PACIFIC GLOBAL

Investment Update • July 2024

Enthusiasm for artificial intelligence (AI) stocks, along with optimism for lower interest rates, led to uneven results in the equities markets. The prospect for a soft economic landing continued as the labor market, while cooling, remained strong, and wage growth continued to outpace inflation. And, most measures of inflation trended downward. Year-over-year, the Consumer Price Index (CPI) dropped from 3.5% in March to 3.0% in June while the core CPI slowed from 3.8% to 3.3%. The Producer Price Index (PPI) rose year-over-year from 2.2% in March to 2.6% while the core PPI rose from 2.1% to 3.0%. Persistent concerns over high prices drove consumer sentiment from a multi-year high of 79.4 in March to 66.0 in July. For the quarter, technology names dominated as the Nasdaq added 8.26%. **The S&P 500® Index added 3.92% even though 58% of stocks in the S&P 500® declined during the quarter.** The Dow Jones Industrial Average lost 1.73% and the Russell 2000® Index lost 3.62%.

Federal Reserve Chair Powell, following the mid-June meeting, which, as expected, left the fed funds rate unchanged, acknowledged "modest further progress" towards the 2% inflation target. Chair Powell reiterated the Fed's "higher for longer" posture and stressed the "data driven" process in determining monetary policy. The Fed's updated Summary of Economic Projections (SEP) anticipates only one interest rate cut this year (lowered from three in the March SEP) followed by multiple rate cuts in both 2024 and 2025.

Once again, AI-related investing drove much of the market momentum during the quarter; the S&P 500®and the technology-heavy Nasdaq each rose 8 weeks during the quarter, one better than both the Dow and the Russell 2000®. The job market expansion continued with the addition of 532,000 jobs, a 34% decline from the prior quarter's revised 802,000. The unemployment rate rose steadily from 3.8% to 4.1% while the hourly wage increase declined slightly from 4.1% in March to 3.9% in June.

Prices for West Texas Intermediate varied within a $77.00-$84.00 range per barrel, ending the quarter at $81.52 pb. In early June, OPEC+ countries agreed to extend a series of production cuts aimed at raising prices; these may have limited effect, however, due to offsetting production increases in the U.S., Canada and elsewhere. Also, global oil demand slowed as oil consumption in China declined after a 10% annual increase in 2023. In short, supply and demand remained reasonably balanced considering country-by-country variables, and geo-political tensions.

The ISM Services Index, an economic barometer based on a monthly survey of over 400 services firms in over 15 industries, initially rose from 51.4 in March to 53.8 in May before tumbling to 48.8 in June; the ISM Manufacturing Index, based on a survey of over 300 manufacturing firms, fell steadily during the quarter from 50.3 in March, the first month of expansion in 16 months, to 48.5. Consumer spending turned somewhat volatile, with monthly results ranging from 0.5% in March to -0.2% in May, with no change in June. Collectively, these reports suggest a slowdown.

Equity Investment Review

Market Review • June 30, 2024		
INDEX [1]	CLOSE	YTD PRICE RETURN
Dow Jones Industrial Average	39,118.86	3.79%
S&P 500® Index	5,460.48	14.48%
Nasdaq	17,732.60	18.13%
Russell 2000® Index (small cap)	2,047.69	1.02%
	06/30/24	12/29/23
10-Year T-Note Yield	4.36%	3.88%

Data: Bloomberg; Federal Reserve.

Results for the four major indices diverged during the quarter: the technology-heavy **Nasdaq** (8.26%) and the **S&P 500® Index** (3.92%) advanced while the **Dow Jones Industrial Average** (-1.73%) the **Russell 2000® Index** (-3.62%) declined.

