

Markets Mixed as Economy Cools

Market Update JUNE 2024

The month of June saw rising unemployment and a cooling of labor markets, coupled with treasury yields trending lower, resulting in mixed returns across the broad markets. Most equities, including small and mid caps, experienced negative returns while large caps and interest-sensitive asset classes like bonds and real estate posted positive returns as the lower yields pushed prices higher.

In June, with the release of the Personal Consumption Expenditures (PCE) report, inflation metrics demonstrated continued stability following last month's trend. Both Headline PCE and Core PCE showed slight downticks in year-over-year price growth, dropping from 2.68% to 2.56% and from 2.78% to 2.57%, respectively. Similar to last month, a closer look at the month-over-month changes in Core PCE shows further encouraging data, as the reading dropped from 0.26% to 0.08%. While the monthly trend for the past few months is on a positive trajectory, month-to-month data can be volatile, and the Federal Reserve has maintained their cautious stance on rates and appear to be looking for further corroborating positive data.

Another trend that has continued this month is the cooling-off of the US job market. The job gains posted in May have since been revised downward, from the initially reported 272,000 to 218,000, suggesting that the earlier estimates were overly optimistic. Year-over-year average hourly earnings growth have also shown a decline, decreasing from 4.05% in May to 3.86% June. This marks the smallest gain in wages since June 2021, pointing to a slowdown workers' earnings. However, this reduction in wage growth may be a sign that economic headwinds are beginning to normalize, as wage increases in the 3%-3.5% range are seen as consistent with the Federal Reserve's 2% inflation target and would be reflective of a balanced economic environment. While Unemployment has seen its fourth consecutive 0.10% increase, bringing the unemployment rate to 4.10% in June, this remains relatively low compared to historical averages. This, combined with the fact that the 8.14 million available job openings stands well above the 6.36 million job seekers indicates that the labor market remains resilient.

The Federal Reserve has maintained its benchmark interest rate at 5.25-5.50% for the seventh consecutive meeting, reflecting a cautious approach to monetary policy. With the labor market seemingly stabilizing, we may see this cautious stance change if the recent trend in inflation

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continues. In his testimony to Congress on July 9th, Fed Chair Jerome Powell provided insights into the Fed's perspective on the current economic landscape. He noted that the U.S. is "no longer an overheated economy," with a job market that has cooled from its pandemic-era extremes and, in many ways, has returned to pre-crisis conditions. "We are well aware that we now face two-sided risks," Powell told the Senate Banking Committee. "We can no longer focus solely on inflation. The labor market appears to be fully back in balance." Powell's remarks indicate a shift in the Federal Reserve's approach, acknowledging the need to consider both inflation and other economic factors, such as employment stability, in their policy decisions. They also suggest a growing case for potential interest rate cuts in the near future and highlight the evolving challenges of taming inflation while attempting to navigate a 'soft landing' for the economy.

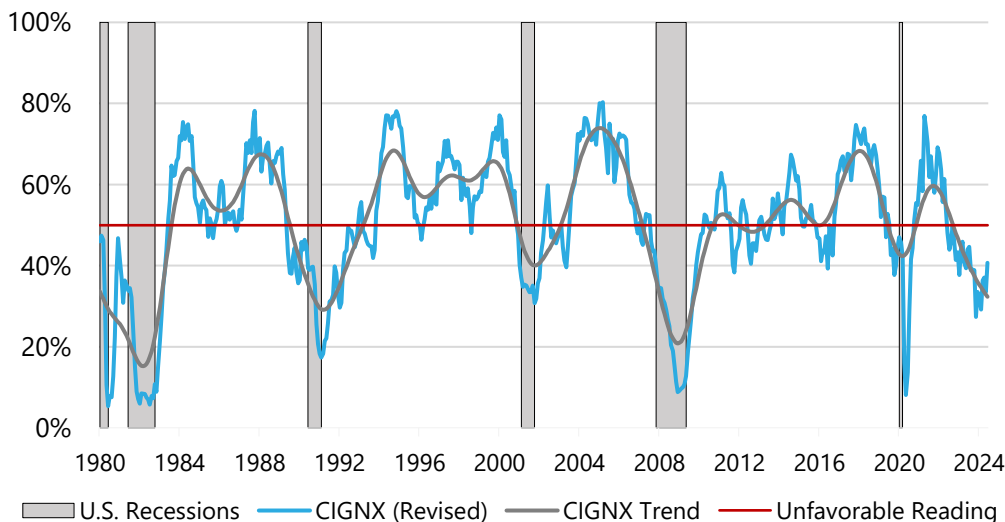
As June concluded, large-cap stocks continued their outperformance in 2024, closing out the first half of the year on a strong note. The S&P 500 index returned 3.59% for the month, bringing its year-to-date return to an impressive 15.29%. Conversely, small caps have struggled, not just this year but over the past few years. With the S&P 600 down 0.72% year-to-date. This performance gap between the two indices can be partially explained by their respective sector compositions. The S&P 600 has a larger weight in traditional sectors like real estate and industrials and is underweight technology, while the S&P 500 has benefitted from a much larger allocation to technology stocks. Additionally, small-cap stocks are generally more sensitive to uncertainty, interest rates, inflation, and economic cycles. The higher inflation, rising rates, lingering economic challenges from COVID-related disruptions, and Fed tightening we have seen recently have unsurprisingly contributed to the underperformance of the S&P 600.

Bonds on the other hand have experienced positive returns as yields fell, with the 10-year treasury dropping from 4.51% down to 4.36% last month. This is partly attributable to cooler economic data and a higher probability of rate cuts in the near-term than initially expected at the beginning of the month.

