CLARUS WEALTH ADVISORS

Market Watch

July 29, 2024

Primary Market Drivers

Inflation

The past few weeks have proved that inflation still remains a primary market driver. On Friday, June Core PCE came in at expectations with an increase of +0.2% m/m. The y/y figure was +2.6%, also in line with expectations. This marks the end of June's inflation data, a month in which a slight beat on CPI flipped Fed Policy expectations from "likely no cuts" to "potentially three cuts" by year end. Recall June CPI came in softer than expected at -0.1% m/m vs expectations for +0.2%. The y/y rate declined to 3%, its lowest level in over three years. June PPI was not as rosy, missing expectations at +0.2% m/m vs +0.1%. The y/y firgure was +2.6% vs expectations for +2.3%. While PPI tempered the excitement driven by the CPI data, investors tend to give more weight to the CPI and Core PCE. July's inflation data kicks off with PPI on 8/13 and CPI on 8/14.

Fed Policy

Last week's meet on Core PCE now has the market pricing in three rate cuts in 2024. A curious result for an in-line report, though soft inflation, labor, and general economic data over the last month have made the broader case. The market is now placing a somewhat humurous 100% probability that the Fed will initiate rate cuts in September. Expectations are firmly placed on a 25bps cut (87.7%), though there is now also an outside probability for a 50bps cut (12.3%) per CME's FedWatch Tool. Placing a 100% certainty on something that's proven variable, and expecting three cuts when the expectation was "no cuts" just weeks ago, is starting to feel like the market is getting ahead of itself. There is suddenly a lot of pressure on July CPI and Core PCE not to register anything above expectations. The Fed's next meeting will be held on July 31st, though no change is expected (95.3% probability of no change). All eyes are firmly set on the Fed's subsequent meeting on September 18th.

Economic Data & Earnings

Last week's economic data was mostly viewed as positive, with a surprising beat on US Q2 GDP (2.8% vs 1.9%) and a collective sigh of relief on an in-line June Core PCE report. This week brings another busy economic calendar with JOLTS (7/30), Consumer Confidence (7/30), ADP Employment (7/31), Chicago PMI (7/31), Pending Home Sales (7/31), PMI Manufacturing (8/1), Productivity (8/1), ISM Manufacturing (8/1), Construction Spending (8/1), Factory Orders (8/2), and the always-important Nonfarm Payrolls (8/2). On the earnings front, this week we get 164 S&P 500 companies (32.8% of the index) reporting. Big Tech will be under the microscope with AMD and Microsoft on Tuesday, META and QCOM on Wednesday, and Apple, Amazon.com and Intel on Thursday. Other major announcements include McDonalds (7/29), Starbucks (7/30), Sysco (7/30), Phillips 66 (7/30), Merck (7/30), Procter & Gamble (7/30), Boeing (7/31), Humana (7/31), T-Mobile (7/31), ConocoPhillips (8/1), Chevron (8/2), and Exxon Mobil (8/2), amongst many others. With so many high profile companies reporting, expect some volatility.

All referenced market information, statistics, and economic data were gathered from StreetAccount, a paid subscription data service provided by FactSet Research Systems Inc.

Market Returns		7/26/2024
Category	*Ticker*	*YTD%*
Domestic Equity		
S&P 500	SPY	15.27%
Dow Jones	DIA	8.72%
Large-Cap Growth	QQQ	13.39%
Large-Cap Value	IVE	9.92%
Mid Caps	MDY	11.32%
Small Caps	IWM	12.31%
International Equity		
Developed Intl	EFA	7.25%
Emerging Markets	EEM	6.08%
Fixed Income		
Core Bonds	AGG	0.88%
Corporate Bonds	LQD	0.35%
High Yield Bonds	HYG	4.33%
ST Treasuries	IEI	1.31%
LT Treasuries	TLT	-4.09%
International Bonds	BNDX	0.84%

Performance data and stock chart were gathered from eSignal, a paid market screening application provided by Intercontinental Exchange, Inc.

Current Environment Summary

What's Working	What's Not	What's Next
Inflation Subdued	Economic Slowdown	**Nonfarm Payrolls (8/2)**
Fed Pause / QT Taper	Core Inflation Stubborn	JOLTS (7/30), ADP Employment (7/31)
Recession Remains Unlikely	Yield Curve Inversions Persist	**Tech: AMD, MSFT, META, AAPL, AMZN**
Strong Earnings Growth	Interest Rates Remain Elevated	**Earnings: MCD, COP, SBUX, BA, XOM, PG**
Short-Term SMid Rally Signals Broadening	Short-Term Tech Selloff	Watching Tech & Rotation Trades
Long-Term Bull Market	Spiking VIX (Volatility)	

Portfolio Manager Commentary

Ken Hartley, CFA

The market is now pricing in 3, quarter-point cuts in the discount rate before year end. If you remember all the way back to January 1 of this year, the market had priced in 6, quarter-point rate cuts. Then it was 3, then it was none, then 1 and now 3 again. It makes you wonder what all the PhD's at the Fed are doing to analyze the data coming in. If all they are doing is adjusting their forecast as data comes in, month to month, what is the value-add? Maybe this is why the Fed has a hard time orchestrating a "soft-landing".

