



## Quarterly Insights – July 2024

### More New Highs for the S&P 500 in Q2

Hello,

The S&P 500 experienced its first real dose of volatility early in the second quarter, but expectations for interest rate cuts by the Federal Reserve, solid economic growth and continued strong financial performance from AI-related tech companies ultimately pushed the S&P 500 to new all-time highs and the index finished the quarter with strong gains.

While the S&P 500 hit new highs in the second quarter, the month of April was decidedly negative for markets as fears of no rate cuts in 2024 (or even a rate hike) pressured stocks. A hotter-than-expected March Consumer Price Index (CPI) reading reversed several months of declines in CPI and ignited fears that inflation could be “sticky” and, if so, delay expected Fed rate cuts. Those higher rate concerns helped push rate cut expectations out from June to September and that caused the 10-year Treasury yield to rise sharply, from 4.20% at the start of the quarter to a high of 4.72%. Those higher yields pressured the S&P 500 in April, which fell 4.08% and completed its worst month since September.

On the first day of May, however, the Fed largely dispelled concerns about potential rate hikes and ignited a rebound that ultimately carried the S&P 500 to new highs. At the May 1 FOMC decision, Fed Chair Powell essentially shut the proverbial door on the possibility of rate hikes, stating that if the Fed was concerned about inflation, it would likely just keep interest rates at current levels for a longer period instead of raising them. That comment provided immediate relief for investors and both stocks and bonds rallied early in May as rate hike fears subsided. Then, later in the month, the April CPI report came in slightly lower than the previous month’s CPI report and that resumption of disinflation (the decline in inflation) further increased expectations for rate cuts in 2024. Additionally, employment data moderated in May, with the April jobs report coming in below expectations (but still at healthy levels). The practical result of the resumption of disinflation, the supportive Fed commentary and moderating labor market data was to increase September rate cut expectations, push the 10-year Treasury yield back down below 4.50% and spark a 4.96% rally in the S&P 500 in May.

The upward momentum continued in June thanks to more positive news on inflation, additional reassuring commentary from the Fed and strong AI-linked tech earnings. First, the May CPI (released in mid-June) declined to 3.3% year over year, the lowest level since February. Core CPI, which excludes food and energy prices, dropped to the lowest level since April 2021, further confirming ongoing disinflation. Then, at the June FOMC meeting, Fed Chair Powell reassured markets two rate cuts are entirely possible in 2024, reinforcing market expectations for

a September rate cut. Economic data, meanwhile, showed continued moderation of activity and that slowing growth and falling inflation helped to push the 10-year Treasury yield close to 4.20%, a multi-month low. Finally, investor excitement for AI remained extreme in June, and that, combined with falling Treasury yields and rising rate cut expectations, sent the S&P 500 to new all-time highs above 5,500.

In sum, markets impressively rebounded from April declines and the S&P 500 hit a new high thanks to increased rate cut expectations, falling Treasury yields and continued robust earnings growth from AI-linked tech companies.

### Second Quarter Performance Review

The second quarter produced a more mixed performance across various markets than the strong return in the S&P 500 might imply, as AI-driven tech-stock enthusiasm again powered the Nasdaq and S&P 500 higher while other major indices lagged. The Nasdaq was, by far, the best performing major index in the second quarter while the S&P 500, where tech is the largest sector weighting, also logged a solidly positive gain. Less tech focused indices didn't fare as well, however, as the Dow Jones Industrial Average and small-cap focused Russell 2000 posted negative quarterly returns.

By market capitalization, large caps outperformed small caps in Q2, as they did in the first quarter of 2024. Initially, higher Treasury yields in April weighed on small caps, while late in the second quarter economic growth concerns pressured the Russell 2000.

From an investment style standpoint, growth massively outperformed value in the second quarter, as tech-heavy growth funds once again benefited from continued AI enthusiasm. Value funds, which have larger weightings towards financials and industrials, posted a slightly negative quarterly return as the performance of non-tech sectors more reflected growing concerns about economic growth.

Switching to fixed income markets, the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) realized a slightly positive return for the second quarter, as rising expectations for a September Fed rate cut and moderating U.S. economic growth boosted bonds broadly.

### Third Quarter Market Outlook

Stocks begin the third quarter of 2024 riding a wave of optimism and positive news as inflation is declining in earnest, the Fed may deliver the first rate cut in over four years this September, economic growth remains generally solid and substantial earnings growth from AI-linked tech companies has shown no signs of slowing down.

Those positives and optimism are reflected in the fact that the S&P 500 has made more than 30 new highs so far in 2024 and is trading at levels that, historically speaking, are richly valued. That said, if inflation continues to decline, economic growth stays solid and the Fed delivers on a

September cut, absent any other major surprises, it's reasonable to expect this strong 2024 rally to continue in Q3.

However, while the outlook for stocks is undoubtedly positive right now, market history has shown us that nothing is guaranteed. As such, we must be constantly aware of events that can change the market dynamic, as we do not want to get blindsided by sudden volatility.

To that point, the market does face risks as we start the third quarter. Slowing economic growth, disappointment if the Fed doesn't cut rates in September, underwhelming Q2 earnings results (out in July), a rebound in inflation and geopolitical surprises (including the looming U.S. elections) are all potential negatives. And, given high levels of investor optimism and current market valuations, any of those events could cause a pullback in markets similar to what was experienced in April (or worse).

While any of those risks (either by themselves or in combination with one another) could result in a drop in stocks or bond prices, the risk of slowing economic growth is perhaps the most substantial threat to this incredible 2024 rally. To that point, for the first time in years, economic data is pointing to a clear loss of economic momentum. So far, the market has welcomed that moderation in growth because it has increased the chances of a September rate cut. However, if growth begins to slow more than expected and concerns about an economic contraction increase, that would be a new, material negative for markets. Because of that risk, we will be monitoring economic data very closely in the coming months.

Bottom line, the outlook for stocks remains positive but that should not be confused with a risk-free environment. There are real risks to this historic rally, and we will continue to monitor them closely in the coming quarter.

At Debczak Wealth Management, we believe successful investing is a marathon, not a sprint. Therefore, it is critical for you to stay invested, remain patient, and stick to the investment plan we've established with your goals in mind.

We thank you for your ongoing confidence and trust. Our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Sincerely,

*John K. Debczak, CFP®, RICP®  
Managing Director – Investment Officer*

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