

July 2024

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 7/31/2024

Global Overview

Equities continued their positive momentum from June into July where optimistic investor sentiment in anticipation of rate cuts caused a rally within smaller cap names. Accordingly, the Russell 2000 and S&P Small Cap 600 led the charge with returns of 10.2% and 10.8%, respectively, for July. Rate cuts tend to drive the market dynamic of a rotation into small caps due to expectations of increased consumption and lower borrowing cost that will more strongly benefit small caps under a declining rate regime. The S&P 500 continued its upward trend posting a 1.2% return, while the NASDAQ decreased by 0.8% reflecting investor concerns over the market concentration in big tech and AI-driven companies.

U.S. Markets & Economy

The second half of the year kicked off on a largely positive note, as a favorable inflation print led to outperformance in some of the major market indices. The S&P 500 gained 1.2% in July as over half of the index's companies had reported and two thirds beat analyst expectations, suggesting a resilient U.S. economy and a widening of earnings growth. The Russell 2000 posted a return of 10.2%, while the NASDAQ fell by 0.8%, leading to the largest one-month outperformance of the small cap index versus the NASDAQ in over 20 years. The Conference Board Consumer Confidence Index rose in July to 100.3, from a downwardly revised 97.8 in June. Initial Jobless Claims climbed in July by 14,000 to 249,000, while U.S. Continuing Jobless Claims also rose to 1.9M, the highest level since November of 2021. The housing market continues to be stressed as existing home sales fell 5.4% in June and housing inventory increased by 3.1%, which is up 23.4% year-over-year and demonstrates that higher mortgage rates of 7% or more have affected consumer demand. July's ISM Manufacturing PMI missed analyst expectations, falling to 46.8 from 48.5 in June as companies have continued to show an unwillingness to invest in capital and inventory due to current Fed monetary policy and other conditions. The Federal Reserve held its key Fed Funds Rate at 5.5% at the July 31st meeting, which marks the eighth consecutive meeting that the Fed has left rates unchanged. However, the Fed did acknowledge the weaker than expected US CPI numbers, combined with weaker labor market data. Investors are now expecting the first rate cut in September and are pricing in approximately three rate cuts, with around 150 bps of cuts by June of 2025. Growth stocks were particularly weak in the month as investors grew skeptical about the potential for future returns from artificial intelligence as the Russell 1000 Growth index fell by 1.7%, while the Russell 1000 Value gained 5.1%. Despite this month's setback, the large growth index has returned 18.7% year-to-date and leads its value counterpart by 657 basis points.

In the fixed income space, Treasury yields continued their downward momentum from June into July as the 10-year Treasury yield fell from 5.48 to 5.41. The spread between the 2- and 10-year Treasury yields also continued its decrease in inversion as spreads narrowed to 20 basis points. As a result, the Bloomberg U.S. Aggregate Index posted a 2.3% return in July. Investment Grade and High Yield securities also increased, as the Bloomberg U.S. Govt/Credit and the ICE BofA US High Yield indices posted returns of 2.2% and 2.0%, respectively. Both investment grade corporate and high yield spreads increased over the month going from 93 to 106 bps in investment grade, and 323 to 372 in high-yield.

International Markets & Economy

Across the pond, the increasing likelihood of a two-term government and the growing political capital of the new Prime Minister, Keir Starmer, raised hope for improvement in the UK's labor shortages and weak productivity growth. The brightened UK sentiment contributing to the FTSE 100's positive 2.5% return for the month. France's market stabilized somewhat from the selloff that took place during last month's political turmoil, with the CAC-40 Index recording a modest 0.7% increase in July. The Summer Olympic Games started on July 26th and is set to boost the French economy,

