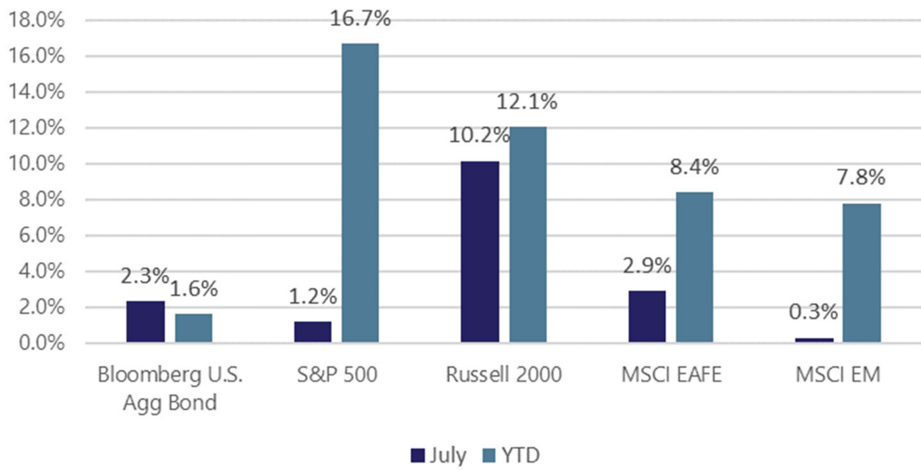
ConradSiegel

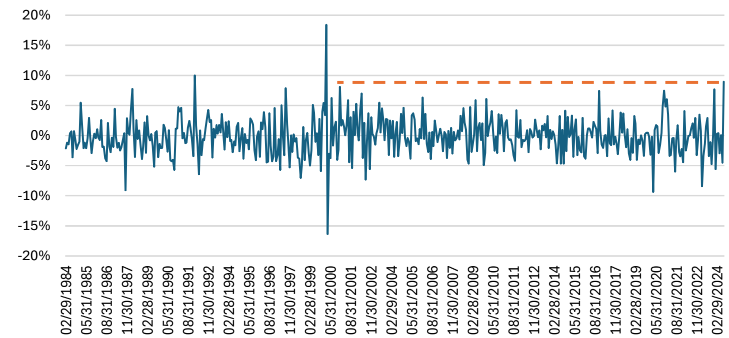


## Performance




## Small Caps Shine

The stock rotation that occurred in the second week of July was sudden and drastic. Suddenly, what had worked all year – large caps and AI stocks – were out of favor, replaced with the unloved stocks that have lagged for the last few years. This can sometimes happen when expectations are changed in a short amount of time. Small caps ended up outperforming large caps by close to 9%, the largest monthly outperformance since the tech stock drama of early 2000, as the following chart shows.




## Market Review

- The first half of the year was all about large caps and AI, with the S&P 500 opening up a large lead on the small cap stocks listed in the Russell 2000 Index. This script was flipped very abruptly last month, however, after June's CPI reading came in weaker than expected. This caused rate cut expectations to rise drastically, and the sharp rotation to take place in stocks.
- Five of the seven Mag 7 stocks fell at least 3% for the month, which hurt S&P 500 Index performance. Small caps, on the other hand, shot up over 10%, led by small cap value at over 12%. Value stocks in general did much better than growth during the month, outperforming by close to 7%.
- Foreign equities rose alongside domestic, helped along by a weaker U.S. Dollar. Small caps in the foreign space outperformed large caps, but not nearly to the extent as what happened domestically.
- Despite the broad gains seen in equity markets, volatility rose dramatically to end the month. The U.S. VIX, a measure of volatility in the S&P 500 Index, rose close to its highest level all year. The main concern was that the Federal Reserve was waiting too long to cut their benchmark rate, as it does appear that the economy, including the jobs market, is starting to slow down.
- In fixed income, the U.S. Aggregate Bond Index had a strong 2.3% return for the month. This was mainly due to long-term interest rates falling dramatically. The ten-year Treasury yield fell by 0.27% to 4.09%.

## August Preview

While this update is focused on July 2024, the first three trading days of August were impactful enough to warrant discussion and make the 7/31 YTD returns dated. Weak labor data caused the markets to fear that the Federal Reserve had waited too long to lower rates and we could be headed for a "hard" landing. The failure of recent earnings to live up to the AI enthusiasm and increased tension in the Middle East compounded the stress. The result was falling equity prices and bond yields. However, bonds have provided diversification and large 7/31 YTD returns helped to soften the blow from the sell off. Time will tell if this is just a sharp market correction or the start of more pronounced economic slowdown.