To Our Valued Clients,

In light of recent market volatility, we wanted to reach out with a timely update to share our thoughts on the current environment. We believe it's important to keep you informed about the factors driving these changes and how they may impact your investments.

Friday’s weaker than expected jobs report cast a risk-off sentiment over markets that sent stocks lower and investment-grade bonds higher. The economy added 114K jobs in July, the lowest reading since April and well shy of forecasts of 185K. This, along with a rise in unemployment from 4.1% to 4.3%, sparked concerns around the health of the U.S. economy, and debates immediately began about whether the Fed has waited too long to cut interest rates. The S&P 500 shed 4.67% over the next two trading days and now sits 8.50% below last months record high. The Magnificent 7[1] stocks were the largest culprit with the average return of the group sitting at -7.07% across the two days. Conversely, treasury bonds and other parts of the investment grade fixed income market rallied as investors sought safety and began to weigh the prospect of more aggressive rate cuts from the Fed. Bonds were a much-needed bright spot in multi-asset portfolios and fulfilled their role of dampening the volatility from stocks.

Interestingly enough, it has been widely agreed upon for over two years now that a softening labor market is a necessary step to lower inflation and will certainly precede any reduction in interest rates, but the market view was that Friday’s miss was a little too much moderation. The 4.3% unemployment rate is the highest since October of 2021 but remains below the 50-year average of 6.2%. In short, parts of the economy are slowing, but certainly not breaking. Additionally, one could argue that we were well overdue for a bout of volatility, and Friday’s data was all that was needed to employ it. Up until mid-July the S&P 500 went 356 consecutive trading days without a pullback of 2% or more, the longest streak in nearly 20 years.

It’s important to remember during times like this that market drawdowns happen with astonishing regularity. On average, the S&P 500 experiences a pullback of 5% or more 4.5 times per year, and drawdowns of 10% or more have occurred in 64% of years dating back to 1928. The market has gone on to recover and make new highs every single time; history is on our side. 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

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

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