



AUGUST 2024

U.S. Market Update

The S&P 500 Total Return Index's strength continued in July, gaining another 1.2%. Breadth improved—nine of the 11 S&P 500 sectors posted positive returns for the month. However, the large drop in the Magnificent Seven over the past three weeks led to weak returns from both the Technology and Communication Services sectors (chart below).

The improvement in inflation triggered one of the biggest short-term rotations from mega-cap tech stocks to small-caps and Value in years. Lower inflation and a moderating labor market cemented pull-

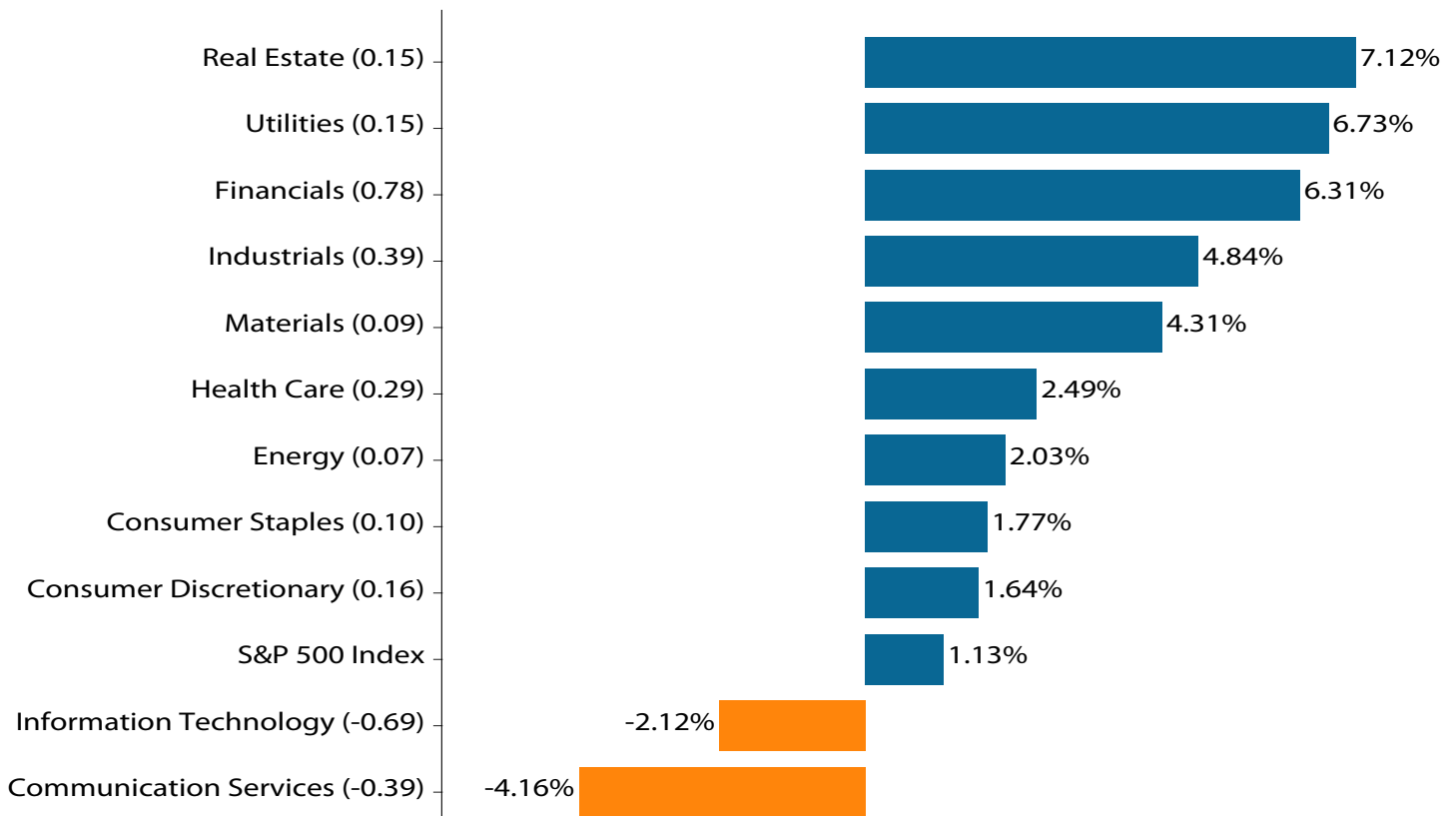
ing forward a Fed rate cut into September. The stock market has historically rallied once the Fed has cut, gaining an average of 14.5% in the year after the first rate cut. The rally has been stronger when the Fed has moved slowly (four or fewer cuts in a year) than when it has cut quickly (24.4% gain vs. 5.2% gain, respectively).

