



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.



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.



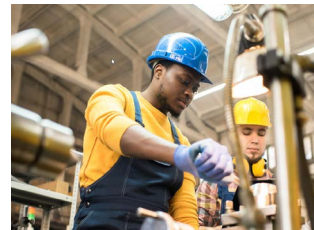
Consumer Price Index (CPI)
June (Wednesday)
Consumer inflation slowed on a monthly and year-over-year basis in June. Year-over-year, core consumer inflation fell to its lowest level in more than three years and headline price growth matched a three-year low.

- 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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Authored by the Investment Research team at Commonwealth Financial Network®

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