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Market Commentary 8/6/24

An Oxford Harriman & Company Market Commentary

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After reaching all-time highs in mid-July, stocks have been under pressure for the last two weeks. For the month of July, the S&P 500 advanced 1.1%, its third consecutive monthly gain. The index briefly surpassed 5,600 for the first time before it traded lower in late July and gave back some of the gains. The tech-heavy Nasdaq 100, which led markets higher in the first half of this year, started to decline in July as Nvidia, Microsoft, Google-parent Alphabet, and Facebook-parent Meta traded down after their strong starts to the year. In the bond market, Treasury yields fell. As of the last Friday's close, the NASDAQ is now in a correction as the decline for this tech-heavy index from its recent all-time high has exceeded 10%.

The U.S. Bond Aggregate Index, which tracks a wide array of investment-grade bonds, traded up 2.4% for a third consecutive month of gains, the longest win streak since 2021. Despite the muted headline returns, the stock market experienced a seismic shift as expectations increased for a September interest rate cut. As we ended the week, the 10-year Treasury yield fell to 3.79%, its lowest since December, as demand for safety increased on recession fears.

During July, investors started to rotate into small-cap stocks as rate cuts became more probable. The better-than-expected inflation report raised expectations for a September interest rate cut, leading to a significant rotation within equity markets. Investors moved from large-cap stocks into small-caps, with the Russell 2000 outperforming the S&P 500 by over 9%. This year's high-flying mega-caps bore the brunt of the large-cap sell-off as investors questioned when billions of dollars in AI investments will pay off. As investors rotated, the year-to-date return gap between the Nasdaq 100 and Russell 2000 narrowed.

Last week, volatility continued, and stocks experienced sharp declines as employment data and corporate earnings came into focus. Equities declined after July job growth in the U.S. slowed more than expected, while the unemployment rate rose to the highest level since October 2021. The weaker job growth was also accompanied by lower wage growth and less hours worked. The quit rate also fell. These data points could have negative implications for household income and spending which is important for keeping the economic recovery going. With savings rates already low, consumers may find it challenging to keep spending more.

Let's review the implications of the jobs outlook. Unfilled jobs continue to outnumber unemployed workers, and layoffs have remained relatively low. While hiring has clearly slowed the unemployment rate rise, it is currently less about layoffs and more the result of more workers reentering the jobs market in search of work. We will be watching to see if companies will continue to hold on to workers for fear of not being able to rehire them quickly when the economy reaccelerates. A shift in employers' thinking regarding this could lead to more troubling changes in the employment figures. Also, holding on to workers in a decelerating economic environment can squeeze profit margins.

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Equity markets are seeing a recalibration. In our previous commentaries, we've talked about the possibility of a leadership rotation, particularly among the large-cap sectors. It appears that this may now be underway. Over the past year, we have experienced narrow leadership in the stock market. During the current earnings season, it appears that while those companies have continued to report double-digit earnings growth, investors are questioning their values relative to those impressive growth rates, especially where future growth expectations may have gone too far. Further, investors have focused on which companies might benefit from lower interest rates. While tech companies have issued relatively little debt relative to their size, there are other well-managed large-cap companies that are trading at historically fair valuations that may benefit from the environment ahead. This assumes the employment picture can remain at historically low levels.

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The markets digested three major topics last week: important earnings releases, central bank meetings both in the U.S. and abroad, and employment numbers. The main question that markets are trying to answer is whether the economy is weaker than previously thought. We will keep you updated on our analysis of these trends.

Please reach out at any time to discuss,

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The S&P 500 Index: The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

NASDAQ 100 Index: The NASDAQ 100 Index is an unmanaged group of the 100 biggest companies listed on the NASDAQ Composite Index. The list is updated quarterly and companies on this Index are typically representative of technology-related industries, such as computer hardware and software products, telecommunications, biotechnology and retail/wholesale trade.

Russell 2000® Index: The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. PM-02052026-6862518.1.1