MONTHLY MARKET UPDATE
July 2024

OPAL WEALTH ADVISORS

July's market performance didn't exhibit a clear risk-on/risk-off pattern, certainly up until the back half of the month when we saw an increase in equity and interest rate volatility, which both surged in the first week of August following an unexpected rate hike from the BoJ on July 31st. Other key market drivers during the month were second quarter corporate earnings reports, a plethora of economic indicators, and another closely watched FOMC meeting. Global equity markets closed out the month of July with respectable gains with both U.S. (+1.2%) and non-U.S. (+2.3%) markets delivering solid returns. Equity markets experienced a broad rotation in leadership from large cap/quality/momentum/growth stocks into small cap and value areas. Bonds rallied as yields fell across the curve, particularly on the short end where markets began to price in more aggressive rate cuts, sending 2yr yields down from 4.71% to 4.29% during the month and 10yr yields down from 4.36% to 4.09% which left the yield curve less inverted than it has been over the past two years. High yield credit spreads ended the month largely unchanged, moving from 3.21% to 3.25%, as MBS, investment grade credit, and high yield credit led fixed income market returns in July.

One of the catalysts for the market rotation seemed to be the soft CPI inflation report on July 11th where headline and core CPI inflation of 3.0% and 3.3% came in below consensus expectations. Core PCE inflation of 2.6% has continued to drift down toward the Fed target of 2%. Economic growth indicators remained relatively buoyant with a strong retail sales report, 2Q GDP registering 2.8% QoQ AR (3.1% YoY), and a composite PMI reading of 55.0 with weakness in manufacturing sectors offset by continued strength and resilience in service sectors. The labor market garnered a good deal of attention with a soft July payrolls report (114k vs 180k) and unemployment increasing from 4.1% to 4.3% despite evidence of weather-related anomalies. That said, evidence of slowing labor demand has been building over the past several months as the FOMC made clear in its July strategy session. The Fed did vote to hold rates steady at 5.25%-5.5% while acknowledging increased likelihood of rate cuts beginning in September due to slowing labor demand and moderating price pressures.

Market Anecdotes

- Both the slowing labor market and slowing consumer spending have fanned investor anxiety about the growth outlook and whether policy will react firmly enough to interrupt softening momentum.
- Hulbert Ratings noted equity market returns following an initial FOMC rate cut are somewhat of a mixed bag with outcomes ultimately dependent on what market participants believe is the forward path for the economy: a soft landing or a weak economy in need of accommodation.
- BCA noted the U.S. consumer has remained resilient right up to past recessions but labor market deterioration, tight bank lending standards, and mostly spent pandemic era excess savings do pose headwinds to the consumption-oriented U.S. economy looking forward.
- Alpine Macro has made the case that the Sahm Rule may provide a false recession signal given the gap between labor demand and supply has been filled with surging supply as opposed to, historically, falling demand.
- A research paper from the San Francisco Fed estimated the current breakeven job creation 'breakeven' at 230,000, due to increased labor force participation and immigration, but made the important distinction that the estimate is dynamic and will eventually revert to the long-term average range of 70,000-90,000 per month.
- A separate Dallas Fed research paper examined the immigration surge impact on inflation and economic growth concluding the 1.2% increase in population results in a slight (0.06%-0.11%) increase in inflation but a significant increase in GDP of 0.72% annually.
- Bloomberg noted Piper Sandler & Co eliminated the routine practice of publishing annual S&P 500 return predictions, something other Wall Street firms and strategists may want to consider following suit given the spotty track record.

Economic Release Highlights

- July payrolls came in below the consensus estimate (114,000 vs 180,000) and the unemployment rate increased to 4.3% from 4.1% in June. Labor participation rate increased to 62.7% and average hourly earnings slowed to 0.2% MoM and 3.6% YoY.
- July YoY PCE inflation was generally in line with expectations for both headline (2.5%) and core (2.6%) alongside MoM readings of headline (0.1%) and core (0.18%). Personal income grew slightly less than forecast (0.2% vs 0.4%) and PCE was in line with spot consensus at 0.3%.
- CPI YoY Headline (3.0% vs 3.1%) and Core (3.3% vs 3.5%) along with MoM Headline (-0.1% vs 0.1%) and Core (0.1% vs 0.2%) declined from prior readings and came in below forecasts.
- PPI YoY Headline (2.6% vs 2.3%) and Core (3.0% vs 2.3%) along with MoM Headline (0.2% vs 0.1%) and Core (0.4% vs 0.2%) came in above forecast and accelerated versus prior readings.
- The July Flash PMI (C,M,S) registered 55.0, 49.5, 56.0 with a soft read on manufacturing and strong read on services sector activity.
- July European PMIs (C,M,S) were generally in line with Eurozone (50.1, 45.6, 51.9) and U.K. (52.7, 51.8, 52.4).
- Q2 U.S. GDP of 2.8% QoQ AR (3.1% YoY) was well above consensus forecast of 2% and Personal Consumption Expenditures registered 2.3%, also above spot consensus of 1.9%.
- The JOLT Survey showed 8.184M job openings, slightly higher than consensus estimate of 8.0M.
- Retail Sales came in well above consensus forecast on headline (0.0% vs -0.3%), Ex-Vehicles (0.4% vs 0.1%), and Ex-Vehicles & Gas (0.8% vs 0.1%).
- The UofM Consumer Sentiment index was generally in line, registering 66.4 versus spot consensus of 66.0.
- The Consumer Confidence Index in July increased from a 97.8 reading in June to 100.3, above the consensus estimate of 99.5 and the forecast range of 97.5 to 100.0.
- New (617k vs 640k) and Existing (3.890M) Home Sales both came in below consensus forecast, declining at a monthly and annual pace of 5.4%.
- Housing Starts (1.353M vs 1.305M) and Permits (1.446M vs 1.395M) both increased over the last reading's level and came in above consensus forecasts.
- The July Housing Market Index fell from 43 to 42, versus consensus calls for no change, leaving the index at its lowest reading of the year. The Case-Shiller Home Price Index rose 0.3% versus expectations for 0.5% with a YoY gain in line with expectations at 6.8%.

