***Summary***

In a week of limited economic data, reports included improvement in ISM services indexes, while jobless claims fell back from recent higher levels.

Equities continued to experience the highest levels of volatility in months, with a net result of little change for the week in the U.S. and small gains in foreign markets. Bonds fell back generally, along with a backup in yields. Commodities saw gains, led by crude oil as demand worries faded a bit.

***Economic Notes***

(+) The **ISM services/non-manufacturing index** rose 2.6 points in July to 51.4, exceeding the 51.0 median forecast and moving up from contraction back into the zone of expansion. Underlying activity generally improved also, with business activity, new orders, and employment all up around five points each back into expansion. Prices paid ticked back up by nearly a point to 57, while supplier deliveries fell nearly -5 points back into a contractionary 48. The final release for July **S&P Global U.S. service PMI** was revised down by a point to a still-very expansionary 55.0, with key components also showing strength. These services data points were a positive offset to the mixed results from the prior week, which began to raise near-term questions about the strength of the U.S. economy.

(+/0) **Initial jobless claims** for the Aug. 3 ending week fell by -17k to 233k, below the 240k median forecast. Continuing claims for the Ju1. 27 week rose by 6k to 1.875 mil., matching consensus expectations. The initial claims number was led by declines in MI and TX, which would point to a continued reversal of temporary job losses from auto plant maintenance shutdowns and the hurricane.

***Market Notes***

| **Period ending 8/9/2024** | **1 Week %** | **YTD %** |
|---|---|---|
| DJIA | -0.56 | 5.95 |
| S&P 500 | -0.02 | 12.96 |
| NASDAQ | -0.17 | 12.00 |
| Russell 2000 | -1.32 | 3.48 |
| MSCI-EAFE | -0.29 | 4.05 |
| MSCI-EM | 0.27 | 5.77 |
| Bloomberg U.S. Aggregate | -0.82 | 2.36 |

| **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 |
| 8/2/2024 | 5.29 | 3.88 | 3.62 | 3.80 | 4.11 |
| 8/9/2024 | 5.33 | 4.05 | 3.80 | 3.94 | 4.23 |

U.S. stocks experienced one of the more interesting weeks in some time—in fact, it featured the single worst and single best days since 2022. By sector, industrials and energy led with gains of over a percent each, while laggards included materials and consumer discretionary (Tesla and McDonald's), each down over -1%. Real estate fell back only slightly, despite the sharp rise in yields, which also negatively affected small caps broadly.

The -3% rout for the S&P 500 on Mon. started with a -12% overnight decline in Japanese markets, as global markets begun unwind the long-beneficial borrowing in yen, as well as recalibrating recession odds after the weak U.S. employment report the prior week. While the employment report wasn't a bad one, extended valuations in U.S. stocks lowered the bar for higher volatility, which can easy carry to other time zones in a rolling fashion—several reasons at once can accelerate such negativity. Sentiment improved by Tue., with markets recovering a significant portion of the earlier decline. By Thu., financial markets took the reversal downward in jobless claims as positive news leading to a 2%+ gain. This was due to the financial markets now apparently better understanding the temporary nature of layoffs from the prior nonfarm payroll report and more recent claims. The S&P just avoided a -10% correction from mid-July highs, while the Nasdaq had fallen by -15%, before recovery. After moving along at below average levels most of the year (under 20), the VIX spiked at over 65 briefly, before falling back.

Foreign stocks held up better, with gains in Japan and Europe, offset by a decline in the U.K. Emerging markets fared best, rising over a percent on the week, led by a sharp gain in Brazil along with weak reported fundamentals raising hopes for more rate cuts, with other key countries mixed. Japan was assumed to be behind much of the early week market turmoil, with the BOJ's more hawkish policies—moving away from quantitative easing. As a tangible effect, this has reduced the attractiveness for investors taking advantage of the 'carry trade,' of borrowing in yen at low rates and investing elsewhere, usually in foreign markets. (U.S. tech stocks and Mexican bonds with high yields have been notable favorites.) As domestic rates have risen, this has caused a cascade effect of that spread becoming less attractive, pushing the yen higher, making margin calls more frequent, and causing disruption from a transactional standpoint (forced sales are never great for market liquidity). On the positive side, the BOJ relented with comments that it will not raise the policy interest rate further "when financial and capital markets are unstable," which appeared to appease global investors. With more detail on the Chinese government's Third Plenum coming out, it's become apparent additional programs are being rolled out to address weak domestic consumption. Like a similar 'cash for clunkers' program that encourages the purchase of electric cars, the new initiative is promoting replacement of household appliances. This seems to be representative of more targeted policies used by the government as of late, rather than casting a wide net of stimulus.

Bonds fell back last week, along with higher yields along the U.S. Treasury curve as early fears waned as the week went on. Investment-grade corporates outperformed governments slightly, while high yield and floating rate bank loans earned small gains. Foreign bonds were mixed, with little change in the U.S. dollar during the week.

Commodities gained for the week, led by energy and agriculture. Crude oil rose over 3% last week to $77/barrel, as U.S. labor concerns abated, coupled with a 13% spike in natural gas prices, as seasonal summer maintenance shutdowns reduced 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.



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