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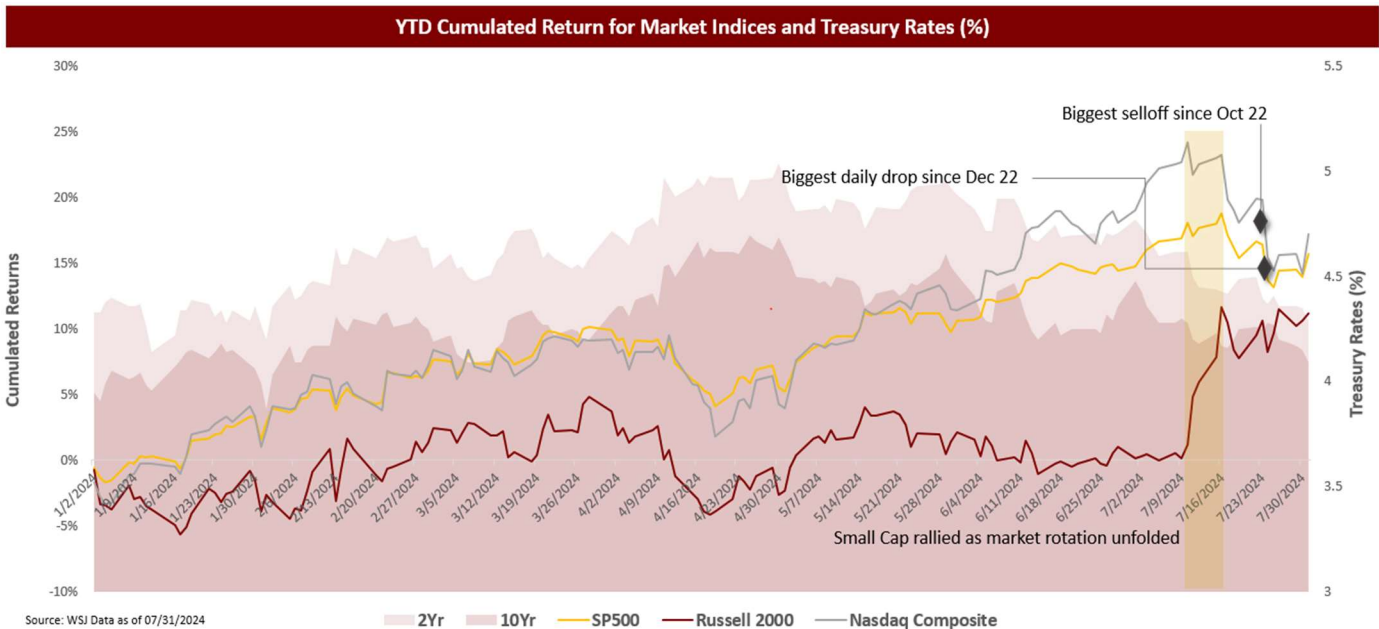
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with services PMI increasing to 50.7 in July from 49.6 in June, beating forecasts of 49.8 points. The manufacturing PMI, on the contrary, fell to 44.1 points from 45.4 in June, raising concerns for the broader Eurozone economy. Shrinking economic activity in France and German dragged down the Eurozone, and its Composite PMI fell to 50.1 from previous month's 50.9, hitting a 5-month low. In Japan, the Nikkei 225 Index fell 1.2%, underperforming other major indexes from developed economies. The decline can be partly attributed to weakness in global tech stocks, but was primarily pressured by the strengthening Yen versus other major currencies. Expectations of Fed and ECB interest rate cuts have become the consensus while the Bank of Japan firmly pursues monetary normalization by increasing interest rates and unveiling plans to halve bond purchases on July 31st. Despite the slowing down economy in Eurozone and the surging Yen, the MSCI EAFE gained 2.9% in July. China's economic woes continued as its domestic consumption is still suppressed by the falling property values, which account for 70% of household wealth. Retail sales growth sank to an 18-month low due to broad deflationary pressures. The Chinese government unexpectedly announced a series of short and long-term interest rate cuts to boost lending in the economy. The MSCI China Index recorded a 2.3% drop as market confidence waned regarding the government's management of the economic downturn after the country's key central meeting held in July. The MSCI Emerging Markets Index increased 0.3%, showing resilience in some of the developing economies and increased risk appetite among global market uncertainties.

