

Summary

On a holiday-abbreviated week, economic data included ISM manufacturing and services both falling and ending June in contraction. The employment situation report was strong on a headline level, but less so under the surface, with the unemployment rate rising by a tenth of a percent.

Equities gained ground worldwide last week, in both developed and emerging markets. Bonds also rallied as yields fell, especially in foreign markets as the U.S. dollar declined. Commodities fared well as the price of oil rose by a few percent.

Economic Notes

(-) The **ISM manufacturing index** for June fell by -0.2 of a point to 48.5, below the median forecast that called for 49.1. On the positive side, new orders rose by nearly 4 points, but remained barely in contraction at the 49 level. Production and employment each fell by nearly -2 points further back into contraction. Prices paid also fell nearly -5 points to 52, just in expansion, while supplier deliveries ticked up to near-neutral. Anecdotal comments from manufacturers noted that backlogs were declining, which has led to some worker furloughs. While little changed on net, last month's data continues to show manufacturing in a mild contraction, where it's been for most of the past two years and has yet to recover back into positive levels.

(-) The **ISM services/non-manufacturing index** for June fell by -5.0 points down to 48.8, well below the expected minor drop to 52.7. Unfortunately, this brought the previously-strong services index back down into contraction after it had perked up back into expansion in May. The composition of the report appeared weaker as well, with new orders down -7 points to a contractionary 47, while business services fell nearly -12 points to just under 50, and employment fell a point further into contraction. Prices paid fell by nearly -2 points but remained at an expansionary 56. Anecdotal commentary pointed to higher gasoline and restaurant prices as a catalyst for the weaker mood (the latter being another potential impact of the higher 'price plateau' as opposed to the current inflation rate of change actually worsening). This is only a single report, so ongoing data will provide more color about a more sustained change in trend for this important driver of the economy, but last month's result is in line with a general slowing in economic growth.

(-) **Construction spending** for May fell by -0.1% on a nominal basis, below the 0.2% increase expected, although it included a slight revision upward for the prior month. Private construction declined on both the residential and non-residential side, which was partially offset by gains in public construction, especially on the residential side, which rose nearly 3%. As total construction costs rose by 0.5% in the month, real construction spending saw about a half-percent decline for the month, contributing to the negativity.

(-) **Initial jobless claims** for the Jun. 29 ending week rose by 4k to 238k, just above the 235k median forecast. Continuing claims for the Jun. 22 week rose by 26k to 1.858 mil., well above the median forecast of 1.828 mil. Claims in recent weeks have been inching higher, although there is a likely impact from seasonal effects from summer vacation. Overall, levels remain within multi-year normal levels.

(+/-) The government **JOLTS** job openings report for May showed an increase of 221k to 8.140 mil., after downward revisions for the prior month, relative to the median forecast calling for 7.946 mil. Openings were most robust in government (179k), manufacturing (115k), and private education/health services (44k); on the negative side, declines were focused on leisure/hospitality (-146k), financial activities (-26k), and other services (-16k). The job openings rate ticked up by 0.1% to 4.9%, as did the hiring rate to 3.6%. On the departure side, the quits and layoff rates were unchanged at 2.2% and 1.0%, respectively. While openings had been continuing to fade somewhat by official measures, albeit a difficult part of the labor picture to capture, this represented a pause in that negative trend. At this point, the measure of job openings-to-unemployed has fallen from a high of around 2.0 back down to around 1.0, where it had been for several years before the pandemic.

(+/-) The employment situation report for June came in stronger than expected again on a headline level, but less so after industry details and revisions. **Nonfarm payrolls** rose by 206k, which exceeded the 190k consensus estimate, although April and May payrolls were revised downward by a total of 111k. By segment, June leadership came from government jobs (70k, mostly state/local), health care (49k, bulk of which were in services and hospitals), and construction (27k). Weaker results were seen in professional/business services (-17k, with gains offset by a decline of -49k for temporary workers), retail (-9k), and manufacturing (-8k). So, despite the stronger headline number, labor gain diffusion among different industry groups was quite a bit weaker underneath the surface.

