

# MARKET VIEW MONTHLY

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## ECONOMIC REVIEW<sup>1</sup>

- The Institute for Supply Management's (ISM) services index, a key indicator of economic expansion or contraction, increased to 53.8. A reading over 50 represents expansion, while below 50 indicates contraction.
  - The latest reading is the highest level for the index in the past nine months and moves the index back into expansion territory after one month in contraction territory.
- The ISM manufacturing index for May posted a reading of 48.7 and has now posted back-to-back readings in contraction territory after posting its first reading in expansion territory in March following 16 consecutive months of contraction.
- Inflation cooled for a second straight month in May. The headline figure for the Consumer Price Index (CPI) fell to 3.3% year-over-year while core CPI cooled to 3.4%.
  - Both readings were lower than their respective forecasts (headline forecast: 3.4%, core forecast: 3.5%). Compared to last month, headline prices were flat and core prices increased 0.2%. Again, both readings were lower than their respective forecasts (headline forecast: 0.1%, core forecast: 0.3%).
- The Personal Consumption Expenditures (PCE) report revealed inflation rose at its slowest monthly level in the past six months.
  - The latest headline PCE price index was flat month-over-month (MoM), as expected. On an annual basis, headline PCE was up 2.6% in May, as expected.
  - Core PCE, the Federal Reserve's (Fed) favored measure of inflation, was up 0.1% from April and was up 2.6% year-over-year. Both readings were consistent with their respective forecasts.
- Nonfarm payrolls increased by 272,000 in June, which was a sharp increase from April's 175,000 reading.
  - The unemployment rate rose slightly to 4.0% from the previous month's reading of 3.9%.
- The latest job openings and labor turnover summary (JOLTS) report showed that job openings fell to their lowest level since February 2021. Vacancies dropped to 8.059 million in April from March's downwardly revised level of 8.355 million. The latest reading was below the expected 8.370 million vacancies.

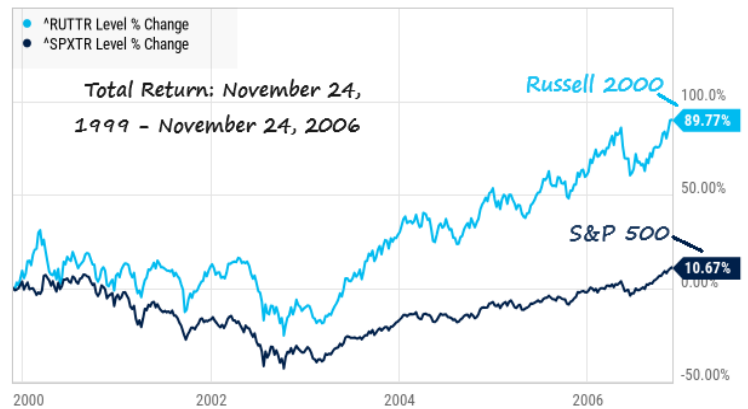
## INSIGHT:

The ISM services index surprised to the upside in May, signaling robust activity in a sector that comprises 70% of the U.S. economy. This positive trend in services, coupled with a deceleration in inflation as indicated by the latest CPI and PCE readings, paints a promising picture. If inflation continues to trend downward, it strengthens the case for the Federal Reserve to consider cutting interest rates, potentially as soon as September. Lower inflation not only eases cost pressures for consumers and businesses but also provides the Fed with more flexibility to support economic growth through monetary easing. Moreover, the resilience of the job market continues to defy expectations. Despite concerns of a rolling recession in certain sectors, job growth has remained robust, showcasing the underlying strength of the U.S. economy. As long as employment remains strong, consumer spending— a critical driver of economic activity— is likely to sustain its momentum. This continued spending is essential for supporting economic growth and, by extension, could lead to higher equity prices.

## Chart of the Month:<sup>2</sup>

The biggest US companies have been dominating the equity market for well over a decade. As a result, the outperformance of US large caps (S&P 500) over small caps (Russell 2000) is now at its most extreme level since November 24, 1999. What happened in the 7 years following the 1999 extreme? Reversion to the mean (“reversion to the mean”, means that if something is unusually high or low one time, it will probably be closer to average the next time). Small caps would outperform large caps by a wide margin, with the Russell 2000 gaining 90% versus an 11% gain for the S&P 500.