In the News

The small cap rally in the second half of July was ignited by multiple factors ranging from market sentiment, investors' anticipation of the Fed's rate cut moves, and big tech companies' second quarter earnings. While the market has already been concerned over the fully stretched valuations of big tech companies, the rotation started as market expectations on multiple rate cuts in September materialized after the release of the inflation report. As shown in the chart below, June's rally in the Russell 2000 could be an indication of a shift in market sentiment as news of an easing cycle would positively affect the asset class. Given the smaller size and relatively less liquidity of the small cap market, a small change in market sentiment could make returns competitive to their large cap counterparts as investors are finding competitive earnings growth in the space at lower price-to-earnings premiums. As of the end of July, 231 companies in the Russell 2000 reported 16.4% average year on year earnings growth, with 68% of the companies beating analyst expectations. The Russell 2000 Value grew 12.9% in July, versus the Russell 2000 Growth's 8.2% increase, showing the market's preference for quality companies with healthier debt structuring as uncertainty with rate cuts remains at the forefront.

Chart of the Month



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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	1.76	8.47	13.72	18.34	6.85	12.06	9.53
	Bloomberg US Agg Bond TR USD	2.34	5.06	1.61	5.10	(2.63)	0.19	1.61
	Russell 3000 TR USD	1.86	9.97	15.67	21.07	8.11	14.23	12.58
	DJ Industrial Average TR USD	4.51	8.53	9.52	17.22	7.52	11.06	11.96
	NASDAQ Composite PR USD	(0.75)	12.40	17.24	22.68	6.25	16.57	14.95
	MSCI EAFE NR USD	2.93	5.19	8.43	11.21	3.63	7.36	4.84
	FTSE Treasury Bill 3 Mon USD	0.47	1.39	3.24	5.65	3.33	2.28	1.58
	Bloomberg Commodity TR USD	(4.04)	(3.85)	0.90	(5.17)	3.58	6.51	(1.19)
Domestic Equities	S&P 500 TR USD	1.22	10.05	16.70	22.15	9.60	15.00	13.15
	S&P MidCap 400 TR	5.81	8.70	12.33	15.41	6.33	11.26	10.24
	S&P SmallCap 600 TR USD	10.80	13.73	9.99	14.10	4.04	10.05	9.97
	Russell 1000 TR USD	1.46	9.75	15.90	21.50	8.52	14.59	12.86
	Russell 1000 Growth TR USD	(1.70)	11.21	18.65	26.94	9.46	18.41	16.31
	Russell 1000 Value TR USD	5.11	7.42	12.08	14.80	7.01	9.92	8.96
	Russell Mid Cap TR USD	4.71	6.99	9.91	13.69	3.69	10.16	9.88
	Russell Mid Cap Growth TR USD	0.61	3.38	6.62	12.35	(0.22)	9.55	10.92
	Russell Mid Cap Value TR USD	6.04	8.09	10.86	13.79	5.48	9.59	8.56
	Russell 2000 TR USD	10.16	14.62	12.07	14.25	1.85	8.91	8.72
	Russell 2000 Growth TR USD	8.19	13.79	12.99	12.80	(1.12)	7.64	8.92
	Russell 2000 Value TR USD	12.19	15.45	11.23	15.68	4.62	9.53	8.13
International Equities	MSCI ACWI Ex USA NR USD	2.32	5.19	8.14	9.75	1.79	6.29	4.18
	MSCI EAFE NR USD	2.93	5.19	8.43	11.21	3.63	7.36	4.84
	MSCI EAFE Growth NR USD	1.23	4.62	7.53	8.60	(0.08)	6.80	5.79
	MSCI EAFE Value NR USD	4.69	5.78	9.39	13.90	7.26	7.53	3.66
	MSCI Japan NR USD	5.80	6.45	12.43	16.20	4.67	7.80	6.07
	MSCI AC Asia Ex Japan NR USD	(0.13)	5.74	9.60	6.24	(3.33)	3.85	3.77
	MSCI Europe NR USD	2.15	4.69	8.08	10.68	3.98	8.01	4.78
	MSCI United Kingdom NR USD	4.20	6.05	11.40	13.32	8.07	6.98	3.21
	MSCI EAFE Small Cap NR USD	5.70	6.93	6.24	9.09	(2.10)	5.50	5.12
	MSCI EM NR USD	0.30	4.84	7.81	6.27	(2.74)	3.41	2.63
Fixed Income	Bloomberg US Govt/Credit TR USD	2.24	4.78	1.55	5.12	(2.82)	0.35	1.74
	Bloomberg US Govt/Credit Interm TR USD	1.88	3.93	2.37	5.87	(0.81)	1.09	1.76
	Bloomberg US Govt/Credit Long TR USD	3.35	7.43	(0.88)	2.83	(8.34)	(1.72)	1.95
	ICE BofA US High Yield TR USD	1.96	4.11	4.63	11.03	2.19	4.03	4.55
	Credit Suisse HY USD	1.76	3.71	4.55	10.69	2.47	4.05	4.46
	Morningstar LSTA US LL Index TR USD	1.61	8.09	13.10	17.02	5.75	11.05	8.74
	FTSE WGBI NonUS USD	3.37	3.38	(3.01)	0.27	(8.95)	(4.26)	(2.00)
	Bloomberg Gbl Agg Ex USD TR USD	3.15	3.66	(2.27)	1.17	(6.98)	(2.82)	(1.42)
REITs	FTSE Nareit All REITs TR	7.12	15.10	4.76	10.91	(0.99)	4.10	6.60
	Wilshire US REIT TR USD	5.45	14.12	5.17	11.08	0.43	4.80	6.47

