Turbulence Turns to Cautious Optimism

Market Update AUGUST 2024

August was marked by heightened market volatility, driven by a series of economic surprises and geopolitical concerns, and intensifying recession fears as evidenced by a flight to safety in bonds and corresponding dip in yields. Yet, by the end of the month, markets staged an impressive recovery, with the S&P 500 nearly hitting new all-time highs.

In August, the Personal Consumption Expenditures (PCE) report continued to show stability in inflation metrics, maintaining last month's trend. Both Headline PCE and Core PCE remained relatively steady in year-over-year price growth, with Headline PCE rising slightly from 2.47% to 2.50% and Core PCE increasing marginally from 2.58% to 2.62%. Similarly to last month, the month-over-month change in Core PCE shows further encouraging signs, coming in at just 0.161%. As has been mentioned before, month-to-month data can be volatile, and thus we turn to the three-month annualized figure to gain a clearer picture of the current trend. The three-month Core PCE inflation rate shows an annualized rate of 1.72%, below the Fed's 2.00% target, and suggesting that we are on a path to reaching the Fed's target, and ultimately indicative that rate cuts could be on the horizon.

Despite positive inflation data, equity markets began August on shaky ground, with a steep sell-off in the first few days. This abrupt shift in market dynamics stemmed from weak US jobs data and a rise in unemployment announced early in the month, combined with disappointing earnings from major tech companies like Intel and Amazon rekindling concerns of an impending recession and shaking investor confidence. By the end of the first week, the S&P 500 had plunged 6.1%, the NASDAQ fell by nearly 8%, and the Russell 2000 sank 9.5%. To add to the turbulence in U.S. and international equity markets was the unwinding of the yen carry trade, triggered by Bank of Japan's decision to raise its policy rates for the first time in years. The Nikkei 225 plummeted nearly 20% in just three days, as investors scrambled to close out their positions in the Yen currency, driving a massive flight of capital out of both U.S. and Japanese equities.

These developments fueled rampant speculation that the Federal Reserve might cut rates by 50 basis points at its upcoming September meeting, with some market participants even advocating for an emergency intermeeting rate cut. After hitting all-time highs in July, the S&P 500 experienced a decline of over 8% mid-August before managing to recover most of its losses by the month's end.

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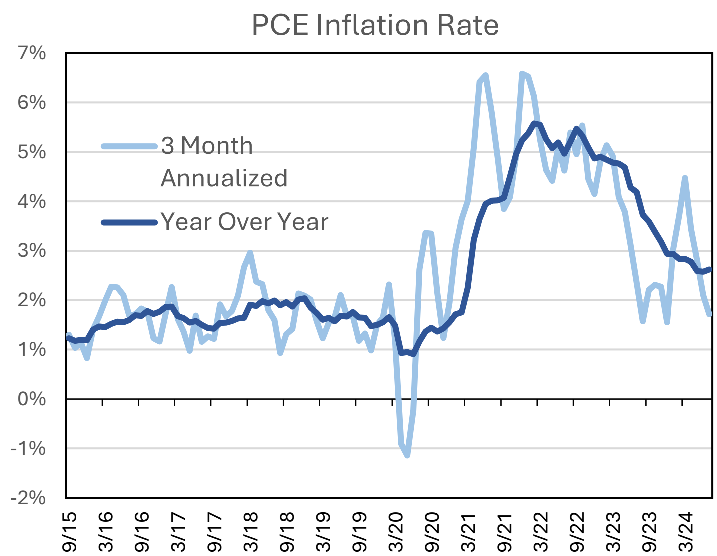
The turbulence in U.S. equity markets prompted investors to seek refuge in fixed income, with the flight to longer-term treasuries driving yields lower, and resulting in the 10-year – 2-year treasury yield spread turning positive for the first time in nearly 2 years. By the end of the month, however, U.S. equity markets managed to climb their way back to an impressive recovery, buoyed by softer-than-expected inflation data and an improvement in economic reports later in the month.

