The Weekly Market Update – 8/5/24: Equity Market Decline Gains Steam

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,346.56	-2.06%	-2.09%	12.09%	16.51%	5,667.20	6.0%
Dow Jones Industrial Average	39,737.26	-2.10%	1.58%	5.43%	11.75%	41,198.08	3.7%
NASDAQ Composite	16,776.16	-3.35%	-5.39%	11.76%	16.94%	18,647.45	11.2%
Russell 2000	2,109.31	-6.67%	3.01%	4.06%	5.30%	2,442.74	15.8%
MSCI EAFE (USD)	2,291.33	-1.98%	-1.01%	2.47%	4.18%	2,418.31	5.5%
MSCI Emerging Markets (USD)	1,061.23	-1.03%	-2.30%	3.66%	1.37%	1,444.93	36.2%
Bloomberg Commodity Index	94.73	-1.28%	-6.20%	-3.97%	-11.75%	237.95	151.2%
Barclays U.S. Aggregate Bond	93.31	2.37%	3.73%	1.75%	4.21%	112.07	20.1%

Source: FactSet

U.S. equities moved lower to start the week, extending market losses that began in mid-July as investors debate economic trends, interest rates, and earnings expectations. After rallying on the last day of July (+1.6% on 7/31/24), the widely followed S&P 500 equity index dropped -3.2% to begin August (Thursday, 8/1/24 and Friday, 8/2/24). Today, the index opened the new week lower by an additional -4.2% in early Monday trading, but by mid-morning had recovered some of the day's decline. Through 8/2/24, the S&P 500 had pulled back -5.6% over nearly three weeks since closing at 5,667 (an all-time closing high) on 7/16/24. Within the S&P 500, its largest sector, Information Technology (Tech), dropped -12.8% since its last high on 7/10/24, reflecting that investors' money has flowed away from Tech stocks and into other sectors. Friday's decline was fueled by weak July labor data (reported by the Bureau of Labor Statistics, BLS) as jobs growth was lower than expected and the unemployment rate ticked higher. The U.S. economy, despite solid growth in the second quarter (2Q24 gross domestic product, GDP, grew +2.8% annualized), is expected to slow in 3Q24 and 4Q24 (the FactSet consensus estimates for GDP growth were +1.5% and +1.6%, respectively). This creates risks to the downside, in our view, if slowing growth decelerates more than expected, which would restart recession fears. U.S. Treasury bond yields have moved substantially lower as the short-term U.S. 2-year Treasury yield was 3.92% on 8/5/24 (down from 5.03% on 4/28/24) and the long-term U.S. 10-year Treasury yield moved to 3.80% from 4.70% in late April. Until recently, bond investors have expected the U.S. Federal Reserve Bank (Fed) to use its overnight fed funds interest rate target (current range 5.25% to 5.50%) to drive interest rates lower. Ideally, for markets, the Fed could move rates lower in an orderly fashion, but the recent large drop in Treasury yields suggests that the Fed might need to move faster if economic data weakens. S&P 500 2Q24 earnings reports have exceeded expectations, but a few of the large-company Tech leaders posted mixed results, creating growing concern about high valuations in tech-centric companies.

July nonfarm payrolls (jobs) increased by a lower-than-expected +114 thousand (K) and the unemployment rate jumped to 4.3%, its highest level since October 2021. The jobs number was short of the +175K consensus estimate and the June data was also revised lower. The unemployment rate ticked higher despite an increase in jobs because the civilian work force continues to grow. The work force grows due to new entrants (college and high school grads), people returning to the work force, and immigration (all forms). We are watching the jobs data closely as the average monthly jobs gains over six months has moved below +200K for the first time in nearly four years, and the rising unemployment rate (still low by historical standards) could suggest conservative hiring trends and possible layoffs ahead.

We remain cautious on near-term equity market trends and believe that an S&P 500 market correction of -10% or more is possible. Recent weakness in technology and other growth stocks could spread to include other sectors as well as investors assess U.S. economic trends. We advocate that investors look to broaden equity portfolio diversification to include exposure across S&P 500 sectors and to rebalance positions by trimming holdings that are above target weightings and by adding to the underweight holdings. Our S&P 500 fair value estimate remains 5,000, which is about 4% below the late Monday level of 5,200.

James D. Ragan, CFA
Director of WM Research
(206) 389-4070
jragan@dadco.com

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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). Personal consumption expenditures (PCE) measure consumer spending on goods and services during the period and is a component of GDP.

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months;" and also looks at the depth, diffusion, and duration of the downturn.

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 is here.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

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.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.