



Richmond, Virginia

WEEK OF JULY 15, 2024

# Market Update

Small-cap stocks posted a major rally as potential interest rate cuts offered relief amid recent struggles. Short-term Treasuries rallied on the lower Consumer Price Index (CPI) report as investors locked in elevated short-term rates.

## Quick Hits

- 1. Report releases:** Consumer prices were softer than expected in June; producer prices surprised to the upside.
- 2. Financial market data:** Small-cap stocks posted a major rally as potential interest rate cuts offered relief.
- 3. Looking ahead:** This week, data will focus on retail sales, housing, and industrial production.



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## Report Releases: July 8–12, 2024

**National Federation of Independent Business Optimism Index**  
June (Tuesday)  
Small business optimism rose to 91.5, exceeding last month's level of 90.3 and expectations of 90.5.



**Consumer Price Index (CPI)**  
June (Wednesday)  
Consumer inflation slowed on a monthly and year-over-year basis in June. Year-over-year, core consumer inflation fell to its lowest level in more than three years and headline price growth matched a three-year low.

- Prior monthly CPI/core CPI growth: +0.0%/+0.2%
- Expected monthly CPI/core CPI growth: +0.1%/+0.2%
- Actual monthly CPI/core CPI growth: -0.1%/+0.1%
- Prior year-over-year CPI/core CPI growth: +3.3%/+3.4%
- Expected year-over-year CPI/core CPI growth: +3.1%/+3.4%
- Actual year-over-year CPI/core CPI growth: +3.0%/+3.3%



**Producer Price Index (PPI)**  
June (Friday)  
Producer prices increased more than expected in June, with headline and core price growth exceeding economist estimates.

- Prior monthly PPI/core PPI growth: +0.0%/+0.3%
- Expected monthly PPI/core PPI growth: +0.1%/+0.2%
- Actual monthly PPI/core PPI growth: +0.2%/+0.4%
- Prior year-over-year PPI/core PPI growth: +2.4%/+2.6%
- Expected year-over-year PPI/core PPI growth: +2.3%/+2.5%
- Actual year-over-year PPI/core PPI growth: +2.6%/+3.0%



**Preliminary University of Michigan Consumer Sentiment Survey**  
July (Friday)  
Consumer sentiment unexpectedly fell to start July, with worsening consumer views on current economic conditions and future expectations weighing on sentiment.



### >> The Takeaway

- Small business confidence surprised to the upside; consumer confidence missed expectations.
- Consumer prices were softer than expected in June, but producer prices surprised to the upside.

## Financial Market Data

### Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.89%	2.88%	18.61%	27.46%
Nasdaq Composite	0.25%	3.77%	23.04%	33.20%
DJIA	1.61%	2.32%	7.22%	18.86%
MSCI EAFE	2.29%	4.50%	10.08%	15.34%
MSCI Emerging Markets	1.82%	3.78%	11.55%	14.59%
Russell 2000	6.01%	4.95%	6.76%	12.80%

Source: Bloomberg, as of July 12, 2024

The Russell 2000 led the way last week, gaining more than 6 percent. Softer-than-expected CPI data led to a major rally in small-caps. Softer inflation data supports the likelihood that the Federal Reserve (Fed) will cut interest rates in June. That might start the cycle of easing, which would offer solace to small-cap firms that have struggled with variable rate debt exposure.

### Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	1.54%	0.82%	4.19%
U.S. Treasury	1.32%	0.44%	2.97%
U.S. Mortgages	1.78%	0.78%	3.77%
Municipal Bond	0.59%	0.18%	3.96%

Source: Bloomberg, as of July 12, 2024

The yield curve saw an inversion on the back of the softer-than-expected CPI report. Short-term yields dropped sharply as investors locked in elevated rates with the potential for a Fed rate cut increasing. The back end of the curve fell to a lesser extent as investors locked in shorter-term Treasuries. The 2-year yield fell 14 basis points (bps) to close at 4.46 percent and the 30-year fell 7 bps to 4.4 percent.

### >> The Takeaway

- Small-caps posted a major rally as potential rate cuts offered relief amid recent struggles.
- Short-term Treasuries rallied on the lower CPI report as investors locked in elevated short-term rates.

## Looking Ahead

This week, we expect data on retail sales, housing, and industrial production.

- The week kicks off on Tuesday with the release of retail sales for June and the **National Association of Home Builders Housing Market Index** for July. Retail sales are expected to fall after increasing modestly in May. Home builder confidence is expected to remain unchanged after falling more than expected in June.
- Wednesday will also be a busy day, with the release of housing starts, building permits, and industrial production for June. Housing starts are expected to rise and permits are set to fall modestly. Economists expect to see a solid increase in industrial production, driven in part by rising capacity utilization.





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measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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