Market Perspectives

July 2024

TURTLE CREEK
WEALTH ADVISORS

Rotation out of Magnificent 7 causes stock market volatility in July

Index	MTD	QTD	YTD	1 Year	2023
S&P 500	1.22	1.22	16.70	26.07	26.29
Dow Jones Industrial Average	4.51	4.51	9.52	21.26	16.18
Russell 2000	10.16	10.16	12.07	21.24	16.93
NASDAQ Composite	-0.73	-0.73	17.71	28.66	44.64
Europe, Australia, & Far East (EAFE)	2.95	2.95	8.86	15.39	18.85
MSCI Emerging Markets	0.37	0.37	8.08	13.39	10.27
Bloomberg Barclays U.S. Aggregate Bond	2.34	2.34	1.61	5.03	5.53

As of 7.31.24; Returns in percent

ASSET CLASS PERFORMANCE

US equities were mostly higher in July, with the S&P 500 gaining 1.2% while the Dow Jones Industrial Average rose 5.0%. However, the tech heavy Nasdaq Index dropped 0.7% due to a significant shift from big tech/growth/momentum stocks to value/cyclicals/small caps. This rotation was initially triggered by a cooler-than-expected June CPI report and exacerbated by weaker than expected Q2 earnings reports and guidance from the Magnificent 7. After driving index performance for much of the year (and creating concerns about narrow market breadth), most Magnificent 7 names pulled back sharply before paring declines near the end of the month. In this environment, the equal-weight S&P outperformed the cap-weighted S&P index by 3.33%, its largest margin since February 2021 and a healthy sign for the market. Meanwhile, the small-cap Russell 2000 gained +10.1%, logging its best month since December, and far outpacing the S&P 500 for the first time this year

Source: FactSet; As of 7.31.24

Treasury bonds rallied and rates fell as the market continued to expect the Fed to begin its rate-cutting cycle in September. Importantly, the 2-year yield (a rough proxy for the Fed Funds rate) ended the month near its lowest point since February, at 4.19%. And later in the month the 2/10yr Treasury spread hit its least inverted point since July 2022, a sign that Fed rate cuts are rapidly approaching.

Gold was up +5.7%, marking its fourth monthly gain in the past five months. Copper fell 4.3%, logging another sharp monthly decline as the debate about China's economic health continued. WTI crude oil dropped 4.5%, though there was a bump at month-end related to spiking Mideast tensions. Note that falling commodity prices and rising gold prices historically have preceded an economic slowdown.

INFLATION & OTHER MARKET DRIVERS

A key theme during the month was the growing market consensus that cooperative inflation readings, including the cooler than expected June CPI report, which continued a months long trend of falling inflation, should encourage the Fed to begin cutting rates soon. As a result, investors are now placing near 100% odds on the start of the Fed rate-cut cycle coming at its September meeting. While the Fed itself made no explicit hint of this in its July 31 FOMC meeting statement, it did make changes to indicate inflation only remains "somewhat" elevated and that it is attentive to labor-market risks as well as inflation. Despite no commitment from the Fed, investors now believe the Fed will cut rates by 0.7% (the equivalent of almost three 25 bp cuts) by year-end 2024.

