

Weekly market update

Chart of the week (Jun. 14, 2024)



What a difference a few months can make. Using Fed Funds futures as the basis, this week's chart shows how the market's expectations for rate cuts changed from Jan. 4 of this year through June 12. Not only has the beginning of rate cuts been pushed out, but the expectation for the total number of rate cuts is now significantly lower. However, we still believe the Fed's next move will be to lower rates—that is, when it does make a move.

The outlook was further refined as the Federal Open Market Committee (FOMC) [met for its June meeting](#) to discuss rates and update their economic projections. During the same week, the [consumer price index \(CPI\)](#) report showed inflation at lower rates than expected.

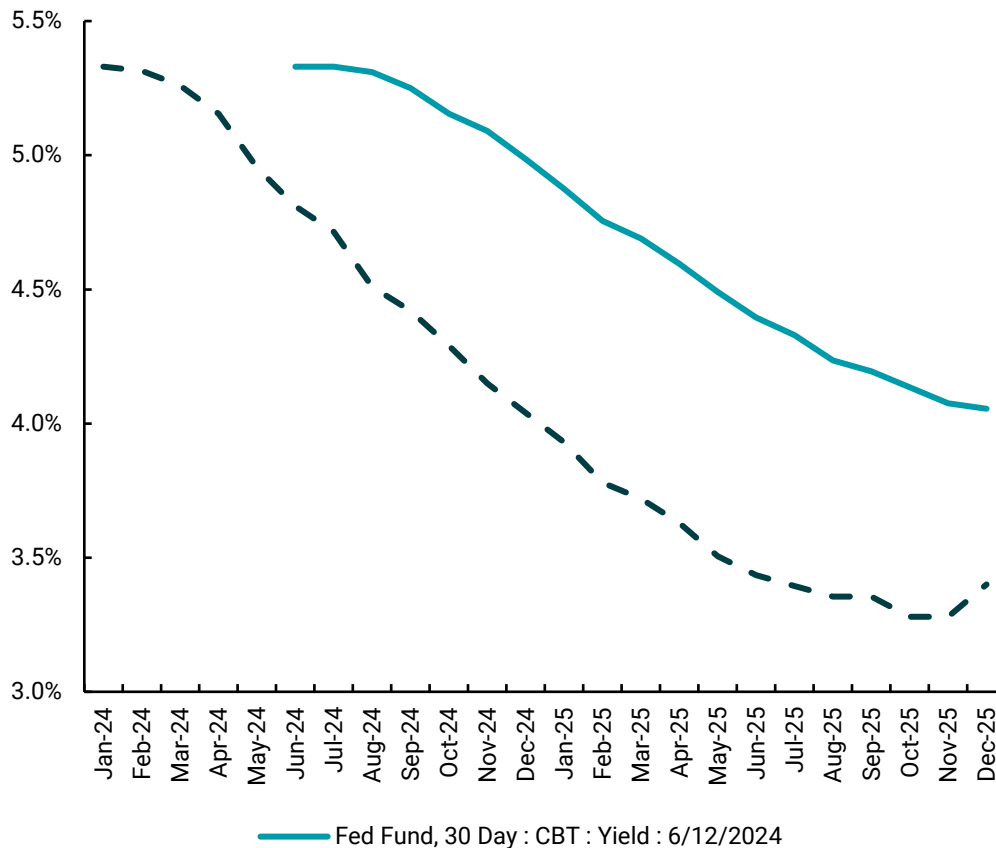
Overall, the performance of the economy, markets and inflation has been impressive. Economic growth has slowed a bit from the fast pace of 2023 but remains solidly positive. While the employment market is becoming more balanced as job openings are falling, it still shows headline unemployment at 4% as we continue a streak of low unemployment not seen since the 1960s. Stock markets have powered to new highs as corporate profitability remains strong despite over 5% in interest rate increases from the Fed. And the rate of inflation is declining. The pace of declines has slowed and become a bit more uneven, but the ability of the economy to grow while still seeing reduced inflation pressures has been a huge win for the Fed and U.S. consumers.

That's not to say the Fed can let its guard down. There are signs of consumer stress as credit card and auto loan delinquencies rise. While the rate of inflation is slowing, the aggregate level of prices continues to increase, impacting those least able to afford it the hardest. At the same time, the economy is becoming more bifurcated, as those with financial and real assets, like stocks and homes, have seen incomes and net worth expand rapidly. In contrast, individuals who own fewer financial assets and are renting have seen their budgets hit hard with no corresponding increase in net worth.

It is important for the Fed to reduce inflation sustainably towards their 2% goal. Yet, in many ways, the "medicine" of higher rates hurts those most negatively impacted by inflation the hardest, too. Access to credit tends to be at a higher cost for those with fewer assets. Consider credit card debt versus home equity debt. Credit card debt is generally floating rate, meaning the increase in rates has significantly increased the cost of these kinds of debt.

