Rosselot Financial Group

RFG Monthly Market Update **July 2024**

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RFG Market Update: July Edition

We hope all is well with you! Today's message brings us back to focusing on the markets, so please read on and feel free to reach out to your team at RFG to discuss or revisit your own planning needs.

Overall, diversified, long-term equity investors were in command throughout June as the recent rally continued amid hopes for rate cuts. Signals of inflation easing were evident in various economic data reports scattered throughout the month.

Major Stock Indexes

The recent stock market rally has been centered around the technology and artificial intelligence (AI) theme. Tech & AI giant Nvidia has continued to propel broader averages, including the S&P 500 and Nasdaq 100, higher.

For the month of June, the S&P 500 added 3.47%, the Nasdaq 100 tacked on 6.18%, and the Dow Jones Industrial Average rose by 1.12%.

Payroll Whopper

The employment report for May, released in June, showed a surprising increase in job numbers, with 272,000 new jobs created, surpassing the estimated 190,000. This was a significant jump from the 175,000 jobs added in April.

There was a brief pause in the bullish market activity on the day of the data release (June 7th) ahead of the then-upcoming Federal Reserve meeting.

The recent job gains were primarily seen in the healthcare, government, and leisure and hospitality sectors, in line with ongoing trends. This trend signals a strong economy and raises questions about the timing of any potential interest rate cuts.

Supportive U.S. Inflation Data

June brought wonderful news for rate-cut-hopeful bulls, with inflation-busting optimism in full swing.

Consumer Price Index: As usual, markets were hyper-focused on the Consumer Price Index (CPI) data release. May's month-over-month pricing showed no increase, and there was a 3.3% increase from a year ago, both below market expectations. The Core CPI, which excludes food and energy prices, rose by 0.2% compared to April, falling below the predicted 0.3%. The annual core CPI rate unexpectedly decreased to 3.4% from 3.6% in April, below the anticipated 3.5%. Stock bulls loved the news.

The S&P 500 and Nasdaq 100 reacted positively to the softer inflation data and traded near all-time highs. The Dow 30 didn't follow suit, but their average dividend yield was around 1.99% as of June 29th.

Producer Price Index: With consumer pricing showing some signs of normalization in June, attention turned to producer pricing.

For May, the Producer Price Index (PPI) for final demand unexpectedly fell by 0.2% on a monthly basis, contrary to expectations of a 0.1% increase. This is positive news for those watching for potential interest rate cuts. Core PPI (which excludes food and energy) remained unchanged in May, falling below the expected increase. Year-over-year, Core PPI decreased to 2.3% in May, below the estimated 2.4%.

Fed Rate Decision & Outlook

As anticipated, the Fed decided to keep rates unchanged at its June policy meeting and hinted at taking a more aggressive stance on future Fed interest rate policy.

In terms of future rate cuts, the Fed has indicated that it is considering one rate cut in 2024.

“We believe that policy is restrictive. And we believe that if you maintain policy at a restrictive level, you will eventually see a real weakening in the economy,” Powell stated. “So, our stance has always been that, ever since we raised rates this much, we have always been open to the possibility of cuts at some point.”

“While we are not ruling out the possibility of rate hikes, no one considers it as the most likely scenario,” Powell added.

Given the softer inflation data and the Fed's signal of a potential cut in 2024, it seems like a solid backdrop as we head into the second half of the year.

Treasury Yields Steady/Quiet in June

Treasury yields were slightly lower in June versus May, with the widely monitored 10-year Treasury Note Yield closing the month near 4.342% — about 17.3 basis points lower than May’s closing level of 4.515%.

Market participants are constantly calculating probabilities for Fed rate cuts, with the latest data to close June showing a 10.9% probability of a rate cut at the July 31st meeting and a 63.4% chance of a rate cut at the following meeting on September 18th.

The steady to slightly lower rates during June were welcome news for mortgage borrowing activity, with the average 30-year fixed mortgage closing the month of June close to the psychologically important 7% level.

The housing market seems to be in the midst of a shift in many locales as inventory has been growing.

The Takeaway

June featured a further continuation of the rally that started way back in November, which began with excitement surrounding AI, steadier interest rates, solid economic data, and a Fed that should be supportive going forward. Much of the narrative remains the same at the close of June.

The market expects rate cuts beginning in September, as the Fed wants to see further evidence that inflation has cooled sufficiently before cutting rates. Fed data implies one cut in 2024.

With that overview noted, we hope you enjoyed reading this monthly update! We are always here as a resource for you and available to discuss anything on your mind!

Wishing you a fantastic month of July!