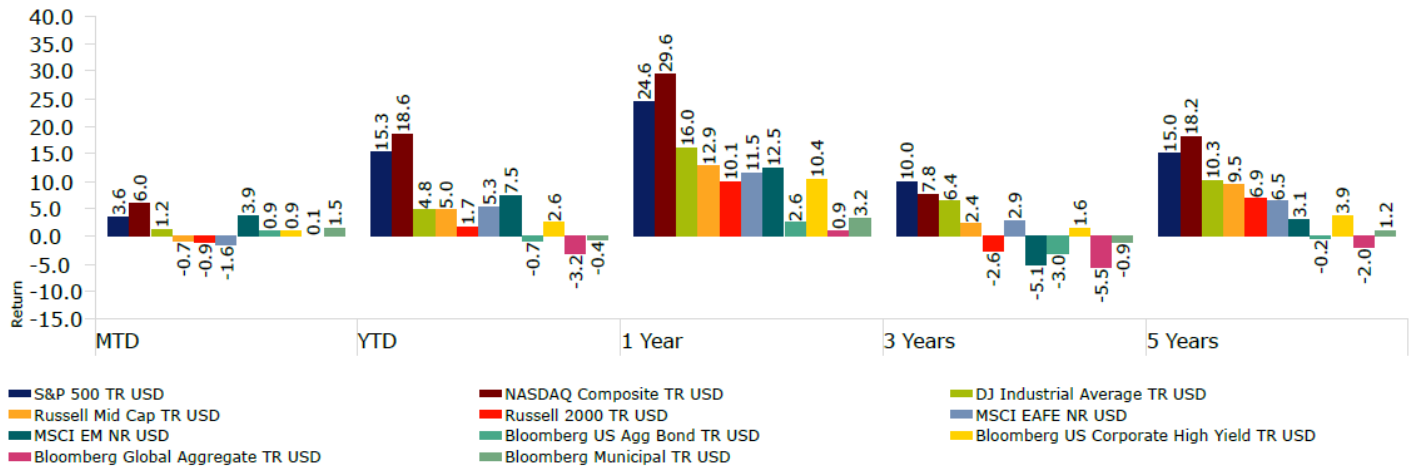
^SPXTR Level / ^RUTTR Level



## MARKET UPDATE<sup>3</sup>

### Trailing Returns

As of Date: 6/30/2024



| Investments (as of 6/30/2024)       | Trailing Returns |        |        |        |        | Equity Evaluations |           |
|-------------------------------------|------------------|--------|--------|--------|--------|--------------------|-----------|
|                                     | MTD              | YTD    | 1 YR   | 3 YR   | 5 YR   | P/E Ratio          | P/B Ratio |
| S&P 500                             | 3.59%            | 15.29% | 24.56% | 10.01% | 15.05% | 25.69              | 4.46      |
| NASDAQ                              | 6.03%            | 18.57% | 29.61% | 7.78%  | 18.21% | 30.37              | 6.04      |
| Dow Jones Industrial Average        | 1.23%            | 4.79%  | 16.02% | 6.42%  | 10.33% | 23.61              | 4.32      |
| Russell Mid-Cap                     | -0.66%           | 4.96%  | 12.88% | 2.37%  | 9.46%  | 20.53              | 2.82      |
| Russell 2000 (Small Cap)            | -0.93%           | 1.73%  | 10.06% | -2.58% | 6.94%  | 16.00              | 1.96      |
| MSCI EAFE (International)           | -1.61%           | 5.34%  | 11.54% | 2.89%  | 6.46%  | 16.26              | 1.84      |
| MSCI Emerging Markets               | 3.94%            | 7.49%  | 12.55% | -5.07% | 3.10%  | 14.06              | 1.64      |
| Bloomberg Barclays US Agg Bond      | 0.95%            | -0.71% | 2.63%  | -3.02% | -0.23% | —                  | —         |
| Bloomberg Barclays High Yield Corp. | 0.94%            | 2.58%  | 10.44% | 1.64%  | 3.92%  | —                  | —         |
| Bloomberg Barclays Global Agg       | 0.14%            | -3.16% | 0.93%  | -5.49% | -2.02% | —                  | —         |
| Bloomberg Barclays Municipal        | 1.53%            | -0.40% | 3.21%  | -0.88% | 1.16%  | —                  | —         |