Altogether, some relief from high rates could be a real help, as would be an ongoing decline in inflation. We think this is why the Fed wants to be able to begin lowering rates. A stable rate policy while inflation falls would amount to the Fed being more restrictive and reducing the benefit of lower inflation by keeping the cost of debt high. At the same time, it's never easy for the Fed, and a growing economy with low unemployment and rates that are a little high is better than unemployment rising and the Fed having to lower rates for that reason.

Fed Funds Futures



Sources: Bloomberg.
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Commentary (Jun. 14, 2024)

Domestic Equities

- The S&P 500 Index and the Nasdaq Composite Index continued to hit new highs this week. Stocks held on to gains even though the Federal Reserve left rates unchanged, as expected, and projected just one cut this year.
- Apple stock rose for the week after the company announced that the next family of iPhones will include artificial intelligence (AI) capabilities, which analysts believe will boost sales to record levels. The stock reached a new all-time high and surpassed Microsoft's market cap.
- Adobe shares jumped after better-than-expected earnings and full-year outlook. The company says its approach to AI is attracting new customers.
- The U.S. Consumer Confidence Survey came in lower than expected, indicating consumers are increasingly concerned over their personal finances due to higher prices and weakening incomes.

Bonds

- U.S. Treasury yields dropped on weaker inflation and employment data. The long end of the curve benefitted from positive auction results, with both the 10- and 30-year auctions experiencing strong demand.
- The Federal Reserve left policy rates unchanged on Wednesday but increased their inflation expectation for year-end 2024 from 2.6% to 2.8%. Based on this higher inflation outlook, the central bank reduced the number of expected cuts in 2024 from three to one. Rates initially moved higher on this announcement but retreated by the end of the week on softer economic data. The updated outlook from the Fed also appears to have had little impact on the market's expectations for rate cuts, with Fed funds futures still pricing two cuts for 2024 as of Friday's close.

International Equities

- Foreign markets delivered varied results as investors digested information from crucial central bank meetings, election results and new batches of economic data.
- Foreign developed markets fell this week, especially across many European markets, following a surprising surge in far-right power in the EU Parliamentary Elections. French stock and bond prices fell following President Emmanuel Macron's decision to call a snap election. Investors are concerned that a more right-wing government could increase state spending and mismanage public finances, reversing Macron's reforms.
- Results in emerging markets were mixed, with some Asian markets showing strength, but Latin America experienced losses. Brazilian stocks fell as the country's annual inflation picked up more than expected in May, snapping a seven-month streak of declining prices.

Economics

- The Bureau of Labor Statistics (BLS) reported the Consumer Price Index (CPI-U) was unchanged in May, the lowest monthly level since July 2022. Year-over-year, the index declined to 3.3%, a decrease of 0.1% from the prior month. Most of the monthly decline was due to lower gasoline prices. Core CPI, which excludes food and energy prices, increased 0.2% in the month and was 3.4% over the prior 1-year period.
- The BLS also reported that the Producer Price Index (PPI) declined 0.2% in May as services were unchanged and goods declined by 0.8%. Over the prior 12 months, PPI has risen by 2.2%.
- Initial claims for unemployment insurance totaled 242,000 for the week ending June 8, the highest weekly level since Aug. 12, 2023.
- Retail sales and industrial production reports will both be released on Tuesday. Existing home sales will be released on Friday.

Weekly Market Update

For Week Ending June 14, 2024

Markets

	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	38,589.16	-0.5%	3.3%	15.9%
S&P 500 Index	5,431.60	1.6%	14.6%	26.1%
NASDAQ Composite	17,688.88	3.3%	18.3%	30.8%
S&P 400 Midcap Index	2,895.31	-0.8%	4.8%	14.7%
S&P 600 Smallcap Index	1,272.44	-1.8%	-2.7%	8.2%
MSCI EAFE	8,164.86	-2.6%	4.9%	9.8%
MSCI Emerging Markets	567.87	0.5%	6.4%	9.0%
Bloomberg US Agg	2,163.85	1.3%	0.1%	3.7%
Bloomberg Municipal 5 Yr	485.42	0.5%	-0.7%	2.7%
Bloomberg US Corporate	3,235.79	1.2%	0.5%	6.5%
Bloomberg Glb Agg ex US Hdg	570.42	0.7%	1.0%	6.0%
Bloomberg High Yield	2,537.69	0.3%	2.3%	10.4%
MSCI US REIT Index	2,104.01	1.3%	-2.1%	5.5%
Bloomberg Commodity Index	240.99	0.7%	6.4%	6.7%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	5.50%	5.50%	5.50%	5.25%
3-Month Treasury	5.38%	5.39%	5.33%	5.22%
1-Year Treasury	5.06%	5.17%	4.76%	5.23%
2-Year Treasury	4.70%	4.89%	4.25%	4.69%
5-Year Treasury	4.24%	4.46%	3.85%	3.99%
7-Year Treasury	4.22%	4.45%	3.88%	3.89%
10-Year Treasury	4.22%	4.43%	3.88%	3.79%
30-Year Treasury	4.35%	4.55%	4.03%	3.88%

