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# MARKET MINUTE

AUGUST REVIEW 2024

This month's Market Minute reflects the views of our Research Team and was composed by
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## OVERVIEW

As the month began, there was mounting evidence that the US economy was weakening. From a variety of labor market data to surveys of purchasing managers and industrial production statistics, recent data portrayed an economy that appeared to be losing momentum or possibly going into recession. Both bond and stock markets were gripped with fear and calls for an emergency meeting of the Federal Reserve to immediately reduce the Fed Funds rate by a minimum of 50 basis points were voiced across the financial media outlets. However, while there has been some weakening of select economic indicators, other data points continue to suggest the US economy is stable and corporate earnings reports in Q2 were up nearly 11% year-on-year[1]; thus, fears of a near-term recession appeared overdone.

The financial markets reacted as expected to the vagaries of the economic data. Recession fears morphed into a decline in excess of 5% in the S&P 500 and a decline in the U.S. Treasury 10-year yield from 4.03% to 3.79% by August 5th.[1] Once the market realized it overreacted to the fear mongering, the equity markets marched upward to either reach new all-time highs (Dow Jones Industrial Average) or just shy of new highs (S&P 500). And alas, Fed Chairman, Jerome Powell, used his speech at the Jackson Hole conference of central bankers to clearly signal that a Fed cut in September is likely and that he has gained confidence that inflation is moving sustainably towards the Fed's long-term inflation target of 2%.[2] By month's end, the rose colored glasses were once again adorned and visions of significantly lower interest rates propped up the markets confidence.

## U.S. EQUITY MARKETS As of August 30, 2024

| U.S. EQUITY MARKETS | | | | |
|---|---|---|---|---|
| Index | 1 Month | Quarter-To-Date | Year-To-Date | 1 Year |
| DJIA | 2.0% | 6.6% | 11.7% | 21.5% |
| S&P 500 | 2.4% | 3.7% | 19.5% | 26.9% |
| Russell 2000 | -1.5% | 8.5% | 10.4% | 18.3% |
| Russell 1000 Growth | 2.1% | 0.3% | 21.1% | 30.9% |
| Russell 1000 Value | 2.7% | 7.9% | 15.1% | 20.7% |

U.S. equities rallied after an early month sell-off to finish the month higher. The S&P 500 gained +2.0% in August and has had only one monthly decline this year (April -4.1%). The S&P 500 finished August only -0.3% below its all-time high set-in mid-July[1]. Meanwhile, the Dow Jones Industrial Average hit an historic high of 41,335 on August 29th. Unfortunately, the rally did not extend to US small caps (Russell 2000 Index) which fell by -1.5% in August despite rallying more than 8% since the early month sell-off that briefly wiped out all their gains from July. Gains were widespread during the month and every S&P 500 sector gained except for the Energy and Consumer Discretionary sectors. The Energy sector was dragged down by falling oil prices reflecting, in part, a bit of sluggish global demand. Whereas the Consumer Discretionary sector was weighed down by shares of Tesla and Amazon that both declined after hitting YTD highs in mid-July. There was only a modest difference in August in terms of returns for growth stocks (Russell 1000 Growth Index +2.1%) as compared to value stocks (Russell 1000 Value Index +2.7%).

As we head into September, we would expect trading volume to build from the thinner volumes associated with the late summer weeks and investors will begin to look in earnest at the evolving political landscape as we head into the November Presidential election. Seasonally, September is the trickiest for equities to navigate and the month most likely to see a decline in risk assets—the S&P has registered a negative monthly return in 50% of Septembers since 1970, which is the highest occurrence rate for a negative monthly return[1].

