To Our Valued Clients,

July played host to a long-awaited rotation in the stock market as the mega-cap technology and communication names that had become the driving force of the market over the past 18 months moved lower and some of the forgotten areas of the market advanced. Whether this trend persists remains to be seen but nonetheless, July's market activity was a welcome sight to investors carrying more diversified stock portfolios.

Following an extended stretch of leadership, the Magnificent 7[1] stocks as they've appropriately been dubbed, took a breather in July. The median return for the group was -5.4% including NVIDIA which closed the month 13% below its previous all-time high and Meta which now sits 12% below its highwater mark. On the flipside, the median return for the other 493 names in the S&P 500 came in at a positive 4.5%. So, what did this mean for the index? The S&P posted a return of 1.13%, despite a large majority of constituents advancing at a greater clip than the index, the weight of the Mag 7 in the S&P 500 did not work in its favor, highlighting the significant level of concentration currently at the top of the index. This was only the fourth time during the last 18 months that 'the rest' outperformed the Mag 7, and the widest margin by far. Notably, the Russell 2000, an index that tracks smaller-company stocks, posted its best month of the year after a 10% rally. Expectations for a rotation have been mounting for months as valuations for those mega-cap stocks looked quite stretched relative to other areas of the market, but still, a catalyst was needed. It arrived in the form of a lower-than-expected CPI report back on July 11th, the softening inflation data led investors to dial up expectations of multiple Fed interest rate cuts before year-end, a boost to more rate-sensitive stocks.

Whether the Fed follows through on the number of interest rate cuts that the market expects, and the rationale behind those potential cuts, will go a long way in determining whether this rotation has legs. Fed Chair Powell certainly laid the groundwork for a cut in September at yesterday's FOMC conference, but that meeting is still 7 weeks away. Earnings will be another key indicator, it's too early to tell as we're still shy of halfway on S&P 500 results for Q2 and small and mid-capitalization names don't take center stage until next week, but investors will be looking for signs of strength in areas outside of the mega-caps. Thanks for reading, and as always, if you have any questions or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

Brandon Hethcoat

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[1] Microsoft, Apple, NVIDIA, Amazon, Meta, Alphabet, Tesla

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