Summary

Economic data for the week included 2nd quarter U.S. GDP ramping back up to above-trend levels, a mixed environment for recent durable goods orders, and declines in both existing and new home sales.

Equities were mixed last week, with gains in U.S. value and small cap, offset by declines in U.S. growth and internationally. Bonds gained along with falling yields, as inflation remained contained. Commodity prices fell across the board last week, led by energy and metals.

Economic Notes

(+) The advance estimate for **U.S. GDP growth** in the 2nd quarter came in at 2.8%, well above expectations of 2.0% and the 1.4% increase of Q1. (Though, the final Atlanta Fed GDPNow estimate for the quarter did peg it pretty closely at 2.6%.) Personal consumption re-accelerated to a growth rate of 2.3% (accounting for 1.6% of the 2.8% total). Interestingly, durable goods growth led the way, growing nearly 5% in a combination of different sectors, followed by smaller gains for services and nondurable goods. Gross private domestic investment rose over 8% (adding 1.5% to the total), led by transportation equipment more than structures, as well as a strong increase in inventories. Government investment grew 3% (adding 0.5% to the total), split between national defense and state/local growth contributions. Those areas of strength were offset by a drop in net exports, paring -0.7% from total growth.

For inflation, the GDP price index rose by 2.3% on a quarterly annualized basis in Q2, a sharp deceleration from 3.1% in Q1. Quarterly annualized PCE decreased from 3.4% in Q1 to 2.6% in Q2 on a headline basis, as well as on a core basis, ex-food and energy, from 3.7% to 2.9%. Both sets of measures continue to show decent progress on the inflation front. This report could be a mixed bag for the Federal Reserve, though, with slowing inflation pointing to an environment favoring rate cuts, while continued-strong economic growth is less supportive of easier monetary policy.

The initial Atlanta Fed GDPNow measure for Q3 has come out at the same 2.8%, 70% of which is from consumer spending, followed by nonresidential fixed investment and government spending. This is well above the Blue Chip economist consensus, which is running around 1.5-2.0% so far.

(-) The **S&P Global U.S. manufacturing PMI** index fell by -2.1 points to 49.5, back into contraction, and below expectations for no change at 51.6. New orders fell by -4 points back into contraction, along with declines in output and employment. However, output prices fell by nearly -3 points to just above neutral.

(+) The **S&P Global U.S. services PMI** rose 0.7 of a point to 56.0, above the expected decline to 54.9, remaining in solid expansion. The new business indicator ticked up slightly to remain in expansion as well, while employment declined slightly, but remained expansionary. This is in contrast to slower ISM services readings as of late.

(+) **Personal income** rose 0.2% in June, well below the 0.4% expected, bringing the income gain to over 4% for the past 12 months. **Personal spending** rose 0.3% for the month, on par with expectations, resulting in a rise of 7% over the past year—led by services more than goods. The personal saving rate ticked down to 3.4%, after downward revisions for the prior month. PCE inflation increased 0.1% on the headline side, and 0.2% for core, removing food and energy, each being close to expectations. Year-over-year, headline PCE was up 2.5% (down a tenth from the prior month's pace), while core PCE remained at 2.6%. The latter remains above the Fed's 2.0% target level but has been moving in the right direction.

(-) **Durable goods orders** for June fell by -6.6%, in contrast to expectations of a 0.3% rise, resulting in the worst single-month headline result since the pandemic. However, that was overshadowed by the -127% decline in the extremely lumpy commercial aircraft category. Excluding that segment, orders rose by 0.5%, led by machinery orders up 2%, in addition to gains in electrical equipment and computer products. Core capital goods orders fared even better, up 1.0% in the month, while core capital goods shipments rose 0.1%.

(-) **Existing home sales** for June fell by -5.4% to a level of 3.89 mil. units, below expectations of a -3.2% decline. Single-family homes fell -5%, while condos/co-ops declined over -7%. Every national region experienced a decline, led by the Midwest (-8%) and South (-6%). Following a jump for the first few months of the year, sales have since reversed course downward. The median existing home sales price rose a bit for the month to a new all-time high of $426,900, representing a 4% rise over the past year. The inventory of unsold homes rose 3% on the month to the equivalent of 4.1 months' supply, which is still quite tight. These stats continue to reflect the key underlying considerations of homeowners with low mortgage rates 'stuck in place,' while the supply of new housing continues to underwhelm, keeping inventories generally low and prices continuing to appreciate. However, the National Association of Realtors (perennially bullish on real estate), noted some loosening on the edges, with some sellers receiving fewer offers and homes staying on the market a bit longer.

(-) **New home sales** fell by -0.6% in June to a seasonally-adjusted level of 617k units, in contrast to an expected increase of 3.1%. Sales levels remain -7% below those of a year ago. Regionally, the Midwest saw declines, while the West saw a small rise. The median new home sales price rose 2.5% on the month to $417,300, which amounted to a tiny decline over the past 12 months. (This was more due to home sizes shrinking rather than a weak market.) The inventory level came in up 0.2 for the month to 9.3 months' supply, which is a significant increase compared to the 7.7 level a year ago. Absent a small spike in late 2020, new home sales remain at the lower end of the 600-800k band they've been in for the past five years and remain well below demographic and physical replacement needs.