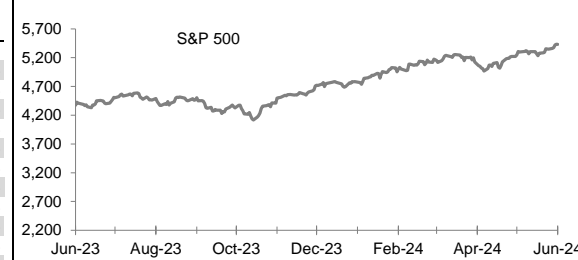
	Last Price/Yield	Prior Week	Year End	Year Ago
Consumer Rates				
30-Year Mortgage	7.29%	7.31%	6.99%	5.83%
Prime Rate	9.25%	9.25%	9.25%	9.00%
SOFR	5.31%	5.33%	5.38%	5.05%

	Last Price	Prior Week	Year End	Year Ago
Commodities				
Gold	2,333.04	2,293.78	2,062.98	1,942.52
Crude Oil (WTI)	78.45	75.53	71.65	66.23
Gasoline	3.45	3.46	3.12	3.59
Natural Gas	2.88	2.92	2.33	3.29
Copper	4.48	4.49	3.89	3.88

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	18.99	20.65	4.92	1.94
S&P 500	22.19	23.81	4.92	1.40
S&P 500 Value	16.45	17.23	2.79	2.40
S&P 500 Growth	29.97	33.27	11.44	0.65
NASDAQ	31.92	38.04	6.91	0.75
S&P Midcap 400	15.80	15.96	2.44	1.90
S&P Smallcap 600	15.01	14.85	1.74	2.80
MSCI EAFE	14.83	14.77	1.90	3.18
MSCI Emerging Markets	13.03	15.02	1.72	2.88

Source: Bloomberg

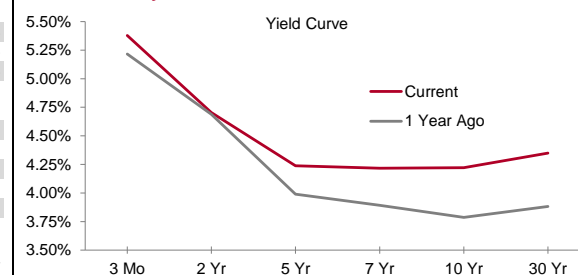
Equity Style



1 Month*			Year to Date*			
Value	Core	Growth	Value	Core	Growth	
Large	-1.86	3.69	8.21	4.85	14.63	23.15
Mid	-4.75	-3.96	-3.22	-1.07	4.83	10.55
Small	-6.17	-4.88	-3.63	-6.64	-2.69	1.29

*S&P Indices

Fixed Income Style



1 Month*			Year to Date*			
Short	Interm.	Long	Short	Interm.	Long	
Govt	0.64	1.14	4.14	1.13	0.47	-2.44
Corp	0.60	1.21	2.93	1.78	1.30	-1.21
HY	0.69	0.82	0.18	3.19	2.37	0.23

1-3 Yrs 1-10 Yrs +10 Yrs

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	3.3%	4.0%
CPI Core Inflation	3.4%	5.3%
Personal Consumption Exp (PCE) Core	2.8%	4.8%

	Last Release	Year Ago
Jobs		
Unemployment Rate (U3)	4.0%	3.7%
Broader Unemployment Rate (U6)	7.4%	6.8%
JOLT Survey (in millions)	8.06	9.90
Jobless Claims (000's)	242	260
Change in Non-Farm Payroll (000's)	272	303
Average Hourly Earnings (Y/Y % Change)	4.1%	4.6%

	Last Release	Year Ago
Consumer & Spending		
Consumer Confidence (Conf Board)	102.0	102.5
Consumer Spending (\$ Bil)	19,341	18,364
Consumer Credit (\$ Bil)	5,053	4,957
Retail Sales (\$ Bil)	705	684

	Last Release	Year Ago
Housing		
Housing Starts (000's)	1,360	1,368
Case-Shiller Home Price Index	316.65	297.34

	Last Release	Year Ago
U.S. Productivity		
Real Gross Domestic Product (\$ Bil)	22,750	22,112
Quarter over Quarter Change	1.3%	2.2%
Year Over Year Change	2.9%	1.7%
ISM Manufacturing	48.70	46.60
Capacity Utilization	78.40	79.79
Markit US Composite PMI	54.50	54.30

	Last Release	Year Ago
U.S. General		
Leading Economic Indicators	101.8	107.6
Trade Weighted Dollar Index	123.9	120.1
EUR / USD	1.07	1.08
JPY / USD	157.40	140.09
CAD / USD	0.73	0.75
AUD / USD	0.66	0.68

S&P 500 Sector Returns

	1 Month	YTD
Information Technology	14.35%	29.64%
Communication Services	3.77%	24.15%
Utilities	-2.12%	11.40%
Consumer Staples	-0.46%	8.62%
Financials	-2.92%	8.53%
Health Care	1.27%	7.46%
Industrials	-3.18%	6.71%
Energy	-6.16%	6.06%
Materials	-3.12%	4.36%
Consumer Discretionary	-0.52%	2.61%
Real Estate	0.96%	-3.08%

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