the market is still jockeying between reasonable economic data and stronger than desired inflation. The interesting thing is that the talking heads are continuing to bring up rate cuts, even though the reported data just doesn't seem to be meriting that discussion. Maybe they are just "talking" their book and what they perceive will help their performance. The drop in yields provided another tailwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF increased +0.88% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.34%, down from May's close of 4.51%.

The Dow Jones Industrial Average increased +1.12%, the S&P 500 jumped +3.47%, and the small cap iShares Russell 2000 ETF lost -1.12%. The international markets traded like the U.S. markets, with mixed performance. The MSCI EAFE iShares Core International Developed Markets ETF Index dropped -2.00%, and the MSCI Emerging Markets iShares Core ETF Index rose +2.77%.

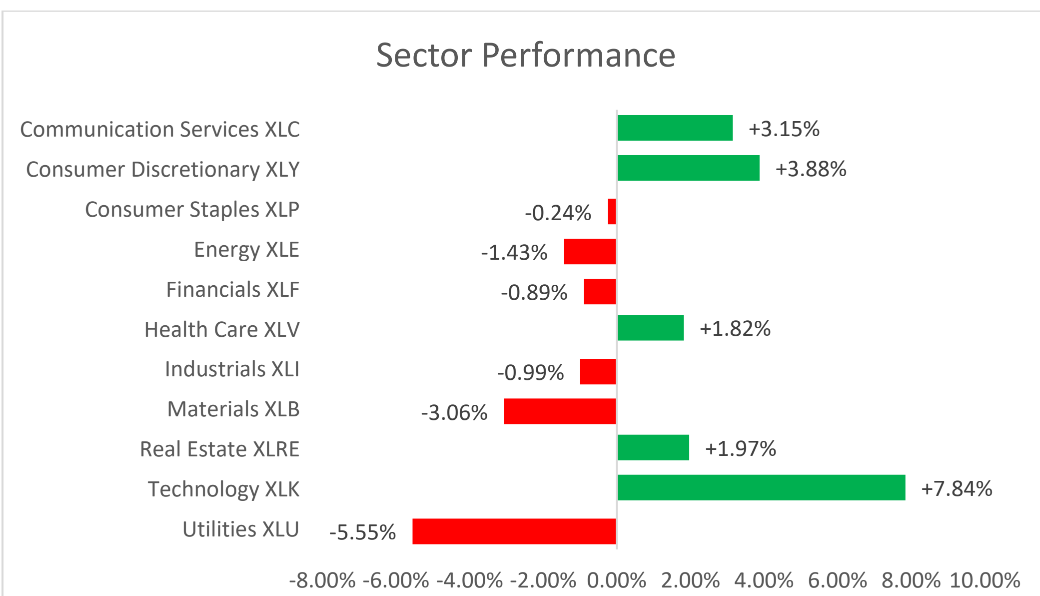
June's performance was bifurcated, just like the indices.

The best performers were…

- Technology: +7.84%
- Consumer Discretionary: +3.88%
- Communication Services: +3.15%

The worst performers were…

- Utilities: -5.55%
- Materials: -3.06%
- Energy: -1.43%



Source: https://www.morningstar.com

Oil Report

Crude continued its slump from early April into early June, dropping to $73 before rallying the rest of the month, closing near the highs. The oil market finally broke above the $80 level mid-month on the back of more potential supply cuts and additional geopolitical angst as Israel now is talking about and positioning for an attack on Hezbollah in Lebanon. The oil market seems relatively sanguine about these prospects, which is surprising given the rhetoric out of Iran and the relative strength of Hezbollah versus Hamas. Iran is talking about unleashing all their proxies on Israel in addition to the fact that Hezbollah is in a different country versus Hamas being contained within the boundaries of Israel. Not even considering that Ukraine has stepped up the drone attacks on Russia's Energy infrastructure. The current NYMEX WTI Crude Oil futures settled at $81.46 posting a gain of almost 6% from the prior month's close of $76.99 a barrel. RBOB gasoline followed Crude for the month and increased almost 4% vs. May's close. RBOB gasoline prices also had a nice drop on the first day of the month and then spent the rest of the month moving higher. We are now entering hurricane season, which especially if the storms enter the Gulf of Mexico, has the potential for serious disruptions in the Energy complex.

The Rest of the Data

The May ISM Manufacturing Index slipped to 48.7 from April's reading of 49.2, remaining below 50. The ISM Services Index jumped to 53.8 in May, from April's print of 49.4. Any reading below 50 generally indicates deteriorating conditions, whereas a reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing and Service prices both eased off elevated levels. Consumer confidence decreased to 100.4 in June, which compares to a downwardly revised 101.3 in May. The unemployment rate increased to 4.0%, while the economy added a strong 272,000 jobs in May, a significant beat versus expectations of 180,000 jobs. The Consumer Price Index for All Urban Consumers (CPI-U) was flat at 0.0% in May, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate again decreased modestly to +3.3% on a non-seasonally adjusted basis. The CPI ex Food and Energy again decreased to 3.4% over the last year. Different month, still the same story; the economic data is showing signs of softening, but inflationary pressures are not clearly declining, and are holding higher than the Fed target of 2%. The market has removed expectations for a September rate cut, and rate cut expectations, for 2024, are bouncing between 1 in November and 1 in December versus just 1 cut, in December, down from 6 at the start of 2024. The signs of potential stagflation are present, i.e. slow growth, and robust inflation, leaves the Fed's likely only action as hold and hope. The Fed seems to have really painted itself into a corner of two bads. We will continue to monitor economic activity along with inflation reports.

Summary

Interest rates have settled well off the May highs. Inflation has backed off the highs from late 2022 but has stabilized well above the Fed's 2% inflation target. The mega-cap technology names continue to make new highs, but also are driving a lot of the earnings growth, the rest of the market has been relatively flat, both in price performance as well as earnings growth. The geopolitical landscape continues to heat up as does the political rhetoric, not just in the U.S., but many parts of the world. So, we have a lot of crosscurrents that seem to be the recipe for a choppy few months unless something breaks the log jam and moves things decidedly in one direction. The Fed appears to continue to be in autopilot mode, as long as the above stays within their relative ranges. I think this is still a pertinent question, that doesn't have a definitive answer; Will the U.S. election be a distraction that detracts from economic activity or are people so well-conditioned from the chaos of the last few that there may not be any abnormal disruption to economic activity? We will continue to keep an eye on the Fed as well as economic data to try and parse out the next directional move in the markets.

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.

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