On the other side of the violent rotation sits large-cap Growth. Mega-cap tech stocks had gotten crowded, and they funded the buying of small-caps. However, Growth stocks have tended to outperform Value stocks during slow easing cycles.

Slow, yet positive growth that often comes during slow easing cycles has been an ideal backdrop for stable Growth stocks. So, the leadership rotation seen in July could be short-lived.

The sector model maintained mixed leadership this month. Entering August, Financials, Information Technology, Health Care, Consumer Discretionary, and Utilities are above benchmark weight. Real Estate, Communication Services, Materials, Energy, and Consumer Staples are below benchmark weight.

S&P 500 GICS Sector Monthly Performance (06/30/2024 - 07/31/2024)



Number in parenthesis after sector name indicates % point contribution to S&P 500 return

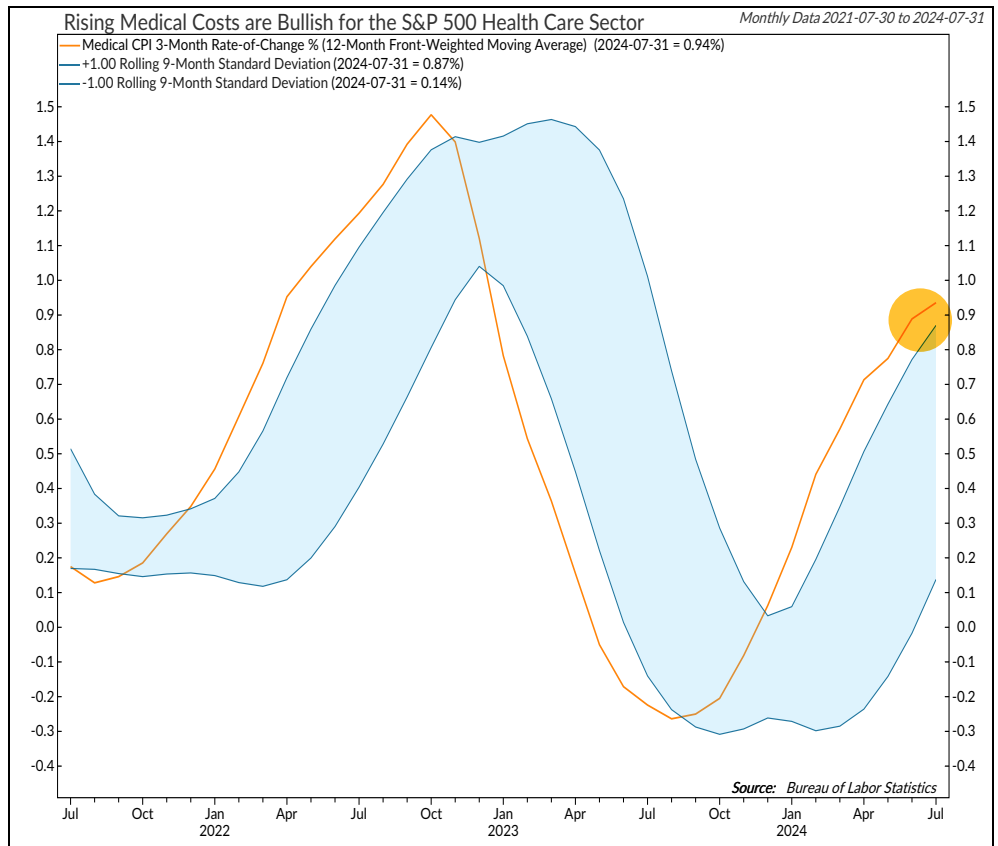
Source: S&P Dow Jones Indices

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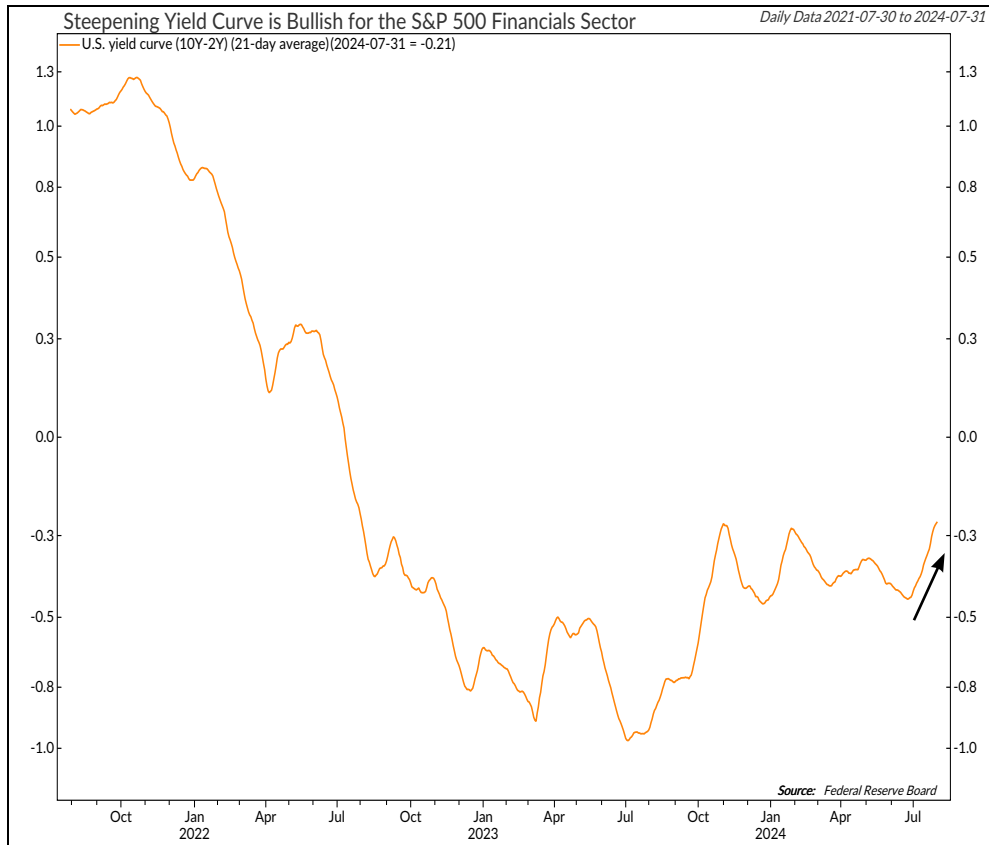