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

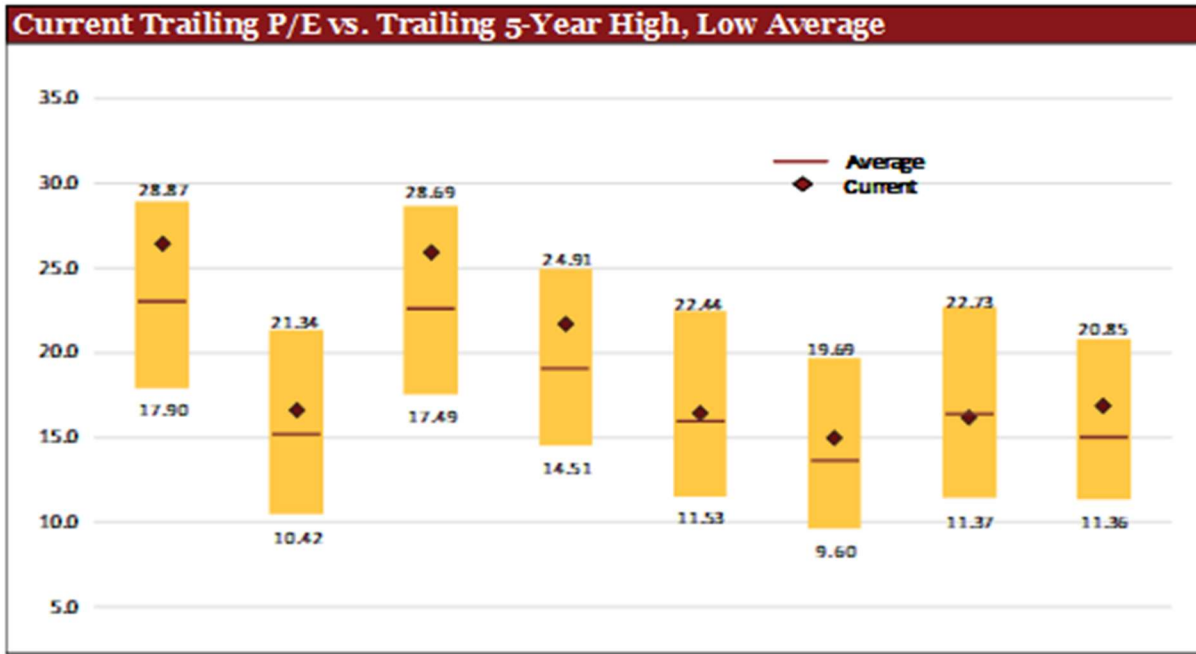
Source: Morningstar

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	S&P 500	Russell 2000	Russell 1000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Mar-21	Mar-21	Mar-21	Mar-21	Mar-21	Jan-21	Mar-21	Jan-21
Low Month	Mar-20	Sep-22	Sep-22	Sep-22	Sep-22	Oct-22	Sep-22	Sep-22