Outlook

Market leadership rotation that began in mid-July coupled with the late month surge in volatility left our equity market views largely unchanged over the short term (neutral) and intermediate term (cautious). We see drivers behind the mid-month rotation in market leadership as markets pressing for a more dovish policy than what may ultimately be delivered and late month volatility stemming primarily from the unexpected rate cut by the BoJ which will likely take more time to unwind.

A higher for longer Fed is a key risk to the growth outlook and it will take more data on disinflation and labor market trends to determine the path of both economic and financial markets. We continue to see reason for caution over our 12-24 month forecast horizon given trends in the labor market and risks of the Fed being persistent in maintaining its restrictive policy position. Continue favoring periodic tactical (0-6 months) asset allocation shifts and rebalancing/profit taking. We remain neutral from a growth/value style perspective and continue to favor quality U.S. equity markets over non-U.S. on balance.

Recommended fixed income positioning remains neutral from a duration perspective but underweight credit (investment grade, high yield, bank loans) over a 12-24 month forecast horizon in sympathy with our view on risk assets.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	40843	4.51	8.53	9.52	17.22	7.52
NASDAQ	17599	(0.73)	12.61	17.71	23.62	7.09
S&P 500	5522	1.22	10.05	16.70	22.15	9.60
Russell 1000 Growth		(1.70)	11.21	18.65	26.94	9.46
Russell 1000 Value		5.11	7.42	12.08	14.80	7.01
Russell 2000		10.16	14.62	12.07	14.25	1.85
Russell 3000		1.86	9.97	15.67	21.07	8.11
MSCI EAFE		2.95	5.36	8.86	11.76	4.17
MSCI Emg Mkts		0.37	5.01	8.08	6.68	(2.34)
Fixed Income		**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate		2.34	5.06	1.61	5.10	(2.63)
High Yield		1.96	4.11	4.63	11.03	2.19
Municipal		0.91	2.16	0.50	3.74	(0.86)

Commodities	7/31/24	5/31/24	2/29/24	11/30/23
Oil (WTI)	74.46	77.97	79.22	75.66
Gold	2426.30	2348.30	2048.10	2035.50

Currencies	7/31/24	5/31/24	2/29/24	11/30/23
USD/Euro ($/€)	1.08	1.09	1.08	1.09
USD/GBP ($/£)	1.28	1.27	1.26	1.26
Yen/USD (¥/$)	150.38	157.19	149.90	147.87

Treasury Rates	7/31/24	5/31/24	2/29/24	11/30/23
3 Month	5.41	5.46	5.45	5.45
2 Year	4.29	4.89	4.64	4.73
5 Year	3.97	4.52	4.26	4.31
10 Year	4.09	4.51	4.25	4.37
30 Year	4.35	4.65	4.38	4.54

Style Returns

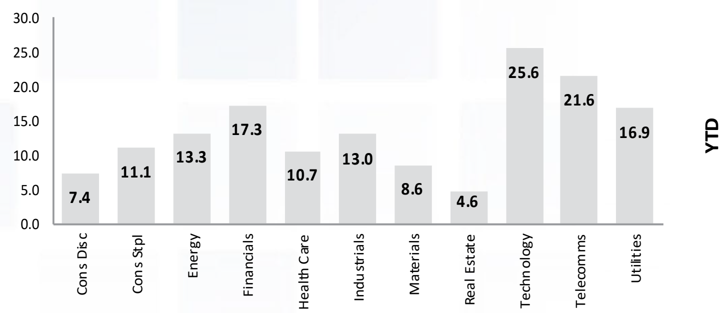
MTD

	V	B	G
L	5.11	1.46	-1.70
M	6.04	4.71	0.61
S	12.19	10.16	8.19

YTD

	V	B	G
L	12.08	15.90	18.65
M	10.86	9.91	6.62
S	11.23	12.07	12.99

S&P 500 Sector Returns



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Opal Wealth Advisors / 2 Jericho Plaza / Suite 208 / Jericho, NY 11753 / t. 516.388.7980 / f. 516.388.7968 / **opalwealthadvisors.com**