

August 2024

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 8/31/2024

Global Overview

Despite early month volatility, August proved to be a fruitful month for both equities and fixed income. Last month's small cap rally was thwarted as large cap equities fell more into favor due to strong earnings reported in July. Dovish remarks from the Fed at the Jackson Hole meeting implied that a rate cut in September is likely. Within non-US equities, the MSCI EAFE and EAFE growth indices led the charge as the Bank of England cut rates for the first time since 2020.

U.S. Markets & Economy

August proved to be a volatile month for U.S. investors, as an unfavorable ISM print (46.8 vs 48.8) fueled concerns about a recession. The month kicked off with nearly a tripling of the VIX S&P 500 volatility index briefly breaking 65, before returning to more normal levels of 15-20 by the end of the month. The market rebounded as investors are more aggressively pricing-in easing from the Fed after Powell's comments at Jackson Hole stating, "the time has come" for policy easing. The S&P 500 gained 2.4% in August as continuing positive sentiment from a good earnings period in July and broadening of earnings growth from the non-technology names had favorable impacts. The Conference Board Consumer Confidence Index rose in August to 101.9. The labor market expectation index also improved to 82.5 from an upwardly revised July of 81.1 for the second consecutive month above 80. August's ISM Manufacturing PMI slightly increased from 46.8 to 47.2, largely due to anticipation of an upcoming rate cut. The dovish remarks from the Fed continue to point towards a 25 basis point rate cut in September, and the market is still pricing-in around 175 bps of cuts by June of 2025. Large cap growth stocks rebounded from July's underperformance, as investors are bullish in the space, not having to reach as far for earnings growth in some of the largest tech names based on the most recent earnings period. Year to date the Russell 1000 Growth posted a return of 21.1%, compared to the Russell 1000 Value's 15.1%. In the small cap space, July's rally cooled off in August as the Russell 2000, Russell 2000 Growth, and Russell 2000 value indices decreased 1.5%, 1.1%, and 1.9%.

In fixed income, declining yields along with expectations of easing monetary policy were catalysts for primary markets as over \$108 billion of new investment-grade deals and \$18 billion of high-yield deals priced during the month. As a result, the Bloomberg U.S. Aggregate Index posted a 1.4% return in August. Investment Grade and High Yield securities also increased, as the Bloomberg U.S. Govt/Credit and the ICE BofA US High Yield indices posted returns of 1.4% and 1.6%, Treasury yields continued their downward momentum from July into August as the 10-year Treasury yield fell from 4.09 to 3.91. The spread between the 2- and 10-year Treasury yields further decreased its inversion as spreads went from 20 basis points down to 0 bps by the end of the month, both yielding 3.91. Both investment grade corporate and high yield spreads decreased over the month going from 100 to 96 bps in investment grade, and 335 to 317 in high-yield.

International Markets & Economy

With the U.K.'s CPI remaining close to the long term 2% target from April to July, the Bank of England announced a 0.25% Bank Rate cut to 5% on August 1st after a 5-4 vote its Monetary Policy Committee. This was their first rate cut since March 2020. With August CPI rising to 2.2%, economists estimate a 55% probability of another rate cut this year. In line with the relatively lightened mood in the market after the rate cut and the release of U.K.'s 0.6% GDP growth rate in the second quarter, the FTSE 100 Index increased 0.1% in August. German's YoY CPI growth lowered to 1.9% in August from 2.3% in July, its lowest level since March of 2021. The drop was primarily led by the 5.1% decrease in energy prices and stagnant service inflation at 3.9%. At the same time German GDP shrank by 0.1% in the second quarter of 2024. Similarly, French manufacturing activity contracted at its fastest pace since January as PMI dropped to 43.9 in August from 44.0 in July, while French PMI in the services sector hit a 27-month high of 55 in August, thanks to the impact of Olympics. August Eurozone CPI growth dropped to 1.9% from 2.3% in July, which marked the first time in three years that inflation came below ECB's 2% target rate. August core CPI for Japan rose to 2.4% in August

