Exencial
Wealth Advisors™

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Market Update

Breaking up a string of several months going back into 2023, in July AI related and US large growth stocks were not the primary positive performance drivers. In fact, the only broad asset classes to fall for the month were commodities and US large growth stocks. This was interesting since economic numbers weakened from July into early August, and usually US large growth stocks are a haven against economic slowdowns.

For the month the S&P 500 was up 1.2%, and that return was driven by US large value stocks (+5.1%) while US large growth stocks fell (-1.7%). Small cap stocks rose 10.2%, the 21st best month for the Russell 2000 Index out of 547 months going back to its inception in 1979. International developed equities we up 2.9% and emerging markets were up 0.3%. Interest rates continued to fall, helping bonds (+2.3%) and real estate REITs (+7.2%). As inflation continued to cool, commodities lost –4.9% but gold continued with its recent rise and gained another 4.1%.

As mentioned above, economic numbers appear to be slowing following several years of higher inflation, increasing asset prices, and above average GDP growth. The Fed's higher interest rate policy and a reduction in our money supply from 2022-2023 (although M2 money supply is still about a third larger today than it was in 2020) appears to have had the intended effect: slowing growth and subsequent slowing inflation. With a weaker July jobs report and consumer sentiment well below normal range, we may find that the Fed is now ready to begin reversing interest rates and look at cutting rates in the second half of this year.

We've discussed market concentration over the last few months, but in July market concentration started to ease. The US market became historically concentrated when in early July the top 10 names of the S&P 500 made up 36% of the index. The average weight of the top 10 stocks since 1990 has been just over 20%. Following periods in which markets are more concentrated than normal, market cap weighted indexes such as the S&P 500 tend to underperform non-market cap weighted strategies such as the S&P 500 Equal Weight. We do believe that the high concentration and high valuation (42% above average PE) of US large market cap indexes will have many headwinds to overcome during the next several years.

Our base case for 2024 is that GDP(Gross Domestic Product) will slow from 2023's level. While we didn't experience the recession many feared, higher interest rates and higher debt pressure on US households will have a slowing effect on spending and growth. Household net worth will remain bolstered by home values and investment accounts which have remained high. Inflation should continue receding but may not get to the 2% target. However, with both inflation and economic indicators slowing, the Fed may start implementing rate cuts in an attempt to manage a soft-landing for the economy.

Performance Summary – YTD

The S&P 500 is up 16.7% while small caps are now up 12.1%. Developed international markets are up 8.43 Growth stocks have outperformed value stocks in the US but the reverse is true internationally. With interest rates falling, asset classes that used to be underwater (bonds now +1.6% and REITs now +4.8%) are now positive. MLPs are up 18.4% and gold is now up 17.3%. Commodities are just slightly positive at +1.5%.

High Yield, TIPs, short-term bonds, and floating rate notes are positive between +2.4% and 5.1% YTD.

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All earnings data comes from Standard and Poors' S&P 500 Earnings and Estimates Report as of 7/31/2024. Asset class performance numbers come from Morningstar as of 7/31/2024.

The S&P 500® is widely regarded as the best single gauge of large cap U.S. Equities There is over USD 9.9 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 3.4 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

GDP is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year. GDP growth rate is an important indicator of the economic performance of a country.

REITs, or real estate investment trusts, are companies that own or finance income-producing real estate across a range of property sectors.

A master limited partnership (MLP) is a business venture in the form of a publicly traded limited partnership. It combines the tax benefits of a private partnership with the liquidity of a publicly traded company.

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