MARKET SENTIMENT = **MIXED**

Signal Update JUNE 2024

CIGNX = 40.7

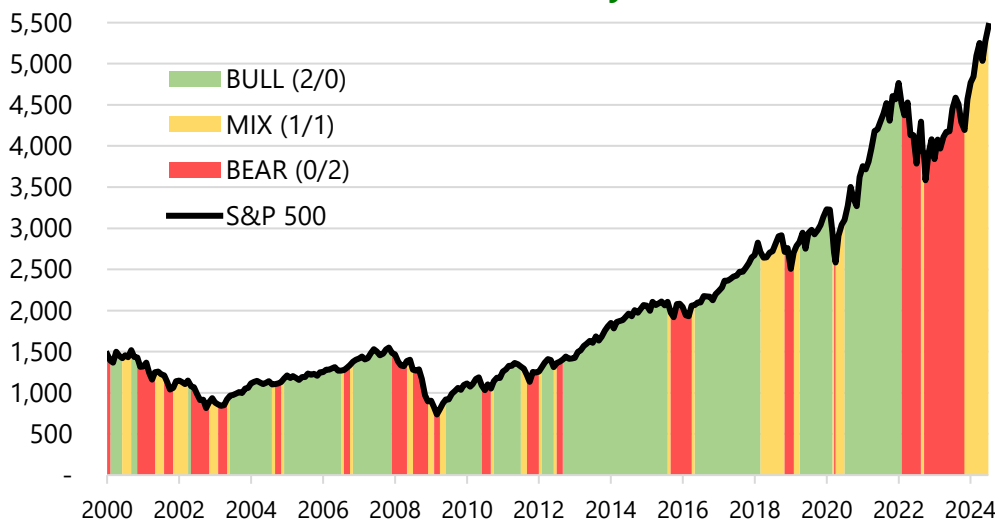


Our **CIGNX** Economic Indicator has a reading of **40.7**, up from last month's revised reading of **33.5**. Despite the increase from last month, the reading is still indicative of sluggish economic activity and a continued unfavorable trend in the economy. This remains well below our baseline threshold of **50.0**, indicative of unfavorable conditions, and hovering right at the secondary baseline reading of **40.0**, which we typically interpret as the economy experiencing recessionary conditions. **Our overall economic outlook remains negative.**

MONTH (2023)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
CIGNX (Revised)	32.4	29.2	36.4	37.1	33.5	40.7						
CIGNX Trendline	35.3	34.7	34.1	33.5	32.9	32.3						

ALPHA = Positive (Buy)

OMEGA = Negative (Sell)



Our short-term (**Alpha**) signal remained **Positive** during the month of June, 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 (2023)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ALPHA	BUY	BUY	BUY	BUY	BUY	BUY						
OMEGA	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	3.59%	-1.58%	-2.28%	0.95%	1.43%	2.00%
Year to Date	15.29%	6.17%	-0.72%	-0.71%	11.08%	-2.47%

Market Review JUNE 2024



U.S. Lg Cap Stocks

The S&P 500 Index followed up its strong performance in May with another solid return last month, experiencing a return of 3.59% in June. The Dow Jones Industrial Index, another large-cap index, only saw a return of 1.23%, and the S&P 500 Value Index was in the red with a return of -0.65%, indicating growth companies are continuing to drive most of the markets' performance. Year-to-date, the outperformance of large caps relative to mid and small caps has been quite impressive, with large tech company names primarily dominating the rally this year.



U.S. Md Cap Stocks

The S&P 400 Index experienced negative returns for June, declining by 1.58%. The year-to-date performance has lagged large caps considerably, reflecting broader market challenges faced by mid-cap stocks. However, the S&P 400 Index have still managed to outperform small caps both for the month of June as well as year-to-date, highlighting a relatively better performance within the mid-cap segment compared to smaller companies. This trend suggests that while mid-caps have faced headwinds, they have been more resilient in the current market environment.



U.S. Sm Cap Stocks

The S&P 600 Index underperformed both large and mid-cap segments with a return of -2.28% for the month. The spread of outperformance between small and large-cap stocks continues to widen, as small caps are more sensitive to the overall uncertainty of the economy. This increased sensitivity makes small caps more vulnerable to market fluctuations and economic instability, highlighting the challenges faced by smaller companies in the current environment.



U.S. Bonds

Bond markets have seen another month of positive returns in the month of June, returning 0.95% for the month. This positive performance provides a welcome respite for investors, reflecting improved market sentiment and a more favorable outlook for interest rates in the near term, which pushed yields lower in June. However, despite the positive returns for the month, bond markets remain negative for the year, as expectations of lower rates have not yet come to fruition, and inflation remains an ongoing issue.



Alternative Assets

Alternatives experienced a rebound in June following May's relatively poor performance, with a return of 1.43%. This positive performance positions alternatives as the second-best asset class year-to-date, boasting returns of 11.08%. Crude oil, the largest holding in the index, played a significant role in these gains, posting a robust return of 6.83% for June. This substantial contribution from crude oil helped to offset weaker performances within the index. Meanwhile, the S&P GSCI Gold and Silver indices lagged the broader GSCI index with June monthly returns of 0.15% and -3.53%, respectively.



U.S. Real Estate

Following large caps, bonds, and alternatives, the S&P 1500 Real Estate Index also posted positive returns of 2.00% for the month of June. This positive performance marks a rebound for the sector, which has faced challenges thus far this year. Despite the gains in both May and June, the year-to-date return for the index trails all other asset classes at -2.47%, reflecting the ongoing volatility and uncertainties in the real estate market amidst elevated interest rates and economic headwinds.

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