Weekly Market Perspectives

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Market Rotation Continues as Investors Eye Big Tech Earnings, Fed Decision

Oh, how the tables have turned. The Russell 2000 Index outperformed the S&P 500 Index for the third straight week, as Big Tech/The Magnificent Seven/The Mag Three/The One (i.e., NVIDIA), whatever moniker one uses to describe this year's stock leaders, continued to come under selling pressure. Since peaking on July 10th, the Magnificent Seven (i.e., Apple, Alphabet, Amazon, Meta Platforms, Microsoft, NVIDIA, and Tesla) are down collectively 13%. While earnings reports from Alphabet and Tesla came in largely as expected last week, expectations are high for Big Tech earnings, and last week's stock reactions (e.g., the NASDAQ Composite ended lower for a second straight week) are telling of investors' current mood on the group after such large first half gains/stretched valuations.

In total, mixed performance across stocks last week, the start of Big Tech earnings, a mostly in-line June personal consumption expenditures (PCE) inflation report, mixed preliminary looks at economic activity, and a stronger-than-expected first look at second quarter U.S. GDP largely colored the week's market activity.

Last Week in Review:

- The S&P 500 Index closed lower for the second consecutive week. Over the last two weeks, the Index is down 2.8% for its largest two-week point and percentage drop since the week ending April 19th.
- The NASDAQ Composite is down 5.7% over the last two weeks, its worst two-week slide since the week ending September 23rd, 2022.
- Alphabet beat Q2 earnings per share and revenue estimates. However, cautious commentary around YouTube and higher-than-expected capital expenditures weighed on the stock. For Tesla, Q2 profits dropped 45% year-over-year despite beating revenue estimates due to energy storage results and a regulatory credit boost. In all, Alphabet and Tesla were the first Mag Seven companies to report Q2 results, and the profit picture/outlook was somewhat mixed.
- Small-cap stocks have bucked the trend as investors/traders have rotated out of Technology stocks and into areas more sensitive to a soft-landing scenario for the U.S. economy. The Russell 2000 Index is higher by +5.2% over the last two weeks and is up over +10.0% in July. The recent strength in small-caps and weaker performance across large-cap growth stocks in July has helped to quickly narrow the year-to-date performance gap between the S&P 500/NASDAQ and the Russell 2000 Index.
- The Dow Jones Industrials Average has also benefited from a rotation trade into cyclical areas outside of Tech, rising +1.5% over the

last two weeks. In July, Real Estate, Financials, Utilities, and Industrials are higher. This has helped the price-weighted, less tech-sensitive average climb higher this month and outperform the NASDAQ.

- The Federal Reserve's preferred measure of consumer inflation, the Core Personal Consumption Expenditure Price Index, rose +2.6% in June, largely in line with May's reading and near its lowest level since March 2021. In our view, last week's inflation update keeps the Fed on a path to cut its policy rate in September.
- The U.S. economy grew by +2.8% in the second quarter, faster than the +1.4% pace seen in the first quarter. Strong consumer and government spending, as well as growing inventories, helped add to growth in the previous quarter. In addition, preliminary looks at economic activity in July showed manufacturing activity unexpectedly turning back into contraction, while services activity unexpectedly accelerated. **Bottom line: The economy is growing, which is a positive for corporate profits, which should be a positive for stock prices outside of some near-term volatility.**
- Speaking of corporate profits, 41% of S&P 500 companies have reported second quarter results, with the blended earnings per share (EPS) growth rate standing at +9.8% year-over-year on revenue growth of +5.0%. Thus far, the percentage of companies outperforming analyst expectations is in line with the four-quarter average. Still, the rate at which companies are exceeding expectations is below the one-year average**. Bottom line: S&P 500 earnings results are coming in a little better-than-expected, which could provide solid fundamental support for markets once the usual volatility of the earnings season settles down.**
- U.S. Treasury yields fell on the week as government bond prices rose throughout the curve.
- The U.S. Dollar Index was essentially flat, Gold drifted lower, and West Texas Intermediate (WTI) crude ended down.

Keep an Open Mind About Evolving Market Conditions

As July comes to an end this week, the Russell 2000 is on pace for its best month since December 2023. The relative outperformance of small-caps versus large-cap growth this month is particularly wide, suggesting investors have already started to act on narrowing the large year-to-date gaps in performance between Big Tech and relatively more attractive valuations in cyclical areas outside of Tech. This could continue if the U.S. economy is headed for a soft landing. That said, some of Tech's key secular drivers, such as artificial intelligence, are in the early innings. In our view, a little "price give back" across Tech, if that's ultimately what happens over the coming weeks, would be healthy, particularly if Mag Seven reports continue to point to positive outlooks for profit growth. Key earnings reports from Microsoft, Apple, Meta Platforms, and Amazon are on deck this week.

Bottom line: Expectations can run ahead of results, but if the results remain positive, at some point, investors may use reduced prices in Big Tech as a means to allocate new dollars to the group. However, as investors saw in the first half, stock selection matters, and over time, the group has become less homogenous in its performance and key drivers. It's also important to note that the S&P 500 typically sees its worst two-month stretch of performance during the year in August and September. However, that's followed by the best three-month stretch of performance during the year in October through December. In our view, investors should recognize that secular growth trends in areas of technology remain important drivers of the overall market yet balance that view with other cyclical opportunities that are attractively valued.

The Week Ahead:

If you thought last week was volatile for stocks, this week's slate of data could ultimately shape how the market trades over the next several weeks. As mentioned above, key Mag Seven earnings reports are on deck throughout the week, representing roughly one-third of the NASDAQ by market-cap weight. A Federal Reserve policy decision on Wednesday and an always important nonfarm payrolls report on Friday should help provide a general sense of the current state of economic/monetary conditions in the U.S. combined with key Big Tech earnings reports/outlooks this week, investors will have a ton of information to digest to help shape where the stock market is headed next.