The **unemployment rate** ticked up a tenth of a percent to 4.1%, above expectations for no change, with the participation rate also ticking higher by a tenth, along with a 116k gain in household survey employment. The U-6 underemployment rate was unchanged at 7.4%. **Average hourly earnings** for the month rose 0.3%, in keeping with the median forecast. On a year-over-year pace, earnings growth continued to decelerate toward normalcy, by -0.2% to 3.9%. The **average workweek length** was unchanged at 34.3 hours.

(0) The **FOMC minutes** from the June meeting weren't a complete surprise, as usual, but remained interesting for the nuanced part of the closed-door discussion. It was noted that there has been "modest further progress" toward inflation, with "diminishing" price pressures, although "additional favorable" data is needed to give the committee members "greater confidence." Noted as risks were "sharper-than-anticipated slowing" in demand (particularly on the consumer side) and a "marked deterioration in labor market conditions." In several instances publicly, the Fed has noted that it's watching labor conditions more closely, with signs of erosion at the edges, despite the stronger headline numbers. Also noted as a risk was the outcome of the upcoming U.S. election, particularly in the forms of "heightened trade tensions" and more expansionary fiscal policy. The election reference is a bit noteworthy, in that the Fed continually reiterates that it isn't a political institution, in terms of the implementation of monetary policy anyway. But, like any other central bank, it does have to monitor and potentially react to the environment as it evolves in various directions. In short, the Fed has turned a bit more watchful in terms of potential economic downside, which, if realized, could exacerbate a quicker and deeper interest rate easing response than what is currently priced in.

Market Notes

Period ending 7/5/2024	1 Week %	YTD %
DJIA	0.69	5.52
S&P 500	1.98	17.57
NASDAQ	3.51	22.73
Russell 2000	-1.01	0.71
MSCI-EAFE	2.16	7.62
MSCI-EM	1.92	9.55
Bloomberg U.S. Aggregate	0.71	0.00

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
6/28/2024	5.48	4.71	4.33	4.36	4.51
7/5/2024	5.46	4.60	4.22	4.28	4.47

U.S. stocks gained last week, with large cap growth outperforming, while small caps lagged with a decline. Fed Chair Powell's speech at the ECB Forum on Central Banking in Portugal was taken well by markets, noting the growth in "two-sided" risks in achieving employment and inflation goals, which was a "big change" compared to a year ago. By week's end, the June employment situation report was nuanced enough to show weakening at the edges, which was seen as potentially moving toward the path of at least some Fed easing becoming

appropriate sooner than later. Earnings releases for Q2 are beginning this week, to likely take over investor attention.

By sector, communications (Meta and Alphabet), consumer discretionary (with Tesla up nearly 30%) and technology (largely from Apple up over 7%) led with gains of up to 4% each; on the other hand, energy and health care lagged with declines of a percent. Real estate experienced a minor decline, despite the fall in yields.

Foreign stocks fared positively as well, with the help of a stronger euro and British pound. The elections in France over the prior weekend resulted in surprising strength from far-right candidates. This troubled financial markets as it implied a potential weakening of ties to the rest of Europe (and the euro), as well as potentially higher debt and deficits, which could violate EU membership limits. (However, these fears abated a bit during the week, ending with Sunday's second round balloting with no side gaining a clear majority.) U.K. elections ironically held on July 4 ended up with a Labour/liberal majority, after 14 years of Tory/conservative rule, although this result was largely expected. In fact, a change of any kind was cheered by markets (with U.K. stocks stealthily performing nearly as well as U.S. equities over the last three months). Emerging markets saw gains broadly as well, led by Korea and Brazil, while India and China lagged with gains of around a percent, with the latter affected by lackluster manufacturing data.

Bonds saw gains as yields fell by 5-10 basis points across the U.S. Treasury curve, along with economic data pointing to modest slowing. Investment-grade corporates led, while floating rate bank loans lagged with minimally positive returns. Foreign bonds fared best, with the tailwind of the U.S. dollar falling by nearly a percent.

Commodities gained across the board for the most part last week, led by energy and both precious and industrial metals. Crude oil rose 2% last week to \$83/barrel, due to some supply concerns related to Hurricane Beryl in the Caribbean, and slower U.S. production.

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, 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.

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