Looking ahead, market expectations for rate cuts have since moderated. Most investors now anticipate a more measured 25-basis point reduction at the Federal Open Market Committee's (FOMC) September 18th meeting, compared to earlier forecasts for a more aggressive 50-basis point cut. As the data continues to evolve, the trajectory of monetary policy will likely depend on whether inflation remains subdued, and the broader economy shows signs of stabilization. With the resilience demonstrated this month by U.S. equities as well as the normalization of treasury yields in the long-end of the yield curve, a move by the Fed to cut short-term rates later this month offers a case for cautious optimism that a path to a soft landing may still be possible.

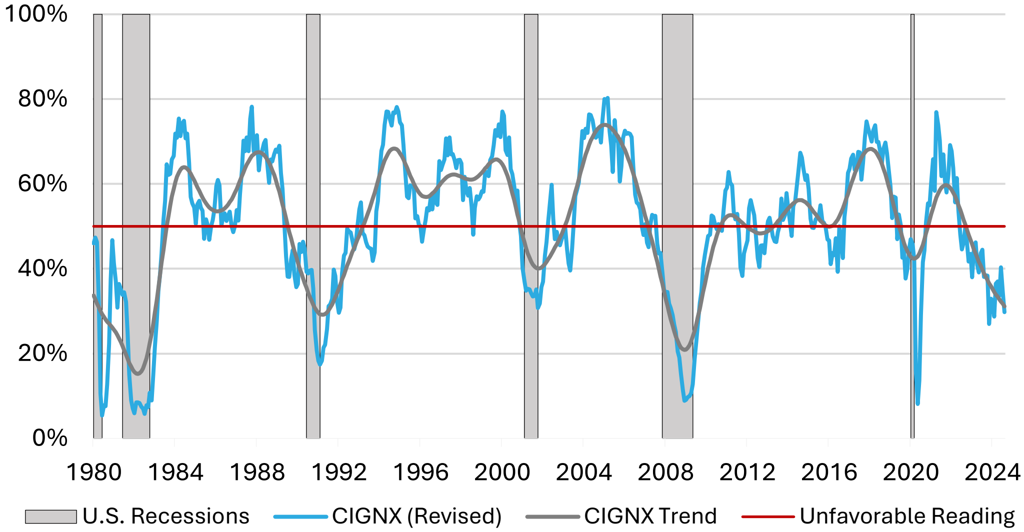


Smarter Way to Invest

MARKET SENTIMENT= MIXED

Signal Update AUGUST 2024

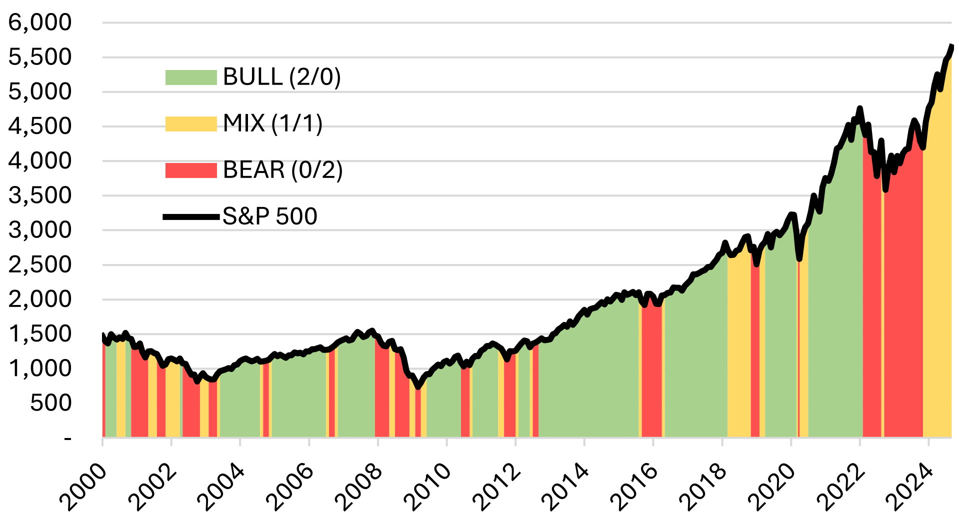
CIGNX = 29.7



Our **CIGNX** Economic Indicator has a reading of **29.7**, down from last month's revised reading of **34.3**. The reading is still indicative of sluggish economic activity and a continued unfavorable trend in the economy. This remains well below our baseline threshold of **50.0,** indicative of unfavorable conditions, and below our secondary baseline reading of **40.0**, which we typically interpret as the economy experiencing recessionary conditions. **Our overall economic outlook remains negative.**