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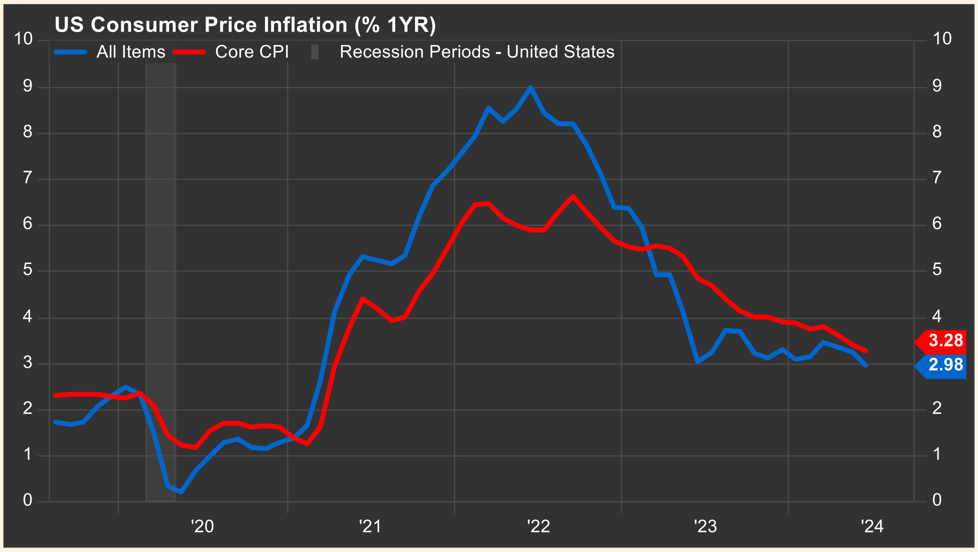


