MONTHLY MARKET UPDATE

August 2024

OPAL WEALTH ADVISORS

The dog days of summer in August came in like a lion but out like a lamb with early month volatility giving way to a quick recovery on the back of a soft economic landing narrative and increasing prospects of a dovish pivot by the FOMC. The first week of the month experienced a surge in volatility related to an unexpected hike from the BoJ and commensurate Yen carry trade unwind as well as some anxiety around the slowing labor market but quickly settled back in for the remainder of the month.

Key drivers in August included the Fed, quarterly earnings reports, and a healthy dose of economic reports. The Fed trained its attention on the weakening labor market with a sense that inflation dynamics are within a reasonable margin of their formal 2% target. Accordingly, the FOMC is expected to initiate a rate cutting cycle at the upcoming September meeting to take the current 5.25%-5.50% Fed Funds rate down by 25bps (or 50bps?). Corporate earnings for the second quarter wrapped in August with a healthy 12% bottom line growth that came with a higher degree of scrutiny on 'AI' related results. Economic data highlights in August include a still sluggish manufacturing sector and indications of a healthy consumer and corresponding service sector despite continued slowdown in the U.S. labor market.

By the end of the month, both the S&P 500 (+2.4%) and the Dow (+3.3%) posted a fourth consecutive month of gains, closing at (DJIA) or very near (S&P 500) all-time record highs. Large cap value stocks (+2.7%) outperformed large cap growth stocks (+2.0%) for a third consecutive month while small caps were down marginally. Non-U.S. equity markets were up 3.34%, aided by a weak USD which fell 2.3% during August. The EAFE closed up 3.25% to a new record high thanks to strong European (+4.1%) and Asia ex-Japan (+4.7%) markets which outperformed Japan, only managing a 0.5% gain. Emerging markets were up 1.6% in a mixed bag of outcomes. China was up 1% and up only 4.4% for the year, lagging most other Asian markets YTD including India (+22.8%), Taiwan (+28.1%), and Indonesia/Malaysia (+15%-16%).

Bond markets enjoyed declining yields and tighter credit spreads in the month of August, translating to respectable returns across treasury bonds, credit, and structured products. The broad bond market was positive across all sectors, returning 1.4% overall with investment grade and high yield bonds (+1.6%) leading the way. 10yr and 2yr treasury yields came into the month still inverted at 4.09% and 4.29% respectively but closed out the month with both maturities yielding 3.91% as the curve steepened throughout the month. High yield credit spreads tightened from 3.25% to 3.17%, still well below the long-term average spread of 5.25%.

Market Anecdotes

- The hiking cycle of 2.5 years and 500 bps is set to end September 17-18 with limited data points between now and then, where markets firmly expect a Fed rate cutting cycle to begin, begging the question, which equity asset classes have historically benefitted the most?
- Alpine Macro published an interesting piece on AI concluding that a valuation premium exists due to market expectations of higher revenue, a boost to EBITDA, enhanced productivity, and higher GDP growth but it is not currently meeting the definition of bubble or mania.
- A Penn Wharton Budget model estimates that, despite spiraling national debt and massive budget deficits, both team R and team D are forecasted to deliver the status quo.
- According to Bloomberg's data set, as recently as 2017 passive mutual funds and ETFs accounted for 35% of assets. That grew to 50.1% in December 2023 and has continued its march higher with the July 2024 tally at 51.3%.
- A ClearBridge study examined the drivers behind the rise in unemployment from 3.7% to 4.3%, concluding the higher percentage of "new entrants and re-entrants"' instead of "job losers and leavers" supports the idea that the job market may be stronger than the data suggests.
- A recent survey by Affirm showed 59% of respondents falsely believe the U.S. is currently in recession, likely due to the difficulty of inflation

pressure on lower income households. The most recent Bloomberg survey shows 30% of economists expect recession within a year.

- Japan's Prime Minister, Fumio Kishida announced he is stepping down as party leader, making way for a new PM after next month's elections.