Source: Morningstar; Data as of 7/31/2024

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates ³ per US \$		Inflation ²
	Latest ¹	2024 ¹	2025 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	2.80	2.60	1.80	4.30	4.04	-	-	3.30
China	0.70	4.90	4.50	5.00	2.15	7.16	7.19	0.60
Japan	-0.50	0.50	1.10	2.50	1.06	146.98	143.21	2.60
United Kingdom	0.70	0.40	1.00	4.40	3.97	1.28	1.27	3.50
Euro Area	0.30	0.70	1.50	6.50	3.12	1.09	1.09	2.90
Germany	-0.10	0.20	1.10	6.00	2.30	1.09	1.09	2.90
France	0.30	0.70	1.30	7.50	3.01	1.09	1.09	1.80
Italy	0.20	0.70	1.20	7.00	3.65	1.09	1.09	1.90
Canada	0.40	1.00	1.80	6.40	3.16	1.38	1.33	1.90
India	1.90	6.60	6.60	9.20	6.93	83.59	82.16	4.75
Mexico	0.20	2.20	2.00	2.80	10.16	19.00	17.04	4.13
Brazil	0.80	1.90	2.10	6.90	11.98	5.74	4.81	4.66

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD

2. In terms of Core CPI

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

4. Germany, France, and Italy currency exchange rates are taken at the Euro Area exchange rates

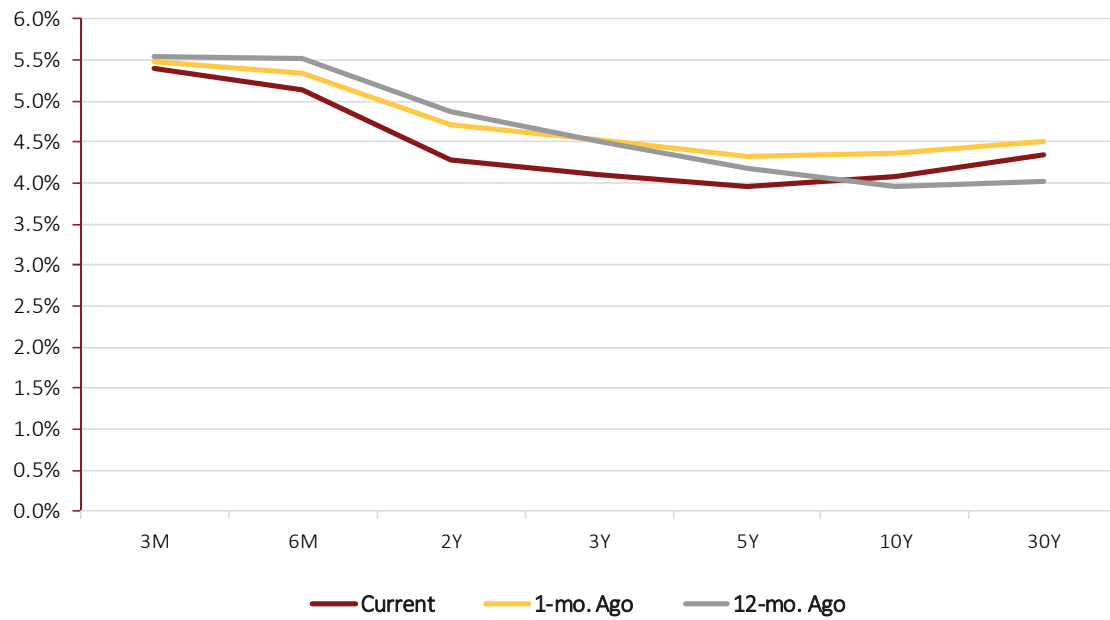
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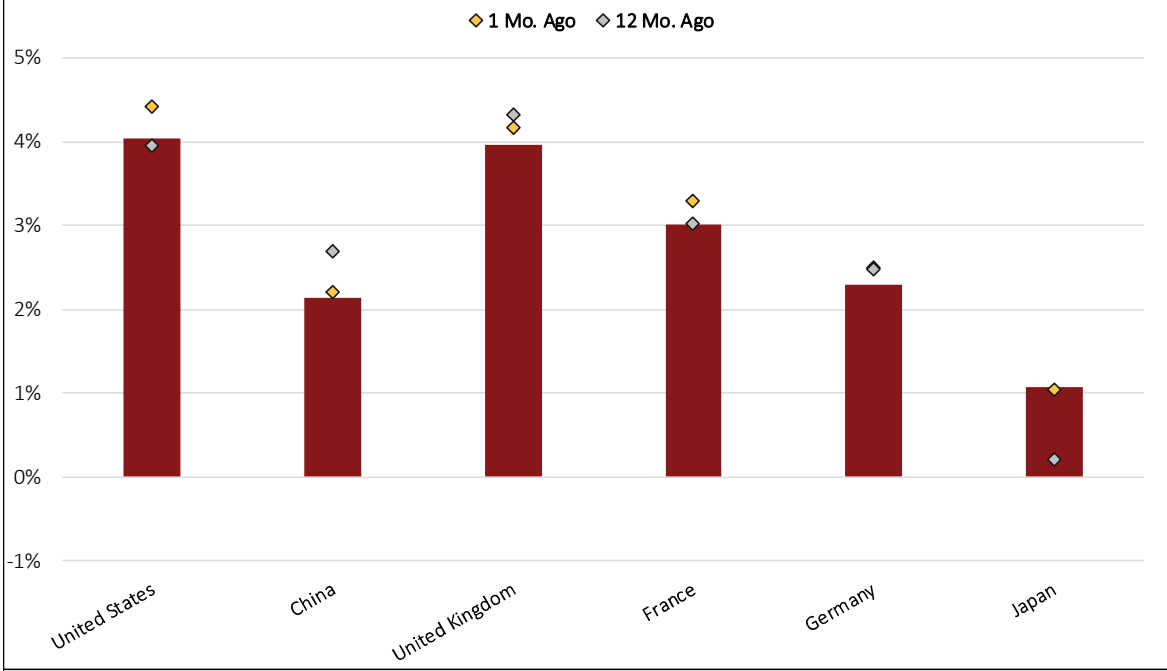
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U.S. Treasury Yield Curves



