Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

Alongside Fed Chair Powell's testimony to both the Senate and the House that was perceived to continue to lay the groundwork for rate cuts later this year, the key driver for markets last week was the inflation data that was released, in particular the CPI report released last Thursday. The softer than expected CPI report and subsequent increased odds for rate cuts this year, drove a pronounced rotation out of the Magnificent 7 stocks, into other areas of the market. We have been discussing the historically significant concentration in the return profile for the S&P 500 and our expectation for a broadening out in the market, with the expectation for rate cuts being a key catalyst on that end. We recently sent out a piece entitled "First Half S&P 500 Index Divergence" which discusses in detail the divergence in returns for the S&P 500 Composite which is market-cap weighted, relative to the S&P 500 Equal Weighted Index which as it states, assigns an equal weighting to all of the stocks included in the S&P 500. We hope you have the opportunity to review this piece, as it provides important context relative to what has occurred in equity markets through the first half of the year, and our expectation for a broadening out in the markets.

As noted above, we saw some of that broadening more meaningfully take shape last week. The CPI report released last Thursday, showed deflation in the headline number in June, decreasing by -0.1% for the month relative to expectations for a 0.1% increase. The year-over-year headline CPI reading also came in below expectations, increasing by 3.0% relative to expectations for a 3.1% increase and down from the prior reading of 3.3%. Core CPI, which excludes food and energy, likewise came in below expectations with a 0.1% increase for June relative to expectations and the prior reading of 0.2%. Year-over-year, Core CPI increased 3.3%, relative to expectations and the prior figure of 3.4%. Subsequent to the release of the report on Thursday, the S&P 500 composite closed down -0.88%, while the S&P 500 equal-weight index was up close to 0.70%. In addition, small-cap stocks had one of their most significant relative return days in decades, as the Russell 2000 index closed up over 3% on the day, relative to the S&P 500's -0.88% return. That was only the second time that the Russell 2000 was up over 3% while the S&P 500 composite was down, since 1979.

We did see a bounce-back in the S&P 500 composite and some of the large-cap Tech stocks on Friday after what was a bit hotter than expected PPI report (headline PPI increased by 0.2% in June relative to expectations for a 0.1% increase), however the equal weight S&P 500 and small-cap stocks again outpaced the S&P 500 composite on the day. Ultimately, the S&P 500 closed the week in positive territory to the tune of 0.86%, with the Dow Jones Industrial Average up 1.50% and the tech-heavy Nasdaq closing up 0.24% for the week. Amidst the underperformance of the Nasdaq for the week, small-cap stocks as measured by the Russell 2000 index posted their best week of the year, up over 6%. Rotations of the magnitude that we saw last week out of large cap into small cap stocks, have historically portended a continuation of that rotation in the coming weeks. With that said, the volatility on a day-to-day basis underscores why we continue to take a long-term approach in the management of client portfolios. We will continue to keep you updated on this front.

The 2nd quarter earnings season also kicked off in earnest last week, with money-center banks including JP Morgan, Wells Fargo, and Citibank reporting earnings. Results were mixed, with Citibank beating expectations amidst cost-cutting measures that have helped to boost profits, while Wells Fargo provided an outlook that missed expectations for net interest income (the difference between what banks make on interest-bearing assets like loans and what they pay out to customers on deposits), in an environment of higher rates. JPMorgan, which is owned in our equity strategies, also reported mixed results. Investment banking revenues were up 50%, and trading revenues on both the equity and fixed income side were both up 21%. However, the company was somewhat impacted by the same dynamics in terms of net interest income, which came in slightly below expectations. In addition, the bank set aside a larger than expected $3.1 billion to cover potentially bad loans, as the company acknowledged that delinquencies were rising among some Americans. Shares of all 3 banks closed down on Friday, with JPMorgan proving to be the most resilient (shares of JPM closed down just -0.40% relative to Citibank bank off -1.7% and Wells Fargo down -5.88%). Delta Air Lines also reported earnings last week, with the company missing expectations, and sending shares down close to 5% for the week. Despite reporting still robust demand for travel, Delta noted that in the lowest seat price range, competition from low-cost carriers is resulting in discounted ticket prices, which along with rising fuel costs, negatively impacted profits. Despite not getting off to the best start, S&P 500 earnings from a broader perspective are expected to be up close to 9% for this quarter. The outlook for aggregate earnings growth for the S&P 500 in the coming quarters and into next year remains supportive for equity markets amidst several cross-currents from a macroeconomic and political perspective, with full year earnings growth for 2024 expected to come in at 11%, while full year 2025 S&P 500 earnings are expected to ratchet up to 15%. We will keep you posted as earnings season continues to evolve, and relative to updates in forward looking earnings growth expectations.

The shocking assassination attempt on former President Donald Trump at a rally conducted on Saturday in Butler, PA, and resultant casualties in the audience, are highly unfortunate displays of political violence. Our hope is that President Biden's address to the nation from the oval office and calls to "take down the temperature" and for unity are heeded. The assassination attempt on former President Trump and his defiant display in the face of it, are being looked at as bolstering his odds of being re-elected, as the Republican National Convention in Milwaukee kicks off. We will continue to monitor the situation and provide updates.

More Fed speak, including from Chair Powell, is on the docket for this week. A key focus for markets will be the next read on the consumer, with the retail sales report due out on Tuesday. We will also get more housing data, as Housing starts and Building permits data is due out on Wednesday. The U.S. leading economic indicators index data is due out on Thursday. This week will also see the release of a number of different earnings reports, including both large money-center and regional banks.

Market Scorecard:	**7/5/2024**	**YTD Price Change**
Dow Jones Industrial Average	39,375.87	4.47%
S&P 500 Index	5,567.19	16.72%
NASDAQ Composite	18,352.76	22.36%
Russell 1000 Growth Index	3,806.23	24.73%
Russell 1000 Value Index	1,710.80	4.99%
Russell 2000 Small Cap Index	2,026.73	-0.02%
MSCI EAFE Index	2,364.30	5.73%
US 10 Year Treasury Yield	4.272%	+41 basis points
WTI Crude Oil	$83.44	16.98%
Gold $/Oz.	$2,399.80	15.83%

Beacon Trust 163 Madison Avenue, Suite 600 | Morristown, NJ 07960 | 973.377.8090 | BeaconTrust.com