Economic Release Highlights

- August payrolls came in below the consensus estimate (142,000 vs 160,000) and the unemployment rate declined from 4.3% to 4.2% as forecasted. Labor force participation was unchanged at 62.7% and average hourly earnings edged higher and came in above consensus forecast on both MoM (0.4% vs 0.3%) and YoY (3.8% vs 3.7%).
- August YoY PCE inflation was in line with expectations for both headline (2.5%) and core (2.6%) alongside MoM readings of 0.2% for both headline and core PCE. Personal income grew slightly more than forecast (0.3% vs 0.2%) and PCE was in line with spot consensus at 0.5%.
- CPI YoY Headline (2.9% vs 3.0%) and Core (3.2% vs 3.2%) along with MoM Headline (0.2% vs 0.2%) and Core (0.2% vs 0.2%) both registered generally in line with consensus estimates.
- PPI YoY Headline (2.2% vs 2.6%) and Core (2.4% vs 3.0%) along with MoM Headline (0.1% vs 0.2%) and Core (0.0% vs 0.2%) came in below both forecast and prior month readings.
- The August Flash U.S. PMI saw the Services Index beat (55.2 vs 54.0) and the Manufacturing Index miss (48.0 vs 49.5) translating to a healthy Composite Index (54.1 vs 53.3).
- The August Flash Eurozone PMI (C,M,S) registered (51.2, 45.6, 53.3) where the manufacturing index missed and services index exceeded expectations. The UK registered (53.4, 52.5, 53.3), beating forecasts for both manufacturing and services readings.
- The NFIB Small Business Optimism Index registered 93.7, above both the spot forecast (91.7) and toward the high end of consensus range (91.6-92.0).
- Q2 U.S. GDP was revised higher in the second estimate from 2.8% to 3.0% thanks in large part to stronger personal consumption which was revised up from 2.3% to 2.9%.
- The JOLT Survey reported a significant decline in job openings to 7.673M, well below consensus forecast of 8.1M and the prior month reading of 8.184M.
- Retail Sales were above the high end of the forecast range and well above the spot forecast for Headline (1.0% vs 0.3%), Ex-Vehicles (0.4% vs 0.1%), and Ex-Vehicles & Gas (0.4% vs 0.3%).
- August UofM Consumer Sentiment reading of 67.8 was slightly better than spot consensus 67.0 and within the forecast range (65.0-69.1).
- Consumer Confidence in August improved to 103.3 from July's 101.9 reading, ahead of both the spot consensus 100.1 and forecast range of 99.5 to 103.0.
- New Home Sales of 739K were well above both the spot forecast (628k) and the consensus forecast range (605k-648k). Existing Home Sales of 3.95M came in slightly above spot consensus of 3.90M, but down 2.5% YoY. Pending Home Sales fell 5.5%, well more than the forecasted 1.1% increase projected.
- Housing Starts (1.238M vs 1.342M) and Permits (1.396M vs 1.430M) slowed down from June and came in below estimates.
- The Housing Market Index dropped in August to 39, missing the consensus estimate of 42. Case-Shiller Home Price Index rose 0.4%, more than the consensus forecast of 0.2%.

Outlook

The question of whether a deteriorating labor market can be absorbed by some combination of consumer resilience and easing monetary policy is a primary focus as we enter the back end of 2024. Market uncertainty of the soft landing is evident in the increasing short but significant bursts of volatility as experienced in early August and early September where both policy and economic developments have triggered some anxiety.

At this time, our views and positioning in equity markets remain unchanged over the short term (neutral) and intermediate term (cautious) as we closely monitor inflation, consumer, and labor

market trends and the corresponding path for monetary policy. 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 behind the curve. Continue favoring periodic tactical (0-6 months) asset allocation shifts and rebalancing/profit taking. While acknowledging the near-term shift in market internals toward value leadership, we remain neutral from a style perspective currently 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	41563	2.03	7.95	11.75	22.06	7.71
NASDAQ	17714	0.74	6.03	18.57	27.15	5.93
S&P 500	5648	2.43	7.39	19.53	27.14	9.38
Russell 1000 Growth		2.08	7.11	21.12	30.75	8.87
Russell 1000 Value		2.68	6.92	15.08	21.15	7.25
Russell 2000		(1.49)	7.51	10.39	18.47	0.60
Russell 3000		2.18	7.30	18.19	26.14	7.87
MSCI EAFE		3.26	4.61	12.42	19.99	4.68
MSCI Emg Mkts		1.65	6.11	9.86	15.52	(2.66)
Fixed Income		**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate		1.44	4.79	3.07	7.30	(2.11)
High Yield		1.59	4.58	6.29	12.48	2.54
Municipal		0.79	3.27	1.30	6.09	(0.47)

Commodities	8/31/24	6/30/24	3/31/24	12/31/23
Oil (WTI)	71.28	82.83	83.96	71.89
Gold	2513.40	2330.90	2214.40	2078.40
Currencies	**8/31/24**	**6/30/24**	**3/31/24**	**12/31/23**
USD/Euro ($/€)	1.11	1.07	1.08	1.11
USD/GBP ($/£)	1.31	1.26	1.26	1.27
Yen/USD (¥/$)	145.95	160.88	151.22	140.92
Treasury Rates	**8/31/24**	**6/30/24**	**3/31/24**	**12/31/23**
3 Month	5.21	5.48	5.46	5.40
2 Year	3.91	4.71	4.59	4.23
5 Year	3.71	4.33	4.21	3.84
10 Year	3.91	4.36	4.20	3.88
30 Year	4.20	4.51	4.34	4.03

Style Returns

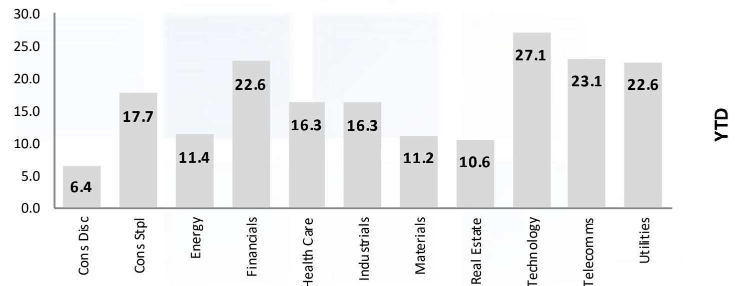
MTD

	V	B	G
L	2.68	2.37	2.08
M	1.89	2.03	2.48
S	-1.88	-1.49	-1.11

YTD

	V	B	G
L	15.08	18.64	21.12
M	12.95	12.14	9.27
S	9.15	10.39	11.74

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**