
Lancaster, Pennsylvania

WEEK OF AUGUST 12, 2024

Market Update

Equities recovered after a two-day sell-off amid a Japanese carry trade scare. Bonds gave back much of their gains, as investors returned to risk assets later in the week.

Quick Hits

1. **Report releases:** Service sector confidence improved more than expected in July.

2. **Financial market data:** Equities recouped losses amid a Japanese carry trade scare.

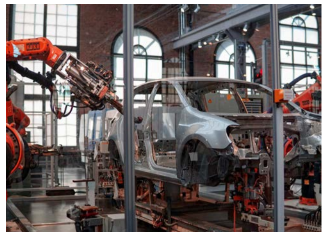
3. **Looking ahead:** This week will be busy on the data front, with inflation, retail sales, and consumer sentiment all expected.

Report Releases: August 5–9, 2024

S&P Global U.S. Composite Purchasing Managers' Index (PMI):
July
(Monday)

The U.S. Composite PMI fell to 54.3, down from 55.0. The services sector led the move as its PMI fell from 56.0 to 55.0. Manufacturing fared better, increasing to 49.6 from 49.5, but still in contractionary territory.

- Prior U.S. Composite PMI: 55.0
- Actual U.S. Composite PMI: 54.3



Institute for Supply Management (ISM) Services
July
(Monday)

Confidence in the services sector rebounded sharply in July after briefly falling into contractionary territory in June.

- Expected/prior ISM services index: 51.0%/48.8%
- Actual ISM services index: 51.4%

Trade Balance
June
(Tuesday)

The trade deficit fell less than expected in June. Despite the miss against expectations, this represents the smallest monthly deficit in three months.

- Expected/prior trade deficit: –$72.5 billion/–$75.0 billion
- Actual trade deficit: –$73.1 billion

Richmond Federal Reserve (Fed) President Tom Barkin
(Thursday)

Despite the volatility in rates recently, Richmond Fed President Tom Barkin said the central bank has time to assess whether the economy is normalizing or if it's softening. He noted risks to both sides of the Fed's mandate but was optimistic on broadening disinflation.

>> The Takeaway

- Services showed conflicting data in July, with ISM showing strength and PMI showing weakness.
- The Fed remains optimistic about continued broadening disinflation.

Financial Market Data

Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.02%	–2.02%	12.96%	21.42%
Nasdaq Composite	–0.17%	–5.54%	12.00%	23.12%
DJIA	–0.56%	1.11%	5.95%	14.77%
MSCI EAFE	–0.29%	–1.23%	4.05%	9.87%
MSCI Emerging Markets	0.27%	–1.60%	5.77%	8.15%
Russell 2000	–1.32%	1.71%	3.48%	9.41%

Source: Bloomberg, as of August 9, 2024

U.S. equities were down on the week, although recovered from a major sell-off on Monday. International markets fared a bit better. Monday's sell-off is thought to be due to an unwinding in the Japanese yen carry trade that has been in place for an extended period. Those participating in the trade had historically borrowed at a very low cost due to Japan's low interest rate policy and invested elsewhere. This went awry recently, as Japan recently hiked rates and central banks such as the U.S. Fed left their rates unchanged. This led to a strengthening Japanese yen, which offset any gains from borrowing at low rates.

Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.74%	2.36%	6.31%
U.S. Treasury	0.85%	2.17%	5.31%
U.S. Mortgages	0.87%	2.52%	6.16%
Municipal Bond	0.51%	1.01%	5.17%

Source: Bloomberg, as of August 9, 2024

The yield curve reversed much of its move from last Friday and Monday as the belly of the curve plunged, as investors looked to lock in elevated short- to intermediate-term rates amid concerns in risk assets. The U.S. 5-year treasury finished up by 18 basis points (bps) to close the week at 3.8 percent.

>> The Takeaway

- Equities recovered from the sharp sell-off at the start of the week, as Japanese carry trade fears eased.
- Bonds gave back much of their gains from Friday and Monday, as investors returned to risk assets and yields rose.

Looking Ahead

This week will be busy on the economic front. The focus will be on inflation, retail sales, and consumer sentiment.

- The week kicks off on Tuesday with the release of the **Producer Price Index** for July. Producer prices are set to rise 0.2 percent in July, which would be in line with June's increase.
- On Wednesday, we expect to see the release of the **Consumer Price Index** for July. Year-over-year consumer inflation is expected to remain flat at 3.0 percent following a larger-than-expected slowdown in June.
- July **retail sales** will highlight Thursday's data. Retail sales are set to rise by 0.3 percent in July after coming in flat in June. Core sales are set to show a more modest 0.2 percent increase.
- Finally, on Friday the **Preliminary University of Michigan Consumer Sentiment Survey** for August will be released. The first look at consumer sentiment in August is expected to show modest improvements during the month.

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

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Mike Graziano, CMT®, CRPC®, CFP®, Chief Investment Officer
Graziano Budny Wealth Management Group, LLC
6143 S Willow Drive | Suite 310 | Greenwood Village, CO 80111
720.583.6363 | 720.458.0773 fax | www.grazianobudny.com | mgraziano@grazianobudny.com

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