D|A DAVIDSON
WEALTH MANAGEMENT

The Weekly Market Update – 7/22/24: Rotation Away From Tech Continues

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,505.00	-1.97%	0.82%	15.41%	23.70%	5,667.20	2.9%
Dow Jones Industrial Average	40,287.53	0.72%	2.99%	6.89%	17.09%	41,198.08	2.3%
NASDAQ Composite	17,726.94	-3.65%	-0.03%	18.09%	28.57%	18,647.45	5.2%
Russell 2000	2,184.35	1.68%	6.67%	7.76%	15.65%	2,442.74	11.8%
MSCI EAFE (USD)	2,360.51	-2.39%	1.98%	5.56%	10.73%	2,418.31	2.4%
MSCI Emerging Markets (USD)	1,089.61	-3.02%	0.31%	6.43%	10.12%	1,444.93	32.6%
Bloomberg Commodity Index	97.49	-3.24%	-3.47%	-1.18%	-3.94%	237.95	144.1%
Barclays U.S. Aggregate Bond	90.95	-0.33%	1.10%	-0.82%	1.29%	112.07	23.2%

Source: FactSet

The widely followed S&P 500 equity index dropped over three days as a recent rotation away from Technology stocks continued. However, other sectors have posted gains and the index has held on to month-to-date gains. From July 17th to July 19th, the S&P 500 dropped -2.9%. We consider this a modest decline, but it reflects a shift of equity market leadership that began two weeks ago. From 7/10/24 through 7/19/24, the S&P 500 Information Technology (Tech) sector, the largest sector by market capitalization (market cap), lost -6.9% and Communications Services decreased -6.1%. In addition, the technology- and growth-centric Nasdaq Composite decreased -4.9% over that period, and last week saw its first weekly decline since the end of May (still, the Nasdaq was positive for 11 of the past 13 weeks). While many high-profile stocks decreased since July 10th, other equity indices and individual stocks outperformed. The small-company Russell 2000 index gained +6.5% since 7/10 and the Equal Weight S&P 500 (a way to compare the performance of the "average" S&P 500 stock) increased +1.9%. The leading S&P 500 index sectors since 7/10 were Real Estate +4.7% and Energy +3.3%. The timing of this most recent sector rotation (away from Tech leadership) coincided with improved inflation data. On 7/11/24, the consumer price index (a measure of consumer inflation) from the Bureau of Labor Statistics (BLS) was lower than expected, and fueled investor optimism that interest rates will continue to move lower. Lower interest rates can benefit dividend-paying sectors such as Real Estate (makes the yield more attractive), as well as capital-intensive industries like Energy (lower borrowing rates). In our view, the market rotation is healthy as more companies and sectors participate in market gains. However, we see a market risk if equity indices struggle to sustain gains if the large cap leaders continue pulling back, and we believe that the S&P 500 is likely to encounter a correction at some point. Investors expect ongoing, above-trend earnings growth from the Tech sector in the second quarter (2Q24 earnings reports are underway), which for now represents a potential catalyst. Still, we advocate for broad sector diversification to position for continued rotation.

Expectations for second quarter U.S. economic growth have trended higher in recent weeks. On 7/25/24, the Bureau of Economic Analysis will report 2Q24 gross domestic product (GDP), with the FactSet consensus estimate reflecting expectations for +1.9% annualized growth. If correct, 2Q24 GDP would exceed the +1.4% growth in the first quarter and push back on fears that consumer spending has slowed more than expected. Investors continue to expect a "soft landing," defined as slowing growth but no recession, which is an environment that could allow for a gradual reduction in interest rates and could be conducive for year-over-year corporate earnings growth. 1Q24's GDP report reflected weaker-than-expected consumer spending, especially on big ticket goods items like cars and appliances, but business investment ticked higher. Consumer spending in 2Q24 has tracked above 1Q24 levels but below the levels seen in the second half of 2023. This can further support the "soft landing" narrative as we enter the second half of 2024.

A big earnings week on tap, but election news, again, controls the headlines. About 27% of the S&P 500 are expected to report 2Q24 earnings results and estimated Y/Y earnings growth (now +9.7%) has trended higher. Over the weekend, President Biden said he would not stand for reelection, opening the door for Vice President Harris to become the nominee. We caution against making election predictions in portfolios, but expect elevated volatility given uncertainty.

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

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 consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

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.

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.