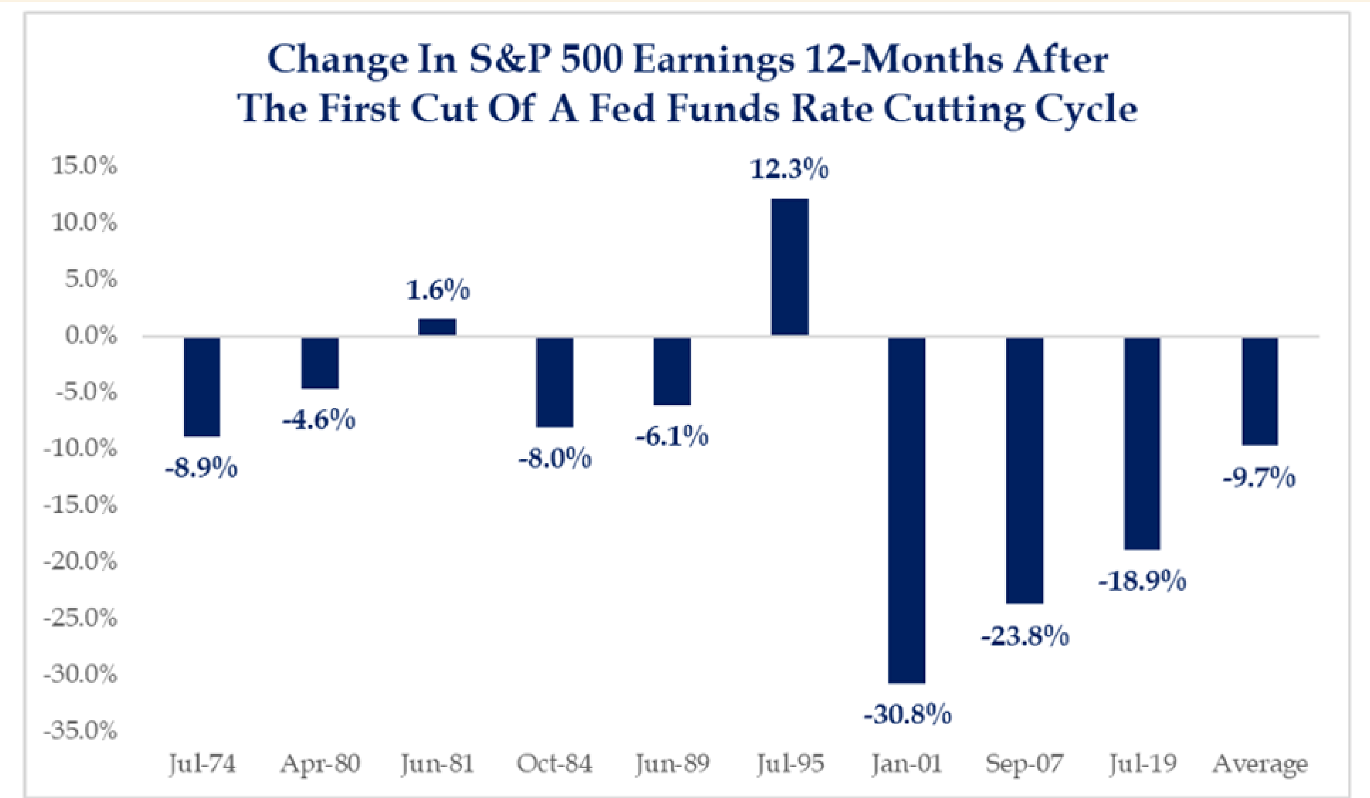
Source:FactSet; As of 7.31.24

A variety of other themes impacted the July market narrative. Artificial Intelligence (AI), one of the central drivers of the market and corporate earnings growth this year, came under some scrutiny as company management commented on the significant investment required to achieve expected growth rates. Investors also continued to review corporate earnings reports for signals about the health of the consumer. While June retail sales data remained robust, corporations continued to flag some signs of deterioration and are now seeing some signs that stresses may be spreading beyond low-income consumers.

SECOND HALF 2024 MARKET OUTLOOK

Despite the uncertainties facing investors today, e.g. the Presidential election, likely Fed rate cut timing, etc., history tells us that equities remain poised to produce further gains in the second half of the year. The chart below demonstrates that stocks have averaged a roughly 5% second half gain following a first half as robust as that which we've enjoyed this year. However, recent data which could signal the beginning of an economic slowdown, e.g. the July jobs report, may well create more volatility for markets than we expected 30 days ago.

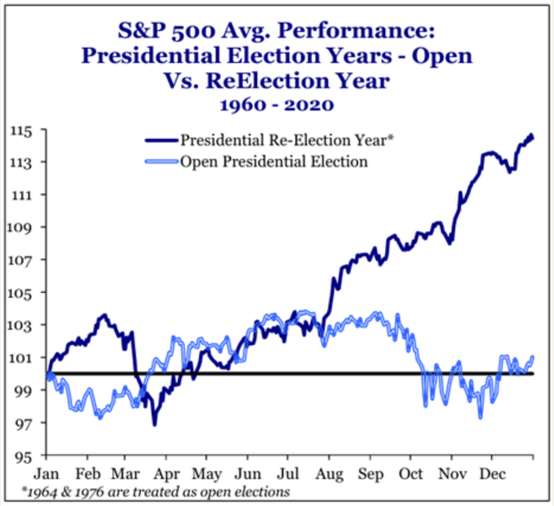
It's also important to note that Fed rate cuts are not always the panacea for markets that many expect them to be. Because rate cuts generally occur when the economy is in, or heading into, a recession, corporate earnings have averaged a roughly 10% decline over the 12 months following the first cut. This is important given how impactful earnings have been to propelling stocks higher this year.



