The Weekly Market Update – 7/1/24: The Leading Story of the First Half

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,460.48	-0.08%	3.92%	14.48%	22.70%	5,487.03	0.5%
Dow Jones Industrial Average	39,118.86	-0.08%	-1.73%	3.79%	13.69%	40,003.59	2.3%
NASDAQ Composite	17,732.60	0.24%	8.26%	18.13%	28.61%	17,862.23	0.7%
Russell 2000	2,047.69	1.27%	-3.62%	1.02%	8.42%	2,442.74	19.3%
MSCI EAFE (USD)	2,314.63	0.31%	-1.37%	3.51%	8.58%	2,398.71	3.6%
MSCI Emerging Markets (USD)	1,086.25	-0.06%	4.41%	6.11%	9.78%	1,444.93	33.0%
Bloomberg Commodity Index	100.99	-0.72%	1.51%	2.38%	-0.48%	237.95	135.6%
Barclays U.S. Aggregate Bond	89.96	-0.73%	-0.60%	-1.90%	0.19%	112.07	24.6%

Source: FactSet

The S&P 500 gained +14.5% (price return, not including dividends) over the first six months of 2024, a healthy return powered by the index's largest sector, Information Technology (Technology), which surged +27.8%. Technology gains in the S&P 500 were led by a +70% rally (through 6/30/24) in the Semiconductor subsector, contributing most of the sector's upside (vs. the index) in the first half of the year. In our view, investor support for semiconductor stocks was attributed to strong sales of chips that power generative artificial intelligence (GenAI) solutions as capital investment surged in the first half of 2024 and exceeded high expectations. The concentration in Technology (Tech) sector gains was particularly acute in May and June as Tech rallied +20.2% (more than 72% of the six-month increase) while the S&P 500 increased +8.4%. Early in 2024 (first quarter), equity market gains were more broad-based as several sectors posted double-digit-percentage gains (including Energy, Communications Services, Financials, and Industrials, along with Technology). We attribute broad participation in early-year gains to economic optimism (the hope for a strong economy), along with the expectation for rapid interest rate declines adopted by the U.S. Federal Reserve Bank (Fed). But U.S. economic growth (as measured by gross domestic product) was just +1.4% annualized in 1Q24, below annual growth rates of +4.9% and +3.4% in 3Q23 and 4Q23, respectively. In addition, as of 6/30/24, the Fed had made no changes to its overnight bank lending fed funds interest rate target this year, holding its range at 5.25% to 5.50%, the same level since July 2023. These developments eased demand for broad sector gains and brought many investors back to the Tech sector, with those investors looking to participate in the aforementioned capital investment boom. Earnings growth for many of the largest technology-centric, market-leading companies has exceeded expectations. Concentration has created elevated risk levels for the S&P 500, especially if earnings growth rates slow.

In the second half of 2024, we see key investor considerations that include economic growth, election uncertainty, and market valuations. The FactSet consensus estimate for 2Q24 U.S. GDP growth was +1.8% as of 6/30/24. While this is modestly above the first quarter's +1.4% growth, it is below the full-year consensus estimate of +2.4% and incorporates moderating expectations for consumer spending. Consumer data has been aided by a solid labor market, as well as wage gains, but we expect lower jobs gains ahead. While some uncertainty remains regarding the upcoming presidential election, a potential Biden vs. Trump contest will be highly contentious, in our view, with market volatility expected as investors evaluate the U.S. budget deficit, tax policy, the regulatory environment (particularly for mergers and acquisitions), and the impact of potential tariffs on global trade. We expect to address many of these topics in upcoming commentaries. As of 6/30/24, the S&P 500 traded at 21.1x the estimated earnings (price-to-earnings ratio) over the next four quarters. This is a 28% premium to the average multiple of 16.5x since 2000 and could limit the potential for second-half 2024 upside.

The third quarter of 2024 will ramp slowly due to the July 4th holiday. With an early close Wednesday and holiday on Thursday, we expect light trading activity this week, however, much 2Q24 economic data will be released. On 7/5/24, the Bureau of Labor Statistics will release June jobs data, with the closely followed nonfarm payrolls survey expected to reflect a monthly increase of +190 thousand (K). This represents an expected deceleration from average monthly jobs growth over the recent three months of +249K.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities. U.S. economic growth: Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. The most recent GDP report can be found at www.bea.gov. It is reported by the U.S. Bureau of Economic Analysis (BEA).

Earnings growth. We refer to the weighted average (based upon equity market capitalization) of the earnings per shares (EPS) of all S&P 500 companies compared to the prior period (generally year-over-year). We use data as reported in FactSet.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The minutes from the most recent FOMC meeting are here.

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

We track a measure of wages, average hourly earnings of all private employees, which is calculated and reported on a monthly basis by the U.S. Bureau of Labor Statistics. The data measures average hourly earnings of all private employees on a "gross" basis (includes overtime and late shift work but excludes benefits).

Generative artificial intelligence (GenAI): We think of artificial intelligence as using advanced computers to process large amounts of data to ultimately approach human problem solving and decision making. Early versions were often called "machine learning" and could sift through large data sets and accurately predict single outcomes. Now, generative AI goes further to utilize all forms of inputs. While still predictive models, generative AI can give detailed responses, much better than a search engine, which does a good job of telling the user where to go to find additional information. As generative AI systems access more data, they become larger and learn to make better decisions. At each iteration, the system gains knowledge, enhancing its predictive (reliable) capabilities and ability to produce original content. Generative AI systems become more robust as they are used as all new data can be trained into the system, creating new challenges and opportunities.