Health Care's allocation is above benchmark weight. On a fundamental basis, indicators are mixed. Rising medical costs (chart right), valuation (median book yield), and the sector's relative bond spreads are bullish for the sector. However, health care new construction is bearish, while health care personal expenditures and earnings revision breadth are neutral. Technicals are positive for the sector— all six price-based measures, including trend, momentum, and breadth, are bullish.



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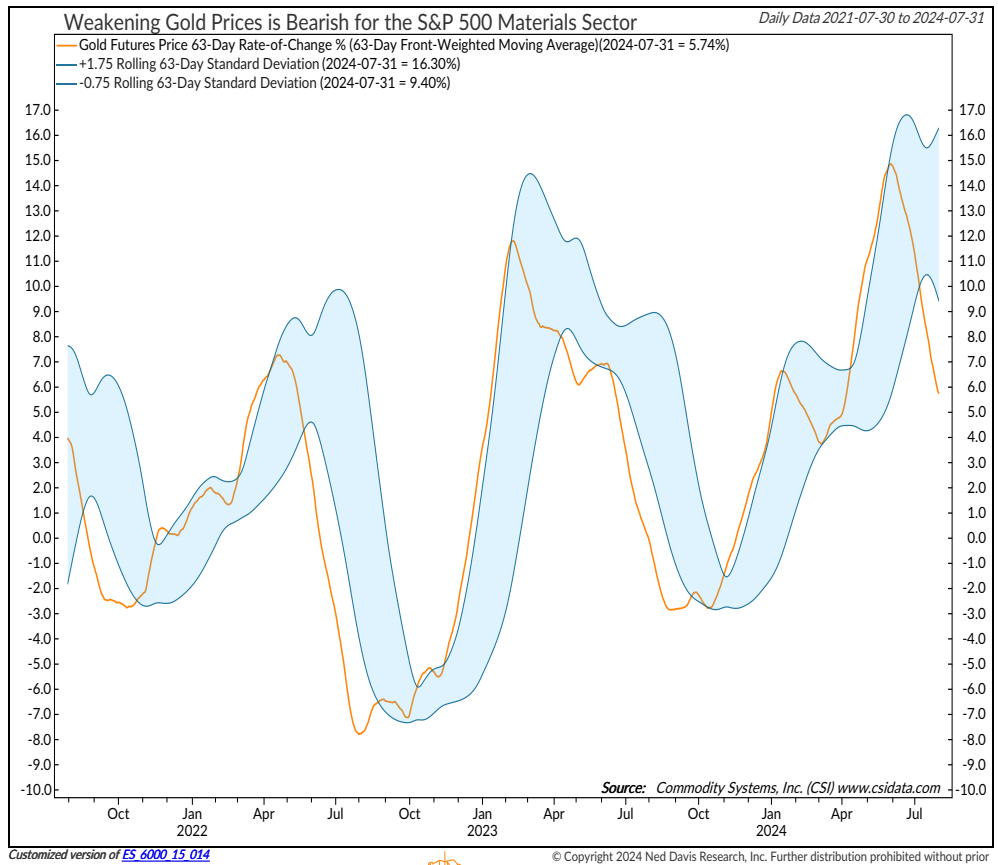
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The Financials sector's allocation is above benchmark weight. Fundamentals remain mixed. Business credit conditions and Financials investment grade bond spreads are bullish for the sector. While the U.S. Dollar Index moved bearish during the month, it was offset by a bullish signal from a steepening 10-2 yield curve (chart left). However, economic surprises, bank loan growth, and valuation (median forward P/E) remain bearish for the sector. Price-based measures lean positive—four of six measures remain bullish for the sector.