Source: Strategas; As of 7.31.24

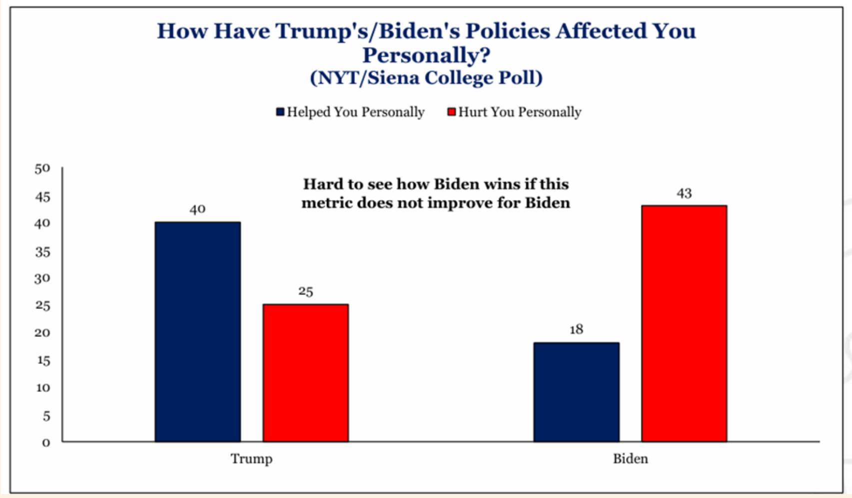
IMPACT OF THE PRESIDENTIAL ELECTION

Last month we discussed the potential impact on markets of a hotly contested US presidential election, and we noted that "things can change rapidly". Well, one month later they have changed, a lot! Following a failed assignation attempt of Donald Trump at a Pennsylvania rally in mid-July, President Biden dropped out of the race and has been replaced by his VP Kamala Harris. So, instead of a presidential re-election, we now have an open election. That matters because it increases uncertainty about how each candidate will govern, with markets returns being much less robust in an open election year



Source: Strategas; As of 7.31.24

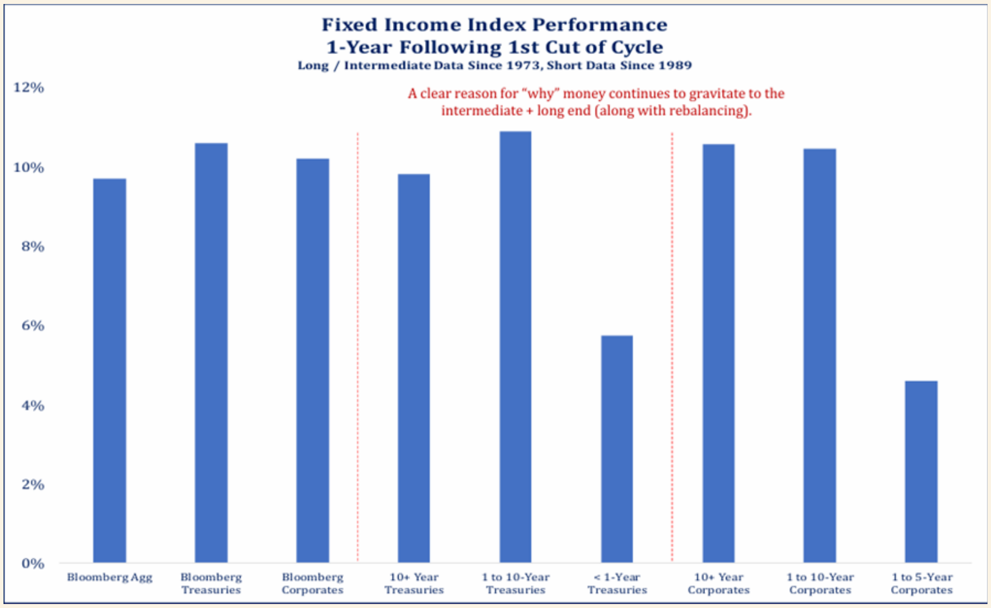
Given President Biden's age and apparent cognitive decline, Kamala Haris appears to be a much more formidable opponent for Donald Trump and the race has tightened quite a bit since her entry. However, as they say, there is "still a lot of baseball left to be played", and the chart below shows that she has some ground to make up in order to distance herself from the Biden administration and therefore have a realistic chance of winning the race.



Source: Strategas; As of 7.31.24

INVESTMENT PORTFOLIO IMPLICATIONS

We were pleased to see the equity market performance broaden in July as the concentration in the top 10 stocks in the S&P 500 was reduced and small caps outperformed. We think this trend, if it continues, bodes well for future market gains. As a result, we now believe it is even more prudent to own a diversified portfolio of equities, including foreign equities and mid/smaller cap companies, in order to benefit from the strong growth and better valuations available in these asset classes. In addition, we believe with Fed rate cuts coming soon, the opportunities in both taxable and tax-free bonds are as good as they've been in years. The chart below shows how well a variety of bond categories perform in the 12 months following the first Fed rate cut. Finally, we believe investors can benefit from owning Private Alternative investments, including equity, fixed income, and real estate. Over



Source: Strategas; As of 6.30.24

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