Marketline July 2024

Stocks:

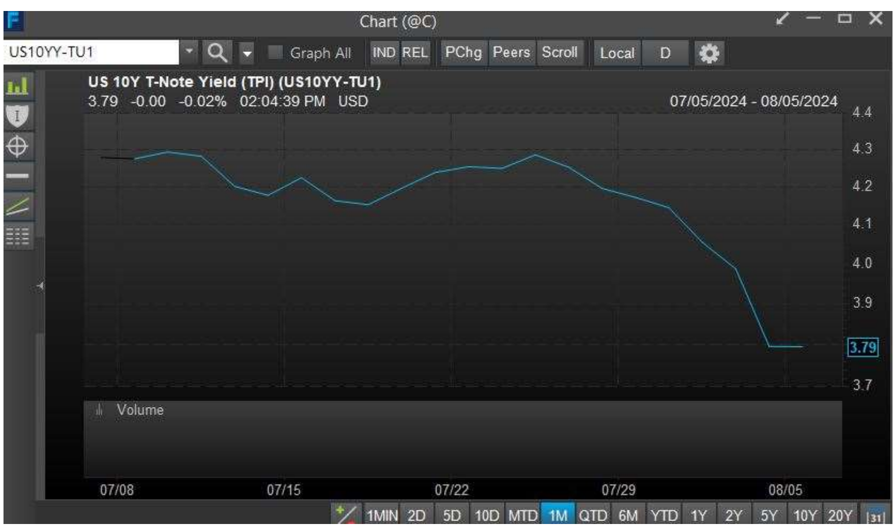
Last month's *Marketline* is so "old hat". We reminded investors that most of the return from buying "the market" over the last ten years has come from technology stocks – but in July, and continuing into August, that sector dished up disappointment after posting strong numbers nearly every month this year. Returns from technology are in no way over, but certainly, we're in a rough patch. During July, the tech-lite Dow rose 4.4% - a very healthy gain for a single month – and the S&P 500 managed 1.1%. But the NASDAQ, replete with technology companies, declined 0.8%. Small-cap stocks stormed upward, and sector shifts brought REITs, which have seen a performance drought lasting for many moons, to the top tier. In fact, the month could be nominated "Revenge of the Boring", as utilities and financial stocks rounded out the top three in the return derby. Overseas, results were similarly dispersed, with Canada rising over 5%, Europe up a solid 2.5%, and Mexico lagging at 1.2% .

If there's any takeaway from these numbers, it's that technology investing is volatile in both directions – a fact we forget on the upside. Of course, as we write this, the stock market is performing one of its nearly-annual corrections, so it's not just tech that's declining here in the short term. It's difficult to say why prices fall at any particular time, but these last few days are more transparent than most: earnings have undershot expectations at a few companies, most notably those involved in artificial intelligence; many stocks are priced to perfection; and the Fed has kept short term interest rates high which is finally suppressing the job market somewhat.

Evaluating whether a downdraft in stocks is just one more of the many normal bouts of volatility or something more impressively bad is almost impossible at the front end of the event; mostly we only know that in hindsight. For investors eager to achieve long-term growth, we nearly always view declines as buying opportunities because the stock market rises far more than it falls. And for more conservative investors, the good news is that bonds are rallying steeply, with their prices rising – helping to offset the decline in stocks.

Bonds:

July sparked a big rally in bonds that has continued here in August. The one-year note yield declined from 5.11% to 4.75%, while the thirty-year dropped from 4.56% to 4.32%. That's nothing compared to the curve here three days later, nearly all of which is sitting below 4%. Here's the ten-year, which closed just a few days ago at 4.05%, and is now at 3.79%:



That lower ten-year yield might provoke a flush of home buying and refinancing if it stays down here for a while.

We've written plenty about the inverted yield curve – when short-term interest rates are above long-term rates – but that is now shifting. The curve is becoming positively-sloped again, at least in parts.

Our old tactic of selling certain bonds in order to "swap" to higher-yielding issues is starting to work again. We've sold a municipal issue or two and are looking at selling a few intermediate corporates – if we can improve the outcome for investors.