- While we can't say for certain how markets will react to Mag Seven reports this week, we do believe results for the previous quarter will likely be solid. That said, outlooks could be key to how stocks react, with AI/Cloud trends and consumer and business appetites for hardware/services in focus. In total, 171 S&P 500 companies are on the docket to report profit results this week — investors should buckle up for a very busy week of earnings reports.
- The Federal Reserve is likely to hold rate policy steady on Wednesday. Investors will look to see if Fed Chair Powell and company tip their hand to a potential rate cut in September or wait for the Jackson Hole Economic Policy Symposium in late August to prepare the market for a policy shift. The Bank of England and the Bank of Japan also meet this week.
- Finally, updates on U.S. employment conditions should provide investors with important gauges to help assess the state of the consumer. June Job Openings (Tuesday) are expected to decline modestly from May levels, while July ADP private payrolls (Wednesday) are expected to tick slightly higher versus June. Friday's July nonfarm payrolls report is expected to show +177,500 new jobs, down from +206,000 in June. The unemployment rate is expected to hold steady at +4.1%.

Stock Market Recap

Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 5,459	-0.8%	0.0%	15.3%	25.9	22.4	1.3	1.6
Dow Jones Industrial Average: 40,589	0.8%	3.9%	8.8%	24.2	19.9	1.8	2.0
Russell 2000 Index: 5,617	3.5%	10.4%	12.3%	67.9	39.2	1.3	1.3
NASDAQ Composite: 17,358	-2.1%	-2.1%	16.1%	39.3	35.9	0.7	0.8
Best Performing Sector (weekly): Utilities	1.5%	4.4%	14.3%	20.7	21.4	3.1	3.2
Worst Performing Sector (weekly): Comm Services	-3.8%	-6.2%	18.8%	22.0	22.4	0.7	1.0

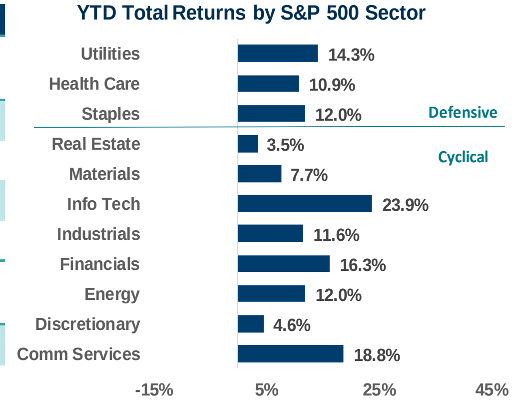
Source: Factset. Data as of 07/26/2024

Bond/Commodity/Currency Recap

Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	0.3%	1.5%	1.2%
West Texas Intermediate (WTI) Oil: $77.13	-5.3%	-6.9%	7.3%
Spot Gold: $2,387.02	-0.6%	2.6%	15.7%
U.S. Dollar Index: 104.32	-0.1%	-1.5%	2.9%
Government Bond Yields	**Yield Chg**		
	Weekly	**MTD**	**YTD**
2-year U.S. Treasury Yield: 4.36%	-15 bps chg	-35 bps chg	11 bps chg
10-year U.S. Treasury Yield: 4.20%	-4 bps chg	-18 bps chg	31 bps chg

Source: Factset. Data as of 07/26/2024. bps = basis points

YTD Total Returns by S&P 500 Sector



Source: S&P Global, Factset. Data as of 07/26/2024

These figures are shown for illustrative purposes only and are not guaranteed. They do not reflect taxes or investment/product fees or expenses, which would reduce the figures shown here. An index is a statistical composite that is not managed. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

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There are risks associated with **fixed-income** investments, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

The fund's investments may not keep pace with **inflation**, which may result in losses.

Generally, **large-cap** companies are more mature and have limited growth potential compared to smaller companies. In addition, large companies may not be able to adapt as easily to changing market conditions, potentially resulting in lower overall performance compared to the broader securities markets during different market cycles.

Investments in **small-cap** companies involve risks, including volatility, that are greater than investments in larger, more established companies.

Stock investments involve risk, including loss of principal. High-quality stocks may be appropriate for some investment strategies. Ensure that your investment objectives, time horizon and risk tolerance are aligned with investing in stocks, as they can lose value.

The products of **technology** companies may be subject to severe competition and rapid obsolescence, and their stocks may be subject to greater price fluctuations.

Past performance is not a guarantee of future results.

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

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The **Dow Jones Industrial Average** (DJIA) is an index containing stocks of 30 Large-Cap corporations in the United States. The index is owned and maintained by Dow Jones & Company.

The **Standard & Poor's 500 Index** (S&P 500® Index), an unmanaged index of common stocks, is frequently used as a general measure of market performance. The index reflects reinvestment of all distributions and changes in market prices but excludes brokerage commissions or other fees.

The **NASDAQ composite** index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

The **Russell 2000 Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the smallest 2000 securities in the Russell 3000.

The **US Dollar Index** (USDX) indicates the general international value of the USD. The USDX does this by averaging the exchange rates between the USD and major world currencies. This is computed by using rates supplied by approximately 500 banks.

West Texas Intermediate (WTI) is a grade of crude oil commonly used as a benchmark for oil prices. WTI is a light grade with low density and sulfur content.

Personal consumption expenditures (**PCE**) are a measure of the outlays or how much consumers are spending. The PCE reading is released monthly by the Bureau of Economic Analysis.

Earnings per share (EPS) is a measure of a company's profitability that indicates how much profit each outstanding share of common stock has earned. It's calculated by subtracting preferred dividends from the company's net income and then dividing by the number of common shares it has outstanding.

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