The inverted yield curve has been an historically good gauge for timing an upcoming recession. However, the current inversion has been in place for a record period and most analysts are starting to write it off as a "relic". The last three weeks have seen a flattening in the 2 - 10-year yield curve, removing more than half of the inversion. The current inversion is about 20 basis points. As the market looks for rate cuts, the rate on the 2-year treasury will begin to fall. Historically when the yield curve flattens, the economy is skirting recession.

The market is providing some clues as to this very trend. An ETF that has many of the companies considered to "Consumer Discretionary" (XLY) has started to trade off from its high on July 16th. Many of the companies in the ETF are names the public knows: Amazon (AMZN), Tesla (TSLA), McDonald's (MCD), Auto companies, online travel, home builders, cruise lines, US based casinos and resorts. The observed down trend is of a short duration (two weeks) but it bears watching for clues to the direction in the economy. It looks like the Fed may have decided to act this close to a presidential election. That is something that doesn't usually happen.

The Chinese government held its annual meeting recently of the financial heads of the economy, this group is called the "Plenum". They decide how to act to provide stimulus to various parts of the Chinese economy. The market perception is that not enough "direct stimulus" (i.e. cash to individuals) was provided to help the consumers to increase demand. Most Chinese are still suffering from real estate losses and are less likely to consume more goods until the real estate market recovers. This could be an important issue going forward. If the Chinese economy continues to struggle, the Chinese government will continue selling US treasuries to provide liquidity.

Don Moenning

There is a lot at stake this week, technically and fundamentally speaking, in the stock market. The S&P 500 is fighting to hold its 50-day moving average while the Nasdaq is fighting to regain it. Both major indices had relatively poor showings in July as traders rotated into small-caps following softer-than-expected inflation data. Neither the S&P 500 (-3.7%) nor Nasdaq (-7.6%) have entered correction territory (typically described as a -10% move from recent highs), though both are fighting for technically significant levels this week. The Nasdaq has experienced negative breadth in 10 of the last 13 sessions absent a meaningful fundamental catalyst, which feels extreme.

Small-caps, on the other hand, surged to 52-week highs and posted an 11.5% gain in five sessions, something that has only happened 0.36% of trading days since 1990! Again, extreme. After being stuck in the mud losing value for over three years, the Russell 2000 suddenly spiked on expectations that the Fed will cut rates multiple times this year. The jury is still out on whether this move is sustainable or simply traders trading because they can. We will need to see interest rates, inflation, the Fed, and economic data all cooperate to turn this into a real bull, in my opinion.

Speaking of the Fed, yes, you read that right. The market is now expecting three cuts in 2024 with just four Fed meetings (and an election) before the year-end. We've gone from expectations for three cuts, to one cut, to no cuts, to one cut, and back to three cuts in just seven months. Forgive my skepticism that the market is accurately making level-headed assumptions regarding a Fed that is entirely (and admittedly) data-dependent at this stage. When I see a "100% probability" of a September rate cut, it raises a red flag. Nothing is ever entirely predictable, and we still must see all of July's inflation data while multiple global wars are ongoing and the political landscape in the US ahead of the election is chaos. I'm by no means a pessimist but assigning a 100% probability on the assumption that everything is quiet and orderly for 45 days feels naïve.

Perhaps most importantly this week is earnings. The final week of July marks the busiest week of earnings this season. 164 S&P 500 companies will report (32.8% of the index), with critical announcements from AMD, Microsoft, Meta, Qualcomm, Apple, Intel, and Amazon. I believe this week's earnings will either end the rotation trade or exacerbate it, depending on how the numbers and guidance look. We will also be watching earnings from consumer stocks (McDonalds, Sysco, Starbucks, Marriot), oil stocks (Phillips 66, BP, ConocoPhillips, Chevron, Exxon), and other large-caps (Pfizer, Boeing, ADP, T-Mobile, Humana, Moderna, Cloudflare, Roku, Enbridge). It's an extremely busy week and I view it as something of an inflection point in the market after three weeks of rotation.

***Cyber Security Risk** : Clarus Wealth Advisor’s use of internet, technology and information systems may expose the Portfolio to potential risks linked to cyber security breaches of those technological or information systems. Cyber security breaches, among other things, could allow an unauthorized party to gain access to proprietary information, customer data, or fund assets, or cause a portfolio and/or its service providers to suffer data corruption or lose operational functionality.*

Portfolios are subject to change at any time and are under the sole discretion of Clarus Wealth Advisors, LLC.