

July 22, 2024

# Weekly Viewpoint

## Investors Hit the Pause Button

### Performance for Week Ending 7/19/2024

The Dow Jones Industrial Average (Dow) added 0.72%, the Standard & Poor's 500 Index (S&P 500) lost 1.97% and the Nasdaq Composite Index (NASDAQ) finished off 3.65%. Sector breadth was mixed with 6 of the S&P sector groups closing lower and 5 closing higher. The Energy sector (+2.02%) was the best performer while the Technology sector (-5.14%) was the worst.

Index*	Closing Price 7/19/2024	Percentage Change for Week Ending 7/19/2024	Year-to-Date Percentage Change Through 7/19/2024
Dow	40287.53	+0.72%	+6.89%
S&P 500	5505.00	-1.97%	+15.41%
Nasdaq	17726.94	-3.65%	+18.09%

### Market Observations: 7/15/2024 – 7/19/2024

After closing the prior week at a new all-time high, the S&P 500 finished lower last week as a rotation out of megacap technology stocks weighed on the broader market. Anxiety clearly picked up last week, with the CBOE Market Volatility index (VIX), often referred to as the "fear index," jumping by over 30% to its highest level since late-April. Investors may have also been front running a traditionally weak period for the market. Since 1995, the S&P has produced average losses of -0.66 percent and -0.74 percent during the months of August and September, respectively. In fact, that two-month window, is the only time the market experiences negative back-to-back months, on average.

**Fedspeak - Closer but Not There Yet:** Fed Chair Jerome Powell said second-quarter economic data has provided policymakers greater confidence that inflation is heading down to the central bank's 2% goal, possibly paving the way for near-term interest-rate cuts. "Now that inflation has come down and the labor market has indeed cooled off, we're going to be looking at both mandates," Powell said. "They're in much better balance," adding that "an unexpected weakening" in the labor market could also be a reason for the Fed to react. Fed Governor Chris Waller said the economy is getting closer to a point where the central bank

can reduce borrowing costs but indicated he'd like to see a "bit more evidence" inflation is on a sustained downward path. Waller noted that if inflation data continue to be "very favorable," he could envision a rate cut in the not-too-distant future. New York Fed President John Williams said inflation data over recent months has been encouraging, but he wants to see more evidence in the coming months to gain the confidence needed to lower borrowing costs. Fed Governor Adriana Kugler said it would be appropriate to lower borrowing costs "later this year" if inflation continues to moderate alongside a cooling, yet resilient labor market. Chicago Fed President Austan Goolsbee suggested the central bank may need to lower borrowing costs soon in order to avoid a sharper deterioration in the labor market, which has cooled in recent months. While the Fed's inflation fight is ongoing, multiple months of improving data have reassured him that officials are back on track to bring inflation down to their 2% goal.

**Beige Book:** The US economy grew at a slight pace heading into the third quarter, with a number of regions noting flat or declining activity, the Federal Reserve said in its Beige Book survey of regional business contacts. Employment also increased only slightly, labor turnover declined, and contacts in several districts expect to be more selective about who they hire and not backfill all open positions. Of the districts, five noted flat or declining economic activity — three more than the prior period. Looking ahead, businesses expected the slowing to continue. "Expectations for the future of the economy were for slower growth over the next six months due to uncertainty around the upcoming election, domestic policy, geopolitical conflict, and inflation," the report said. Wages grew at a modest to moderate pace in most districts, though prices rose modestly overall. Consumer spending showed little to no change.

**Q2 Earnings – So Far, So Good:** While it's still too early to draw any conclusions, second quarter earnings season is off to a decent start. Through Friday, 70 members of the S&P 500 have released results with 57 (81%) surprising to the upside. Aggregate earnings for this group are up 8.5%. When all is said and done, consensus expectations compiled by Bloomberg forecast growth of 9.9% for the overall quarter. Full year expectations also continue to creep higher with earnings expected to grow 9.5% in 2024 and 14.1% in 2025.

**Economic Roundup:** US retail sales were unchanged during the month of June, but ahead of the 0.3% decline expected by economists. The so-called control-group sales — a grouping of the retail data used in the calculation of gross domestic product (GDP) — advanced a solid 0.9%, matching the largest increase since April 2023. The measure excludes food services, auto dealers, building materials stores and gasoline stations. Confidence among US homebuilders fell for a third straight month in July as elevated interest rates weighed on sales and kept construction financing costs high. A gauge of sales expectations for the next six months was one of the few positives in an otherwise downbeat report, with the forward-looking measure rising for the first time since March. Meanwhile, new home construction picked up in June, though a decline in single-family housing starts to an eight-month low underscored a real estate market challenged by high interest rates. Total housing starts increased 3% to a 1.35 million annualized rate last month, driven by a 19.6% surge in multifamily construction. On the labor front, initial applications for US unemployment benefits rose last week by the most since early May and continuing claims jumped, adding to evidence of a softening labor market. Initial claims increased by 20K to 243K in the week ended July 13, matching the highest level

since August 2023. The four-week moving average, which helps smooth short-term fluctuations in weekly initial claims figures, edged up to 234.8K.

**The Week Ahead:** The focal point on this week's data calendar will be the core PCE inflation data on Friday. According to Bloomberg, the Fed's preferred inflation metric is expected to come in at a 2.5% year-over-year rate, down from 2.6% in the prior month. Also of interest will be the first reading of Q2 GDP on Thursday, with analysts expecting growth of 1.9%, a solid uptick from the 1.4% pace in the first quarter. The Fed speaking calendar will be a nonevent, as officials will be in the traditional blackout period ahead of next week's FOMC meeting. It will be a busy week on the earnings front with 131 members of the S&P 500 expected to release results during the week. Amongst this group will be 7 members of the Dow Jones Industrial Average.

## Definitions

**The Dow Jones Industrial Average** is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

**Standard and Poor's 500 Index** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

**The Nasdaq Composite Index** is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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