Only five of the eleven market sectors in the S&P 500® Index rose during the quarter. Based on total return, only *Information Technology* (13.79%), *Communication Services* (9.38%) and *Utilities* (4.44%) outperformed the Index while *Consumer Staples* (1.35%) and *Consumer Discretionary* (0.64%) also advanced. *Health Care* (-0.96%), *Financials* (-2.00%), *Energy* (-2.42%), and *Industrials* (-2.89%) declined. The ***Magnificent Seven*** technology giants **were amongst the Index's best performers**. **Chip-maker *Nvidia* alone drove 44% of the Index's gains.**

Fixed Income Investment Review

Treasury yields rose across all maturities. The yield on the 3-month U.S. Treasury Bill rose just 2 basis points (bps) to 5.48%. Market forces drove modest increases on intermediate and longer-maturity bonds: the yield on the 2-year U.S. Treasury Note rose 12 bps to 4.71%; similarly, the yield on the 10-year U.S. Treasury Note, which ranged between 4.20% and 4.70% during the quarter, rose 16 bps to close at 4.36%. The yield on the 30-year Bond rose 17 bps to 4.51%. During the quarter, we continued to favor intermediate-term bonds which offered attractive interest income and limited volatility. We targeted bonds maturing in three-to-seven years.

Looking Ahead

The continued speculation about a soft economic landing, and the Fed's anticipated, even if delayed, interest rate announcement will dominate sentiment. In early July, Fed Chair Powell commented that the recent positive inflation data increased the Fed's confidence in reaching the 2% target; he suggested that the Fed doesn't need to wait until inflation hits 2% before cutting rates, stating, "If the Fed waits for inflation to get to 2% to cut, it has waited too long."

These comments, which represent a shift in monetary policy, could have a positive impact on economic activity and reduce the concentration in the performance of the S&P 500®. Other Fed spokespersons have signaled that they are watching the job market carefully, wary of overdoing their inflation-fighting efforts by keeping interest rates too high for too long. Economic data show signs of deflation which the Fed will closely monitor in determining the timing of rate cuts. The markets anticipate a 90^{+}% probability for a rate cut at the Fed's late September meeting.

The economic outlook, including a GDP forecast in the 2.1%-2.0% range, suggests a moderate level of job creation. The year-to-date monthly average of 222,000 new jobs, while below the averages in recent years (251,000 in 2023 and 357,000 in 2022), is nevertheless impressive. These results support, as Chair Powell indicated, "a path to lower inflation without the kind of labor market pain that has been typical of past tightening cycles."

The latest University of Michigan consumer sentiment survey provides a cautionary tale, however, with four consecutive months of declining sentiment; nearly half of survey participants expressed concerned about high prices and economic uncertainties as the November elections loom. The divergent views between the Republican and Democratic parties will likely shape investor sentiment in the runup to the elections.

Investors, increasingly confident of upcoming interest rate cut(s), are beginning to consider reallocations, especially given the dominant performance, and consequent Index weightings, of technology stocks. Few analysts believe that the outsized valuations of the ***Magnificent Seven*** stocks are sustainable. Further, these outperformers have so distorted the market-cap weighted indices that passive investors buy into overvalued stocks. S&P 500® Index performance may suffer as investors transition to individually selected stocks thereby reversing some of the outsized gains of a few technology stocks. The relative potential for overlooked, *value*-oriented large, small and mid-cap stocks may gain interest as these stocks should disproportionally benefit from lower interest rates. For example, the defense sector's need to replenish arms and equipment due to the conflicts in Ukraine and the Middle East is generating heightened demand for many domestic suppliers. The outlook for volatility in both equities and interest rates remains high as investors react to Fed commentaries, economic data, political headlines and global events.

[1]The Dow Jones Industrial Average is an unmanaged, price weighted measure of 30 US stocks selected by the Averages Committee to represent the performance of all US stocks outside the Transportation and Utilities sectors. The S&P 500® Index, an unmanaged, market-weighted index, measures the large cap segment of the US equities market. The Index covers approximately 75% of the US equities market and includes 500 leading companies in leading industries of the US economy. The Nasdaq Composite is an unmanaged, market-weighted measure of all domestic and international common stocks listed on The Nasdaq Stock Market. The Russell 2000® Index is an unmanaged, market-weighted measure of the stocks of the 2,000 smallest publicly traded companies of the Russell 3000® Index.