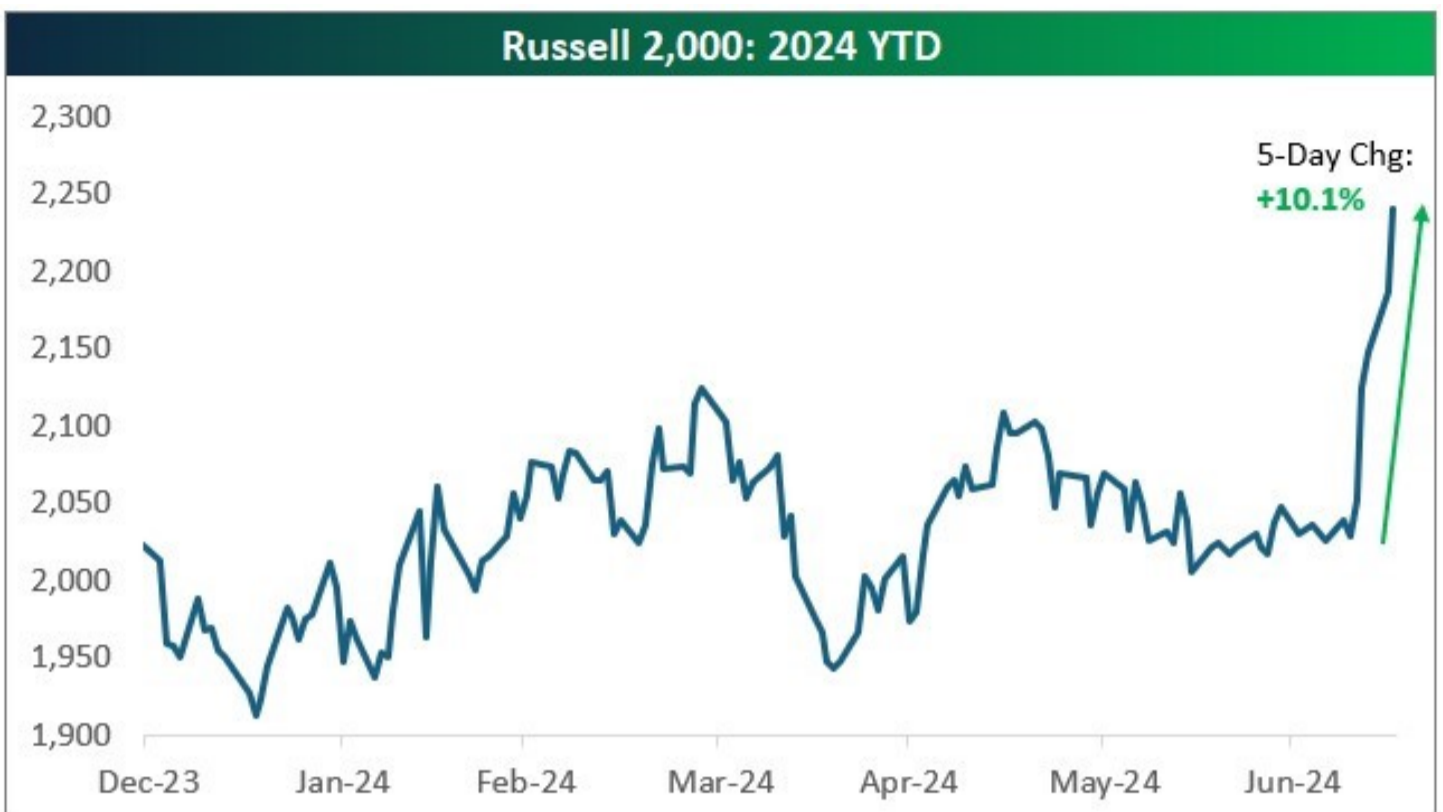


CHART OF THE MONTH

JULY 2024



“The last will be first and the first will be last.”

The leaders and the laggards in the stock market flipped over the past week with the CNBC Magnificent 7 Index falling 7.3% since its high on July 9 and the Russell 2000 rising 10.9% during the same period — a difference of 18.2%. The former, which is comprised of Apple, Microsoft, Nvidia, Alphabet, Amazon, Meta Platforms, and Tesla (in order of market capitalization), had previously increased 50% year-to-date while the latter small-cap index was flat until a week ago (see graph above).

The market caps of Apple (\$3.5 trillion), Microsoft (\$3.3T), and, until this week, Nvidia (\$2.9T) each exceeded the combined value of the 2000 companies in the Russell Index (approximately \$3T) due to their vast outperformance in recent years. The largest have gotten larger and the smallest, in the aggregate, have, for the most part, stayed the same.

The reversal of fortunes is a reminder that nothing lasts forever. Prices and valuations had been stretched to extreme levels in both directions. The relative performance of the Russell 2000 vs. Large-Cap Tech (see below) had reached the same level as in 2000 at the height of the Internet Bubble. The R2000 subsequently outperformed over the following seven years or roughly until the Great Financial Crisis in 2008. Large-Cap Tech then beat the R2000 for the next 16 years.

Meanwhile, the overall market, as measured by the S&P 500, made a new high on Tuesday and closed within 1.5% of its all-time record after giving back some of its gains on Wednesday. According to CME FedWatch, the fed funds futures market is pricing in a 100% chance of a quarter-point (0.25%) cut in the federal funds rate in September. Secondly, the yield on the 10-year Treasury has slid to a four-month low of 4.16%. Thirdly, PredictIt, a betting marketplace, shows former President Donald Trump as a nearly 2:1 favorite to win in November, up from a coin-flip two months ago. The market is responding favorably toward Trump’s low tax-rates policy (including extending his 2017 tax cuts beyond 2025) and likelihood of deregulating business and M&A activity.

Going forward, we believe the market will continue to broaden, rotating toward value and “growth at a reasonable price.” The Magnificent 7 should participate for as long as the companies can deliver above-average earnings, but the “easy money” has most likely been made for this cycle. We have trimmed the winners on strength and will remain vigilant in rebalancing portfolios along the way.

Russell 2,000 vs Large Cap Tech