MONTH (2024)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
CIGNX (Revised)	32.2	28.7	36.5	37.0	33.6	40.4	34.3	**29.7**				
CIGNX Trendline	35.2	34.6	34.0	33.4	32.8	32.3	31.7	**31.1**				

ALPHA = Positive (Buy) OMEGA = Negative (Sell)



Our short-term **(Alpha)** signal remained **Positive** during the month of August, while our intermediate-term signal **(Omega)** remains **Negative**, indicating the near-term market trajectory is favorable while the long-term outlook for the market trajectory is unfavorable. We remain in a "Mixed" positioning across each of our Dynamically managed Portfolios, with a slightly reduced exposure to equities. **Our overall market sentiment outlook is Mixed.**

MONTH (2024)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ALPHA	BUY	BUY	BUY	BUY	BUY	BUY	BUY	**BUY**				
OMEGA	SELL	SELL	SELL	SELL	SELL	SELL	SELL	**SELL**				

Asset Class Indices	S&P 500 Index	S&P 400 Index	S&P 600 Index	U.S. Agg Bond Index	S&P GSCI Index	S&P 1500 Real Estate
Monthly	2.43%	-0.08%	-1.44%	1.44%	-1.72%	5.41%
Year to Date	19.53%	12.24%	8.41%	3.07%	5.32%	10.66%

Market Review AUGUST 2024

U.S. Lg Cap Stocks

The S&P 500 Index posted another solid month of gains, rising 2.43% in August as large-cap stocks continued to benefit from improving economic data and steady corporate earnings. Value stocks led the charge, with the S&P 500 Value Index outperforming growth stocks for the second consecutive month, returning 2.96% compared to 2.19% for the S&P 500 Growth Index. This divergence suggests that investors may be shifting toward more defensive and economically resilient sectors, favoring value-oriented companies as uncertainty looms over interest rates and broader economic growth.

U.S. Md Cap Stocks

The S&P 400 Mid-Cap Index saw its performance slow in August, ending the month nearly flat with a return of -0.08%. While mid-cap stocks have lagged their large-cap counterparts, they remain relatively resilient compared to the more volatile small-cap segment. This stagnation could be due to a mix of cautious investor sentiment and concerns over economic slowdowns, which have weighed more heavily on companies with less diversified revenue streams. Despite this, mid-caps have shown stability, continuing to outperform small-cap equities in the current environment.

U.S. Sm Cap Stocks

Small-cap stocks, as measured by the S&P 600 Index, faced headwinds in August, underperforming both their large and mid-cap counterparts with a return of -1.44%. Investor concerns over economic uncertainty and rising costs have disproportionately impacted small-cap companies, which are often more vulnerable to market volatility and less able to absorb external shocks. This underperformance highlights the ongoing challenges within the small-cap space, as these companies continue to face pressure from inflation, elevated interest rates, and slower growth prospects relative to larger firms.

U.S. Bonds

Bond markets experienced another month of positive returns in August, with a gain of 1.44%. This uptick reflects improved market sentiment and a more optimistic outlook for interest rates, which contributed to lower yields throughout the month. The positive performance in August reinforces the strong year-to-date performance of the bond market, demonstrating resilience amid broader economic uncertainties and providing a stable investment option for risk-averse investors.

Alternative Assets

In August, the Alternatives asset class underperformed, recording a decline of -1.72%. Crude oil, the largest component of the index, was a major contributor to this negative performance, posting a monthly return of -3.55%. Silver also played a significant role in the losses, with a monthly return of -4.17%. Conversely, other precious metals within the index provided some relief; gold delivered a positive return of 3.59%, partially offsetting the overall decline in the sector.

U.S. Real Estate

Outperforming both equities and bonds, the S&P 1500 Real Estate Index posted impressive positive return of 5.41% for August. This positive performance marks a new trend for the sector, which has faced challenges earlier this year. With four consecutive months of gains, the year-to-date performance for the index has now reached 10.66%. The pause in interest rates and optimism for rate cuts in the near-term have helped bolster returns for this sector in recent months.

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