SIGHT|LINES

MARKET PULSE

August 5, 2024

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- Equities fell today, with the information technology and communication services sectors performing worst.
- The S&P 500 fell 3.0%, the Dow Jones Industrial Average (Dow) was down 2.6%, and the Nasdaq declined 3.4%.
- Non-U.S. markets were also lower. The DAX (Germany) was down 1.8%, and the Nikkei (Japan) fell 12.4%.
- The 2-year Treasury yield closed at 3.89% while the 10-year Treasury fell 2 basis points to 3.77%.

CATALYSTS

- U.S. equity markets fell to start the week while the VIX Index, a measure of expected market volatility, spiked at one point to its highest level going back to 1990. Today's decline was a continuation of the risk-off sentiment triggered by last week's weaker economic data, which raised concerns that the economy may be slowing faster than anticipated and that the Federal Reserve (Fed) may be "behind the curve" on lowering rates. While the economy is expected to slow in the second half of the year, there's nothing yet that signals an imminent recession. Unemployment has risen 0.6% since the start of the year, but a 4.3% unemployment rate is still well below the 20-year average of 5.8%. Nevertheless, traders of fed funds futures believe the Fed will lower rates by 50 basis points in September.
- There are also technical factors that may be amplifying market volatility. These include light trading volumes due to seasonal patterns, a concentration of the U.S. market in big tech companies, and the rapid unwinding of a carry trade involving the Japanese yen.
- The "Magnificent Seven" (M7) companies make up over 30% of the S&P 500's market capitalization, and the Bloomberg Magnificent 7 Index has risen 36.2% year to date through July. However, last week four of the M7 reported mixed results, causing a shift in investor sentiment from optimism to perhaps a more muted view, with a focus on the sustainability of earnings growth in light of increased spending on AI capabilities.

INVESTMENT STRATEGY OUTLOOK

- Volatility is expected to increase in the coming months as there is still considerable uncertainty around the 2024 U.S. elections, the state of the consumer, the timing of Fed rate cuts, and ongoing geopolitical tensions. Many Wall Street strategists are predicting a stock market correction in the U.S. We remind investors that volatility is a normal part of investing and despite the recent equity market weakness, the S&P 500 is up 48.8% from its bear market low on October 12, 2022.
- Investors should avoid chasing performance, like overweighting recent strong performers, or shifting an equal-weighted strategy, including active management, to a cap-weighted one on the belief the latter will perform better.
- For investors who have built up large cash positions, consider the purpose of such cash. Cash earmarked for a long-term strategy can be dollar-cost averaged, with the potential to accelerate the process on market weakness.
- Within U.S. equity markets, we guide investors to focus on diversification, rebalancing when allocations have drifted meaningfully, and broadening exposure beyond mega cap technology stocks. In our portfolios we remain focused on quality companies with strong earnings, solid free cash flow, and manageable debt loads.
- For more insights and market commentary visit Stifel Insights.

Past performance does not indicate future results. Dollar-cost averaging does not assure a profit or protect against a loss. Investors should consider their ability to continue investing during periods of falling prices. The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The Dow Jones Industrial Average is an index that shows how 30 large, publicly owned companies based in the United States have traded during a standard trading session in the stock market. 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 Nikkei 225 consists of the shares of the 225 largest companies in Japan. The DAX Index consists of the 30 most actively traded German companies on the Frankfurt Stock Exchange. The Bloomberg U.S. 1000 Value Total Return Index provides exposure to companies with superior value factor scores based on their earnings yield, valuation, dividend yield, and growth. The Bloomberg U.S. 2000 Total Return Index is a float market-cap-weighted benchmark of the lower 2,000 in capitalization of the Bloomberg U.S. 3000 Index. The Bloomberg Magnificent 7 Total Return Index is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 widely-traded companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by Bloomberg Industry Classification System (BICS).

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