## MARKET REVIEW<sup>1</sup>

### Equities:

As 2024's second quarter concludes, the U.S. stock market is still on a tear. The benchmark S&P 500 reached new highs in June and just had its fifth quarterly gain in the last six quarters. Notably, apart from an April downturn, positive market momentum has come with limited volatility. Through the end of the quarter, it had been 377 days since the market incurred a daily loss of at least 2.0%, the longest stretch avoiding a sizable daily loss since the 2008 financial crisis. However, investors should remain mindful of potential headwinds. While large-cap stocks continue to dominate, smaller companies face pressures from higher interest rates, and the broader market's performance could see varying impacts across different sectors. The tech sector's leadership is evident but concerns about valuation levels and the uneven performance of other sectors highlight the need for diversified investment strategies.

### Fixed Income:

Since July 2023, the Federal Reserve has maintained its highest target fed funds rate range since 2001, currently at 5.25% to 5.5%. In June, the Fed signaled a potential rate cut in 2024, with the timing being critical; cutting too soon could undo progress on inflation while delaying too long could trigger an economic downturn. Optimistically, inflation trends are improving. The Consumer Price Index (CPI) and core CPI have cooled to 3.3% and 3.4% year-over-year, respectively, raising anticipation of rate cuts later this year. Such a move could stimulate economic activity and support equity market growth. A more dovish Fed stance generally leads to lower yields. For example, the 10-year Treasury yield fell from 4.60% to 4.40% in June, boosting bond prices as they move inversely to yields. As a result, the Bloomberg Aggregate Bond Index showed gains for the month. Bonds typically perform well after a Fed rate cut for several reasons. Lower interest rates reduce the opportunity cost of holding bonds compared to other investments. Additionally, as yields drop, the fixed payments from bonds become more attractive, driving up their prices. This environment is particularly beneficial for long-duration bonds, which are more sensitive to interest rate changes.

## *Economic Definitions*

**CPI (headline and core):** Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

**Federal Reserve (Fed):** The Federal Reserve System is the central banking system of the United States of America.

**GDP:** Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

**ISM Services Index:** PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc. Target Audience: supply management professionals Sample Size: 300 individuals Date of Survey: through the month The Services Index is a composite index of four indicators with equal weights: Business Activity, New Orders, Employment and Supplier Deliveries. An index reading above 50% indicates an expansion and below 50% indicates a decline in the non-manufacturing economy. Whereas per Supplier Deliveries Index, above 50% indicates slower deliveries and below 50% indicates faster deliveries.

**ISM Manufacturing Index:** PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc.

**Nonfarm Payrolls:** This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

**PCE (headline and core):** PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

**Unemployment Rate:** The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

**Job Openings and Labor Turnover Survey – JOLTS:** This concept tracks the number of specific job openings in an economy. Job vacancies generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions.

## *Index Definitions*

**S&P 500:** The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

**S&P 500® Equal Weight Index (EWI):** The S&P 500® Equal Weight Index (EWI) 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.

**NASDAQ:** The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

**Dow Jones Industrial Average:** The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

**Russell Mid-Cap:** Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

**Russell 2000:** The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

**MSCI EAFE:** The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

**MSCI EM:** The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**Bloomberg Barclays US Agg Bond:** The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

**Bloomberg Barclays High Yield Corp:** The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

**Bloomberg Barclays Global Agg:** The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

**Bloomberg Barclays Municipal Bond Index:** The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

### *Disclosures*

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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<sup>1</sup> Data obtained from Bloomberg Terminal as of 6/30/2024.

<sup>2</sup> <https://bilello.blog/2024/us-large-cap-domination-chart-of-the-day-6-20-24>

<sup>3</sup> Returns obtained from Morningstar Direct as of 6/30/2024.