Source: Federal Reserve Bank of St. Louis, U.S. Department of the Treasury

10-Year Sovereign Yields



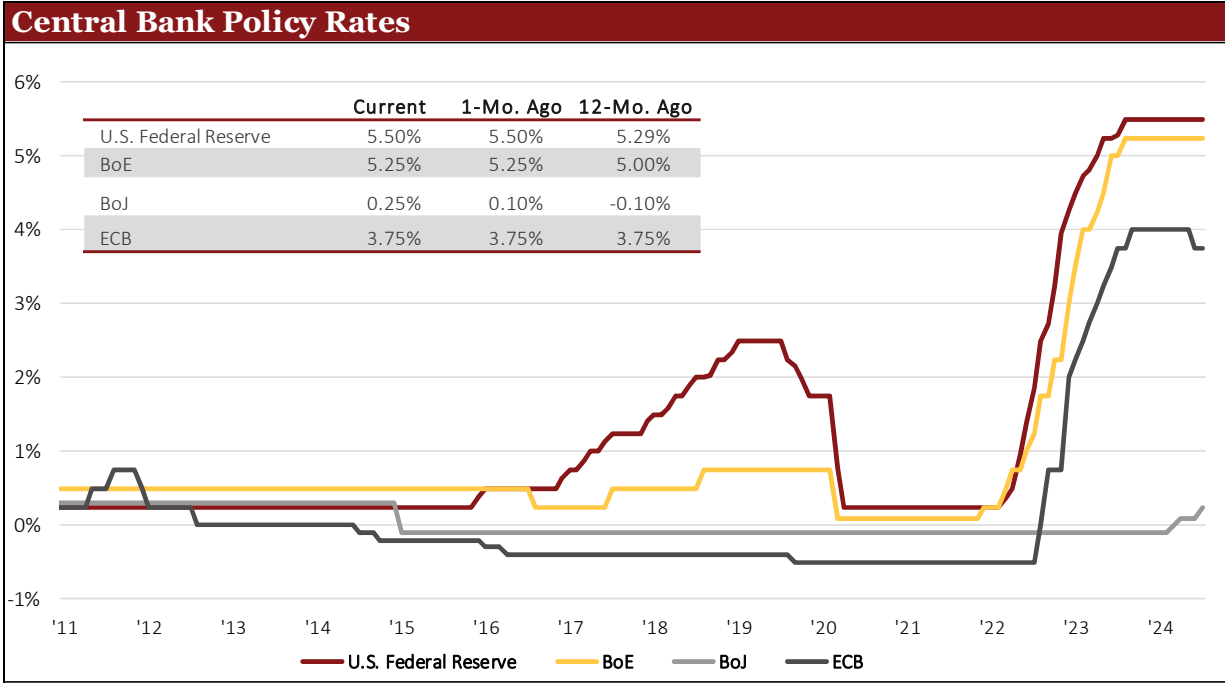
Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics; Data as of 8/1/2024