(+) **Initial jobless claims** for the Jul. 20 ending week fell by -10k to 235k, just below the 238k median forecast. Continuing claims for the Ju1. 13 week fell by -9k to 1.851 mil., well below the expected increase to 1.868 mil. Initial claims rose by 8k in TX, while falling in several other larger states, pointing to the continued effects for several weeks from Hurricane Beryl in the Houston area. Otherwise, claims on a seasonally-adjusted basis have been steadily rising from lows in the 200k-ish level earlier this year, which represents the low end of the range seen during the past several years, but have stayed generally contained.

Market Notes

Period ending 7/26/2024	1 Week %	YTD %
DJIA	0.77	8.84
S&P 500	-0.82	15.35
NASDAQ	-2.08	16.08
Russell 2000	3.47	12.34
MSCI-EAFE	-0.95	6.43
MSCI-EM	-1.56	6.55
Bloomberg U.S. Aggregate	0.27	0.76

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2023	5.40	4.23	3.84	3.88	4.03
7/19/2024	5.43	4.49	4.16	4.25	4.45
7/26/2024	5.38	4.36	4.06	4.20	4.45

U.S. stocks were mixed again last week with 'value' ending in the positive, outperforming 'growth,' which saw sharp declines. Small cap also ended several percentage points higher, continuing a stretch of recent rapid outperformance. By sector, utilities, health care, materials, and financials ended in the lead with gains of over 1%, while communications (Alphabet and Disney), consumer discretionary (Tesla and Starbucks), and technology lagged with declines of several percent. Real estate ticked slightly higher, as interest rates declined.

President Biden's decision to end his re-election bid didn't have an immediate impact but may have begun to play a subtle role as investors recalculated Trump vs. Harris election odds as well as began to digest policy differences. Mid-week, tech-related stocks pulled the market down for the worst single day in two years (-2.3%). Earnings calls for Alphabet and Tesla disappointed, raising concern for the entire group that has provided such an extreme degree of market leadership this year. In Alphabet's case, it was less about earnings, but more about additional capital spending on artificial intelligence, which concerned markets. By Friday, the 'not worse' PCE inflation number has turned sentiment again sharply positive. Interestingly, it's possible that the 'bad news is good news' has reverted back to a more normal narrative of 'good news is good news,' now that inflation has come under better control and the Fed appears to be on a concrete path of rate cuts by summer's end.

The Magnificent 7 Group has already experienced more than a -10% correction, as opposed to the broader S&P 500, which is only down around -4% from peak. Even with strong fundamentals, such elevated valuations have left the high-flying technology segment of the market vulnerable to smaller disappointments that deviate from the expected narrative, as is usually the case. The higher the valuation, the less room for error from the standpoint of sentiment.

Per FactSet, with over 40% of S&P 500 companies reporting Q2 results, nearly 80% have announced a positive earnings surprise and 60% a positive revenue surprise. This has brought the quarterly blended (actual plus estimates) earnings growth rate up to 9.8%—up about a percent from expectations a few weeks ago. By sector, communications and technology continue to lead, despite the contrary market results over the past few weeks. Interestingly, despite some concerns about profit margins, these have also continued to improve by a few tenths, back up above 12%.

Foreign stocks fell back on net, with gains in Europe and the U.K. offset by a sharp decline in Japan, due to a stronger yen, which is expected to hamper exporters. Emerging markets also experienced declines, led downward by China, Mexico, Turkey, and Taiwan. Fears of global trade tensions, instigated by the U.S. tended to dampen sentiment.

The Bank of China cut interest rates by 0.10% in a surprise move, following their Third Plenum 5-year planning meeting, after which policymakers indicated a plan to increase government borrowing and spending to boost the economy, in addition to a focus on technology reliance. This wasn't a dramatic move but signaled more of an easing policy bias. Also, removed from the statement was some of the pro-market language seen in earlier Plenums, was removed, with the dangers of market failures noted. This could be a sign of additional government influence in market activities, but that remains an open question.

Bonds gained across the board, with yields falling. High yield outperformed investment-grade corporates and U.S. Treasuries, while floating rate bank loans fell back slightly along with the lower rates. Foreign bonds also fared positively, with little impact from the U.S. dollar for the week.

Commodities fell back across the board last week, led by declines in industrial metals and energy, although precious metals also fell back a bit. Crude oil prices fell -2% last week to $77/barrel, as drilling activity picked up and demand growth in China weighed on markets. Oil prices have fallen nearly -10% over the past few weeks, and copper is down -20% over the past two months due to some of these same demand concerns.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, National Association of Realtors (NAR), Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.