June 14, 2024

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MARKET VIEW WEEKLY

Ladenburg Asset Management

ECONOMIC REVIEW[1]

- The Federal Open Market Committee (FOMC), as expected, decided to leave the federal funds rate target unchanged in the current 5.25% - 5.50% range.
    - The Fed's updated dot plot showed a surprising median projection of just one rate cut this year. However, market consensus estimates still forecast two rate cuts this year for September and December.
    - Fed Chairman Jerome Powell noted that although modest progress has been made on inflation it remains elevated. While the labor market continues to return to normal, inflation is still above target and there is no immediate need to cut rates yet.
- May's headline Consumer Price Index (CPI) reading remained unchanged month-over-month (MoM) and rose 3.3% year-over-year (YoY).
    - Both MoM and YoY headline data came in below expectations driven by lower energy prices.
- Core CPI, which excludes the volatile food and energy categories, rose 0.2% MoM and 3.4% YoY.
    - Transportation services, which is still up 10.5% YoY, declined from last month led by a decrease in car insurance prices and airline fares.
- May's headline Producer Price Index (PPI) declined 0.2% MoM and rose 2.2% YoY. Both measurements came in below expectations of a 0.1% MoM rise and 2.5% YoY increase.
    - PPI in May fell at the fastest pace in six months as energy prices declined 4.8% MoM.
    - Core YoY PPI declined to 2.3%, which was lower than April's reading of 2.4%, and remained unchanged MoM.
- The University of Michigan consumer sentiment of 65.6 came in below expectations of 72.
    - Indices for current economic conditions and consumer expectations fell from the prior month but inflation expectations were mostly unchanged from May.

How does the Fed's interest rate decision, inflation data, and consumer sentiment impact you?

- The Fed's decision to leave interest rates unchanged implies that the higher cost of financing will continue for for business and consumers, which include mortgages, credit cards, and auto loans.
- Cooler inflation data provided relief after the first three consecutive hotter-than-expected readings to start the year. Inflation is modestly moving in the direction the Fed has been looking for to start monetary easing later this year.
- The consumer sentiment index is an important gauge for measuring how consumers are feeling about inflation and unemployment. If consumers are feeling more cautious, they may cut back on spending and consumption which can negatively impact economic growth.

A LOOK FORWARD[1]

- There will be lighter economic news in the shortened holiday week. The Leading Economic Index (LEI) and housing starts will be closely watched. Retail sales is another economic report that will be a primary focus for investors.

How does housing starts and retail sales impact you?

- Housing starts, which the headwinds of higher mortgage rates have impacted, saw a monthly increase in April but are still trending lower over the last year adding to the existing shortage of new homes.
- May retail sales will provide a key insight into whether consumer spending, which makes up nearly 70% of U.S. GDP, has recovered after a weaker than expected April data.

MARKET UPDATE[2]

Market Index Returns as of 6/14/2024	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	1.62%	3.69%	14.63%	24.58%	10.25%	15.35%
NASDAQ	3.27%	8.18%	18.25%	29.33%	8.77%	18.77%
Dow Jones Industrial Average	-0.51%	-2.65%	3.32%	14.39%	6.14%	10.44%
Russell Mid-Cap	-0.25%	-4.11%	4.13%	13.24%	2.37%	9.70%
Russell 2000 (Small Cap)	-0.95%	-5.31%	-0.40%	7.80%	-3.38%	7.11%
MSCI EAFE (International)	-2.63%	-0.84%	4.89%	9.60%	1.69%	6.98%
MSCI Emerging Markets	0.50%	3.92%	6.38%	8.02%	-5.42%	3.74%
Bloomberg US Agg Bond	1.31%	0.87%	0.09%	3.11%	-2.66%	0.10%
Bloomberg High Yield Corp	0.26%	0.84%	2.33%	10.24%	1.73%	4.07%
Bloomberg Global Agg	0.55%	-0.41%	-2.48%	1.13%	-5.52%	-1.62%

OBSERVATIONS

- U.S. large cap equities posted mix returns for the week. The S&P 500 and NASDAQ reached new all-time highs while the Dow fell -0.51%.
- Small caps underperformed large caps, with the Russell mid-cap and Russell 2000 indices falling -0.25% and -0.95% respectively.
- Overseas, international developed markets fell by -2.63% while emerging markets posted a positive return of +0.50%.
- Bond indices posted positive returns as interest rates moved lower after better-than-expected U.S. inflation data. The U.S. Aggregate Bond Index outperformed the Global Bond and High Yield Indices.

BY THE NUMBERS

Hedge Funds Turn Cautious on Stocks Even as Wall Street Strategists Get Bullish: Wall Street strategists are rushing to raise their targets for the S&P 500 Index, but hedge funds are growing increasingly cautious about equities due to the Federal Reserve's reluctance to cut interest rates, softer economic data and narrow stock market breadth. Hedge funds decreased their long-short gross leverage, which measures their overall exposure to the market, by the most since March 2022, according to a note from Goldman Sachs Group Inc.'s prime brokerage desk. The move points to a more cautious stance from the so-called smart money, Goldman's team wrote. Hedge funds appear to be more skeptical about further gains from here. The Fed is signaling that it expects to cut rates fewer times than investors had hoped in 2024 as inflation remains stubborn. And economic growth remains uncertain with geopolitical risks seemingly everywhere. On the other hand, the S&P 500 is sitting near an all-time high above 5,400 and Wall Street market strategists are rushing to keep up by increasing their year-end targets for the S&P.[3]

Surgeon General Calls for Warning Labels on Social Media Sites: The U.S. Surgeon General announced Monday that he will push for warning labels on all social media platforms, stating that they may harm teens' mental health. "The mental health crisis among young people is an emergency -- and social media has emerged as an important contributor," Dr. Vivek Murthy wrote in an essay published Monday in the *New York Times*. "Adolescents who spend more than three hours a day on social media face double the risk of anxiety and depression symptoms, and the average daily use in this age group, as of the summer of 2023, was 4.8 hours." Still, such warning labels require Congressional approval, and no legislation on the issue has yet been introduced in either chamber.[4]

Economic Definitions

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

Federal Open Market Committee (FOMC): The branch of the Federal Reserve that determines the direction of monetary policy in the United States.

Federal Funds Rate: The federal funds rate is the central interest rate in the U.S. financial market at which depository institutions trade federal funds (balances held at Federal Reserve Banks) with each other overnight.

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Producer Prices - PPI (headline and core): Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e. prices received by domestic producers for their outputs either on the domestic or foreign market).

University of Michigan Consumer Sentiment Index: Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collects data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=100)

Conference Board Leading Economic Index: Leading indicators include economic variables that tend to move before changes in the overall economy. These indicators give a sense of the future state of an economy.

Housing Starts: Housing (or building) starts track the number of new housing units (or buildings) that have been started during the reference period.

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: 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.

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

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

Disclosures

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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[1] Data obtained from Bloomberg as of 6/14/2024.
[2] Data obtained from Morningstar as of 6/14/2024.
[3] Hedge Funds Turn Cautious on Stocks Even as Wall Street Strategists Get Bullish (yahoo.com)
[4] Surgeon General Calls for Warning Labels on Social Media Sites (usnews.com)