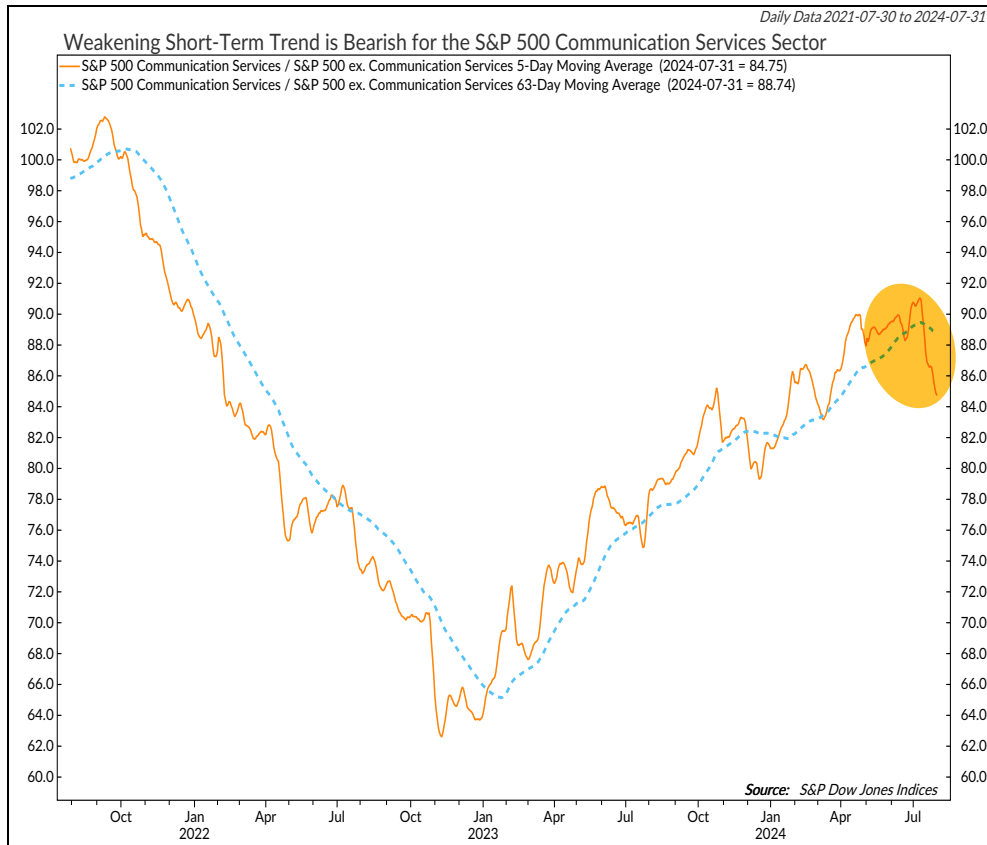
The Materials sector's allocation is below benchmark weight. On a fundamental basis, indicators lean bearish. Prices for copper and gold are bearish (chart right), as well as a reversal in natural gas prices and two valuation measures. These are only partly offset by emerging vs. development market momentum, silver prices, and industrial production for materials which moved bullish during the month. Technicals are confirming—four of the six measures, including trend, momentum, and volatility, are bearish for the sector.



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Communication Services' allocation is below benchmark weight. On a fundamental basis, indicators are mixed—relative earnings yield, earnings revision breadth, and internet vs. retail sales trends are all bearish. However, during the month, the 10-2 yield curve measure moved bullish joining option-adjusted spreads and relative sales growth trends. Technicals lean bearish—four of six measures remain negative for the sector. While short-term trend moved bearish during the month (chart left) driven by the selloffs in Alphabet and Meta, it was offset by a bullish reading from an overbought/oversold measure.

Summary

The sector model maintained mixed leadership this month. Entering August, Financials, Information Technology, Health Care, Consumer Discretionary, and Utilities are above benchmark weight. Real Estate, Communication Services, Materials, Energy, and Consumer Staples are below benchmark weight.



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Sector Allocation Strategy

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