July 2024 Market Update

Special points of interest:

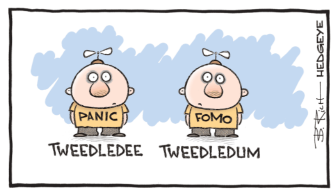
- **July's markets saw a massive sector rotation out of tech stocks and into value and small cap market areas.**
- **Treasury yields fell as hiring came in slower than expected and the unemployment rate rose again.**
- **Investors are worried that the Fed is behind the curve in cutting rates.**
- **Will lower rates come soon (and big) enough to help the economy this year?**

Inside this issue:

The Markets in July 2024

Apart from the weather (including Hurricane Beryl in my area), that persistent whooshing sound you may have heard in July's markets was a massive sector rotation process happening among global investors. The anticipation of impending rate cuts is driving a shift from prior market champions to value and small cap areas of the markets previously ignored, and nowhere is this more clear than in the market indices themselves. For the month of July, the Russell 2000 index of generally smaller companies rocketed higher by over 10%. The larger cap yet relatively value-

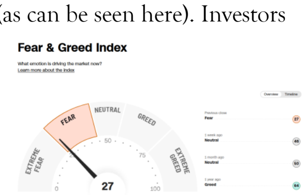
oriented Dow Jones Industrial Average rose 4.4% while the broader S&P500 index added a more muted 1.1%. Meanwhile, the tech-heavy Nasdaq index fell 0.8%. Commodities also traded mixed. Crude oil on the NY Mercantile Exchange dropped 4.5% in the month while the price of gold rose by 4.2%. Meanwhile, the yield on the 10-year Treasury Note fell from 4.343% at the end of June to 4.109% by the end of July. Part of the driving force for lower Treasury yields and rate cut hopes alike can be seen here. The Labor Department recently reported that hiring slowed to 114k jobs last month while the unemployment rate increased unexpectedly to 4.3%. Cue the resurgent renewal of recession fears!



Stock and bond markets recently shifted from exuberant FOMO on tech stocks to Panic and increasing recession worries.

A Look Ahead

The market continues to seesaw between the mirror emotions of Fear and Greed, and as of early August, Fear is in the ascendancy (as can be seen here). Investors



are now worried that the Federal Reserve, which kept their rate target intact in late July, is behind the curve in cutting rates—even if they start in September, as seems fairly certain now. Further, July's labor market report raises the prospect that softening labor markets will accelerate into the recession that many have been expecting. The balance between soft landing and recession depends on when and how many rate cuts we get over the next few months. For instance, it's possible that lower rates will help unlock parts of the economy that have been frozen recently. Now that yields on 10-year Treasuries have fallen below 4%, mortgage rates are also dropping. By August 2, Freddie Mac reported that the average fixed rate on a new 30-year mortgage was down to 6.73%, the lowest since February. Anyone want to buy a house?

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