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THE MARKET MEMO

DEAR BEAVERS WEALTH MANAGEMENT FAMILY & FRIENDS

Election news dominated headlines through July and culminated in President Joe Biden declining to seek a second term, instead endorsing Vice President Kamala Harris as the Democratic Party's candidate. The markets don't particularly like uncertainty, but the turbulence that followed this commotion is not likely to linger as more fundamental market forces play out.

"Politics is only one of ten factors in our equity outlook framework and in fact, it ranks pretty far down the list," said Raymond James Chief Investment Officer Larry Adam. "Macro factors and fundamentals are much more important in determining the market's direction."

The market's expectations have been on a rollercoaster regarding the Federal Reserve (Fed) cutting interest rates this year, but with inflation receding and consumer spending beginning to slow, lower rates seem finally in sight. Inflation, as measured by the Consumer Price Index (CPI) was lower than expected, declining by 0.1% – the first deflationary month since May 2020. This has bolstered small-cap stocks, which had their best monthly performance in July relative to large-cap stocks since December 2000.

The S&P 500, which measures the aggregate performance of the largest U.S. companies, rallied at the end of the month and finished July up 1.2% – within the range of a normal market adjustment. Showing just how starkly market sentiment has shifted, the Russell 2000, which measures the performance of small U.S. companies, returned 9.8% last month.

Historically, small caps outperform in anticipation of and following a first rate cut, and this rally is supported by improvements to corporate earnings. Earnings are on track to rise 10% year-over-year, turning in the best quarter since the fourth quarter of 2021. Real estate and financials were the best performing sectors. Tech-related sectors underperformed.

Bond yields were lower across the board, led by shorter-term securities, as markets priced in the likelihood of a rate cut.

Employment remained strong in June, with the establishment employment survey showing jobs increasing by 206,000, but the unemployment rate – which comes from the household survey – inched up to 4.1% from 4.0%.

The volatility we're seeing isn't entirely unexpected, considering we've seen only one 5% pullback in the S&P 500 so far in 2024 when we typically see three or four per year – not to mention the uncertainty around the presidential election. Now that we're in the weakest seasonal period of the year, caution is warranted, but this is why we invest long-term.

We will remain committed to the pursuit of your financial goals and thank you for your continued trust in our guidance. If you have any questions about his recap – or anything else – please don't hesitate to reach out.

Sincerely,

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