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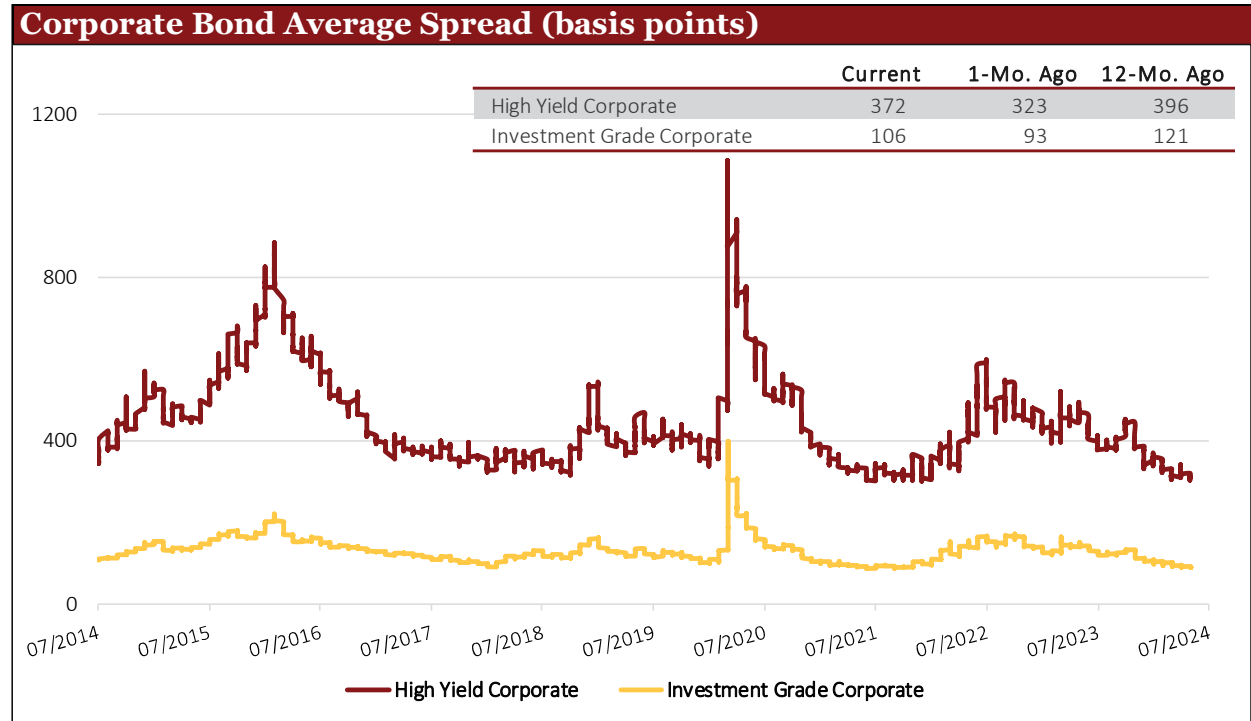
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Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics



Source: Federal Reserve Bank, Bank of America