JULY 2024

MARKET UPDATE

The S&P 500 continued its upward trend, gaining 3.59% in June and over 15% through the first half of the year. Globally and within the US equity, markets were more mixed with mid and small cap US stocks losing ground in June as well as developed international. Emerging markets were able to outperform the S&P 500, with the MSCI Emerging Markets index rising 3.94%. The first half of the year has shown the strength of US large caps versus the rest of the equity market, with technology and technology-adjacent companies continuing to fuel the gains and market optimism.

Bond markets were also able to gain some ground in June, with the Bloomberg US Aggregate index rising 0.95%, though is still down 0.71% for the year so far. Yields on US government bonds declined during June, helping push bond prices up and fuel the June gains, as Federal Reserve expectations (for now at least) continue to suggest a September rate cut. However, upcoming inflation, jobs, and consumer spending reports will be critical as investors determine if this is an appropriate expectation or not.

On the economic front, core inflation continued to improve, with both the PCE and CPI reports showing slowdowns in annual price increases. Keeping tabs on the consumer, the personal savings rate remains low by historical standards, but the latest data showed savings increased in May. Consumers' savings rate rose from 3.7% to 3.9%, with a combination of incomes rising faster than expenses has helped. A robust jobs report in May, showing 272K jobs were added to the economy helped as well. Credit card delinquencies have also been steadily falling since January, after having risen substantially since the pandemic-era lows in 2021.

ADVISORS' PERSPECTIVE

US large cap, particularly large cap tech, has continued to dominate so far in 2024. Through the first half of the year US large cap technology stocks have outperformed the broader large cap space by nearly 15 percentage points. The outperformance of technology stocks was relatively modest through April, but across May and June the gap grew substantially. Further, even broad large cap has outperformed their mid and small cap peers by 9 and 16 percentage points, respectively.

Consumers' financial health has been a hot topic over the last year. Credit card delinquencies started to consistently rise in the second half of 2021 through 2023, although they started at historically low levels following the pandemic-era stimulus efforts. However, delinquencies have declined since January and remain below pre-pandemic levels. Fears of rising delinquencies that could have presented an economic risk had been overblown, for now at least. However, savings rates remain historically low as higher prices continue to cause consumers to spend a higher percentage of their income and save less.

The average home price in the US has reached another all-time high in May, rising to over $419,000, where the previous record was from June of 2022, at $413,000. In a standard housing market, higher interest rates generally lead to lower housing prices as the costs to borrow gets more expensive. However, as interest rates have been steadily over 6% since September 2022, the cost of home ownership has only gotten more expensive. Meanwhile, existing home inventory level have started to increase, but are still at a relatively low level when compared to the highs seen in the late 2000's.

US payroll growth slowed in June, with nonfarm payrolls rising by 206K, but job growth for the prior two months was revised downward by 111K. The unemployment rate ticked up to 4.1% (vs. 4.0% in May), the highest since November 2021, as more individuals entered the labor force. Following the jobs report, investors expect the Federal Reserve to lower interest rates twice this year, with the first reduction likely in September.

The Federal Reserve's preferred inflation measure, the core personal consumption expenditures (PCE) price index, rose by just 0.1% in May, the smallest increase since late 2020. The data matched economists' expectations for both the overall PCE price index and the core PCE price index on a monthly and yearly basis. Real consumer spending increased by 0.3% in May after declining in April, supported by solid income growth, which offers hope for easing inflation without negatively impacting consumers. The slowdown in core inflation, coupled with robust consumer spending, provides relief to Federal Reserve officials concerned about the economy's momentum.

We remain cautiously optimistic and continue to use a quantitative investing approach. In times of uncertainty, it is more important than ever to follow the data and not make decisions based on emotions. Hilltops partnership with Helios relies on facts and data, which we use during our recalculations on a bi-weekly basis. Our models adjust appropriately to market conditions.