## INTERNATIONAL EQUITY As of August 30, 2024

| INTERNATIONAL EQUITY MARKETS | | | | |
|---|---|---|---|---|
| Index | 1 Month | Quarter-To-Date | Year-To-Date | 1 Year |
| MSCI ACWI ex USA | 2.8% | 5.2% | 11.2% | 17.7% |
| MSCI EAFE | 3.3% | 6.3% | 12.0% | 19.0% |
| MSCI Emerging Markets | 1.6% | 1.9% | 9.5% | 14.1% |
| MSCI EAFE Small Cap | 2.0% | 7.8% | 8.3% | 15.1% |

International developed markets led U.S. equities for the month with the MSCI EAFE Index gaining +3.3% in August—aided in part by a weakening dollar which helped boost returns for U.S.-based investors. The U.S. dollar was broadly weaker during the month against several currencies including the Euro, Yen, Canadian Dollar, British Pound, and Chinese Renminbi. Despite the favorable currency backdrop, Emerging Market equities (MSCI EM Index) gained only +1.6% and were again weighed down by Chinese equities (MSCI China Index +1.0%) and Indian equities (MSCI India Index +1.0%) which were volatile during the month. Like the US market, international small caps (MSCI ACWI ex U.S. Small +1.8%) lagged their large cap peers (MSCI ACWI ex U.S. +2.8%).

## FIXED INCOME As of August 30, 2024

| FIXED INCOME MARKETS | | | | |
|---|---|---|---|---|
| Index | 1 Month | Quarter-To-Date | Year-To-Date | 1 Year |
| Bloomberg US Aggregate | 1.4% | 3.8% | 3.1% | 7.5% |
| Boomberg Global Aggregate | 2.4% | 5.2% | 1.9% | 7.0% |
| Bloomberg US High Yield | 1.6% | 3.6% | 6.3% | 12.6% |
| JPM Emerging Market Bond | 2.3% | 4.2% | 6.1% | 12.7% |
| Bloomberg Muni | 0.8% | 1.7% | 1.3% | 6.2% |

Once again, the overall decline in interest rates generated solid returns across the fixed income universe. The Bloomberg Aggregate index posted a +1.44%, the Bloomberg U.S. Corporate High Yield 1.63% and the JPM Emerging Market Bond +2.33%.

It is interesting to observe that the yield on the U.S. Treasury 10-year has declined from 4.70% on April 27, 2024, to 3.90%, on August 30th, while the spread to treasuries (the difference in yield between two different bonds) on high yield bonds were essentially unchanged during this time period[1]. Yield spreads are a barometer of economic health and market sentiment. A widening spread generally indicates that investors demand a higher return for taking on additional risk, often because of economic uncertainty. Conversely, a narrowing spread suggests increased confidence in the market, with investors willing to accept lower yields for riskier assets. So, while some feared an imminent recession and clamored for lower interest rates, high yield investors have not demanded an increase in compensation for the risk of owning high yield bonds. Bottom-Up, high yield investors appear more confident in their companies than top-down macro investors feel about the economy.

## CONCLUSION & OUTLOOK

While equity markets grapple to reach new highs and bond investors position themselves for lower rates (current market expectations for Fed Funds is 3.32% by July 30, 2025, in other words, 8, 25 basis point cuts in 12 months), there lurks just a few items that could dim such dreams. September and October are historically the two toughest months for stocks to navigate, and as investors refocus after the Labor Day holiday, markets could be poised for heightened volatility and profit taking. Also, a U.S. presidential election that has one candidate (Trump) pushing for higher tariffs that could lead to higher inflation, while the opposing candidate's (Harris) proposal to tax unrealized capital gains (an unprecedented tax policy) could be problematic if enacted. Both candidates will no doubt spend beyond our country's means and add to the $1 trillion a year increase in our nation's debt. Already debt servicing costs are currently 12% of total government outlays.[3] Over the next 12 months, $9 trillion of government debt will mature and need to be refinanced.[3] Someday the "Bond Vigilantes" will demand higher yields to compensate for the risk of owning U.S. Treasury securities. Until the markets pay attention to such issues, it appears that all the news that is fit to print is good news so laisssez les bons temp rouler (let the good times roll).

**SOURCES**
1 *Bloomberg LP*
2 https://www.federalreserve.gov/newsevents/speech/powell20240823a.htm
3 Apollo Chief Economist Torsten Slok, 8/27/2024

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