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# MARKET MINUTE

JUNE REVIEW 2024

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

June was an interesting month for the economy and financial markets, in that data was at each end of the spectrum; thus, it is challenging to draw any definitive conclusions to chart a course that is a smooth ride. For example, the U.S. economy created 272,000 jobs in May—well ahead of expectations. Also, average hourly wages moved higher to 4.1% year-over-year (YoY), which is up from April's 3.9% YoY figure.[1] Not surprisingly, the Friday before the Memorial Day weekend set a record for TSA screenings at America's airports. Over 2.95 million travelers passed through airport checkpoints nationwide. As long as the American consumer is working, they will spend their hard-earned dollars.  However, they cannot just buy everything all the time. Witness new housing starts which fell -5.5% MoM in May. On an annual basis, new housing starts were down -19.3% YoY.[1] For May, the Fed's Beige Book, a qualitative summary of economic conditions across the US, captured it best, saying the US economy remains on solid footing, but that economic activity was either unchanged or eased slightly in most regions of the US.[1] Mixed news is not weak news.

Much like the Fed is looking for additional economic data to bolster their "confidence that inflation is moving sustainably down,"[1] outside the Magnificent 7, markets are bouncing along while waiting for an unambiguous indication that the next move in interest rates is lower.

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

| U.S. EQUITY MARKETS | | | | |
|---|---|---|---|---|
| Index | 1 Month | Quarter-To-Date | Year-To-Date | 1 Year |
| DJIA | 1.2% | -1.3% | 4.8% | 16.0% |
| S&P 500 | 3.6% | 4.3% | 15.3% | 24.5% |
| Russell 2000 | -0.9% | -3.3% | 1.7% | 10.0% |
| Russell 1000 Growth | 6.7% | 8.3% | 20.7% | 33.5% |
| Russell 1000 Value | -0.9% | -2.2% | 6.6% | 13.0% |

Like much of the economic data, June was a mixed month for equities.  The S&P 500 Index gained +3.6%, but US small caps (Russell 2000 Index) and mid-caps (Russell Midcap Index) lost -0.9% and -0.7% respectively.  Meanwhile, international development fell (MSCI EAFE Index -1.6%), but emerging market stocks (MSCI EM Index) gained +3.9%.  Global central banks have begun cutting rates—the European Central Bank, Swiss National Bank, and Bank of Canada have all made an initial cut to their policy rates—but inflation is proving sticky in both North America and in Europe and a myriad of geopolitical wildcards are looming as we head into the back half of 2024.

Within the US, only a small subset of growth-oriented stocks did well in June.  The Russell 1000 Growth Index gained +6.7% powered by likes of NVIDIA, Apple, Microsoft, and Meta (Facebook), the Russell 1000 value index declined by -0.9%.  Only about 40% of the S&P 500 traded higher in June and the top twelve stocks accounted for nearly all the gains in the Index.  Sector performance was also mixed with Communication Services (Alphabet, Meta), Consumer Discretionary (Amazon), and IT (Apple, Microsoft, NVIDIA) leading the gains.  Healthcare and Real Estate also managed to eke out some gains in June, while Consumer Staples, Energy, Financials, Industrials, Materials, and Utilities all declined.

## INTERNATIONAL EQUITY As of June 30, 2024

| INTERNATIONAL EQUITY MARKETS | | | | |
|---|---|---|---|---|
| Index | 1 Month | Quarter-To-Date | Year-To-Date | 1 Year |
| MSCI ACWI ex USA | -0.1% | 1.0% | 5.7% | 11.6% |
| MSCI EAFE | -1.6% | -0.4% | 5.3% | 11.5% |
| MSCI Emerging Markets | 3.9% | 5.0% | 7.5% | 12.5% |
| MSCI EAFE Small Cap | -3.0% | -1.8% | 0.5% | 7.8% |

International markets were buffeted by a series of geopolitical developments that weighed on European markets. Looming elections in both the UK (4-July) and France (30-June-first round) led to declines in both of these markets as investors try to weigh potential changes in economic and fiscal policy. The MSCI France Index fell by -7.4% and the UK equities (FTSE 100) lost -1.7% in June. However, emerging markets were buoyed by strong performance of semiconductor stocks in Taiwan (TSMC) and South Korea (Samsung) as well as a rally in Indian equities—MSCI India Index gained +7.0%—which reacted positively to newly re-elected PM Narendra Modi's ability to quickly form a stable coalition government.

## FIXED INCOME As of June 30, 2024

| FIXED INCOME MARKETS | | | | |
|---|---|---|---|---|
| Index | 1 Month | Quarter-To-Date | Year-To-Date | 1 Year |
| Bloomberg US Aggregate | 0.9% | 0.1% | -0.7% | 2.6% |
| Boomberg Global Aggregate | 0.1% | -1.1% | -3.2% | 0.9% |
| Bloomberg US High Yield | 0.9% | 1.1% | 2.6% | 10.4% |
| JPM Emerging Market Bond | 0.7% | 0.4% | 1.8% | 8.4% |
| Bloomberg Muni | 1.5% | 0.0% | -0.4% | 3.2% |

Based upon favorable inflation data reported in early June, U.S. Treasury securities continued the May rally through mid-June, but pretty much went sideways in the back half of the month. Two-year yields declined by 12 basis points (4.87% to 4.75%) while 10-year yields declined by 10 basis points (4.50% to 4.40%). Interestingly, spread activity was very market dependent, as high yield spreads were basically unchanged while investment grade spreads widened out by 9 basis points (Bloomberg Investment Grade Corporate Index spread - 85 to 94). In the end, it was a solid month for fixed income performing well, as the Bloomberg Aggregate index posted a +0.95%, the Bloomberg U.S. Corporate High Yield posted +0.94%, and emerging market debt – the JPM Emerging Market Bond - posted +0.66. Muni investors bounced back from May's losses as the Bloomberg Municipal Bond Index returned +1.53%.

## CONCLUSION & OUTLOOK

As we approach the summer vacation season, one often ponders what reading material one should bring along for his or her travels. Equity investors seem totally focused on AI (fiction or non-fiction?) and trying to figure out how to identify the next NVIDIA. Our recommendation is to look beyond the technology itself and learn how it will be powered. A query to Chat GPT requires 10x the energy of a simple Google search. With AI proliferation set to expand significantly, energy demand is expected to rise rapidly with industry estimates of 4-5% annual increases over the next several years. This is a sea change from the last two decades as energy demand has risen at a very slow pace (0.5% annually or less) and leaves investors questioning where all the energy needed to power AI is going to come from.

While the S&P 500 seems to be setting new record highs on a weekly basis, bond investors should focus on the inverted yield curve (10-year yield minus 2-year yield) and consider how today's record, long inverted curve might evolve given history's lessons of inverted curves correcting in the past. This need not be a quick read because the likelihood is that the curve will remain inverted through year-end and possibly through late 2025.

Will the exploding U.S. national debt and the proliferation of U.S. Treasury bonds require higher 10-yields to attract investors? Will inflation reach the Fed's 2% target and allow the Fed to ease its monetary policy to be followed by lower 2-year yields? As we look forward, markets will have to contend with these developments as well as new governments in several countries, including the U.S., and ongoing wars in Ukraine and the Middle East.  The headlines around these events may be market moving, as trading volume is generally thin in July and August,  and market analysts begin to shift their focus from 2024 earnings to the outlook for 2025.

### SOURCES
**1 Bloomberg LP**