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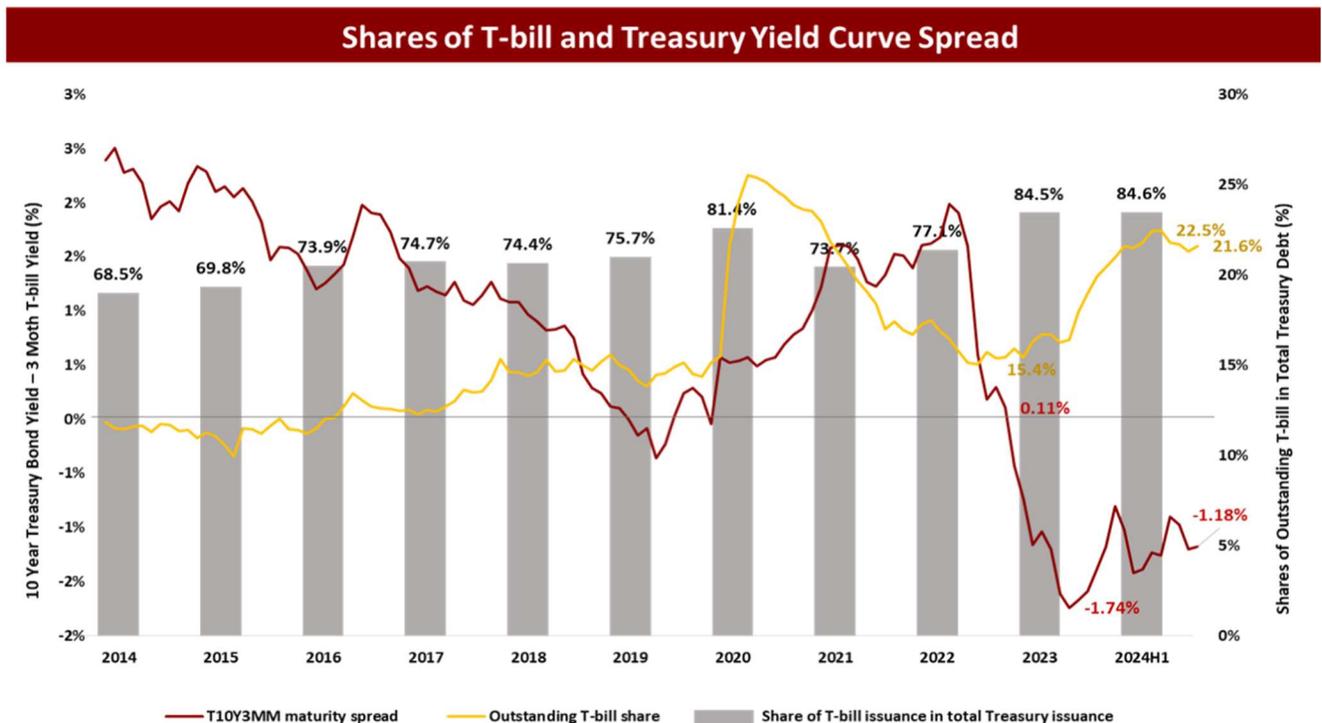
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from 2.2% in July above the BoJ's 2% target rate. The accelerated inflation of the past four months backs market expectations of more interest rate hikes ahead. The Japanese Yen has appreciated 4.3% since BOJ's latest interest rate increase in July, which is expected to hurt exporters and ease pressures on smaller companies that are suffering from higher import costs. The Nikkei 225 decreased 0.4% in August, continuing its downward momentum since July. The MSCI EAFE increased 3.3% in the past month, and outperformed other major indexes in developed economies. The MSCI China increased 0.8%, despite market concerns over the increased probability of missing its 5% GDP growth goal for year. The MSCI EM increased 1.6%, as the market's relatively calm reaction to these early rate cuts in Asia-Pacific suggested other APAC central banks may be more likely to make moves too.

In the News

The US government is increasingly funding its expanding budget deficit through short-term debt, with a notable emphasis on Treasury bills (T-bills) that mature within 12 months. For 2023 and the first half of 2024, nearly 85% of funds were raised through T-bills, compared to 77% in 2022 and 74% in 2021. This shift towards short-term debt is seen as a strategy to reduce debt servicing costs, as investors typically demand higher premiums for longer-term bonds. However, this preference for short-term debt has indirectly reduced the market supply of longer-term bonds and notes, resulting in suppressed long-term Treasury yields and contributing to an inverted yield curve, shown in the graph below, that has persisted for over two years without traditionally strong recession signals. Analysts estimate that the T-bill-heavy maturity profile may have lowered 10-year yields by 25 to 100 basis points and provided an economic stimulus equivalent to a 100 basis point cut in the Fed's policy rate. The lower yields and boosted asset prices may have counteracted the Fed's high interest rate regime aimed at controlling inflation and cooling the economy over the past 30 months. Currently, T-bills maturing in one year or less represent 22% of total Treasury debt, up from the 15%-20% range considered more typical by economists. This reduction in the average maturity profile increases rollover risks, especially during events like debt ceiling debates, and could create temporary default risks in the bill market. T-bill prices are closely tied to the Fed's rate decisions, and with a policy rate cut anticipated, lower rates could alleviate the cost of T-bills for the Treasury.

Chart of the Month



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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	2.64	6.58	16.72	24.43	6.90	13.11	9.57
	Bloomberg US Agg Bond TR USD	1.44	4.79	3.07	7.30	(2.11)	(0.04)	1.64
	Russell 3000 TR USD	2.18	7.30	18.19	26.14	7.87	15.19	12.36
	DJ Industrial Average TR USD	2.03	7.95	11.75	22.06	7.71	11.80	11.79
	NASDAQ Composite PR USD	0.65	5.85	18.00	26.21	5.10	17.34	14.48
	MSCI EAFE NR USD	3.25	4.56	11.96	19.40	4.13	8.61	5.20
	FTSE Treasury Bill 3 Mon USD	0.46	1.38	3.71	5.65	3.49	2.33	1.62
	Bloomberg Commodity TR USD	0.05	(5.47)	0.95	(4.39)	3.70	7.02	(1.08)
Domestic Equities	S&P 500 TR USD	2.43	7.39	19.53	27.14	9.38	15.92	12.98
	S&P MidCap 400 TR	(0.08)	4.05	12.24	18.75	5.62	12.20	9.68
	S&P SmallCap 600 TR USD	(1.44)	6.71	8.41	17.31	2.85	10.75	9.35
	Russell 1000 TR USD	2.37	7.30	18.64	26.60	8.34	15.55	12.66
	Russell 1000 Growth TR USD	2.08	7.11	21.12	30.75	8.87	19.08	16.03
	Russell 1000 Value TR USD	2.68	6.92	15.08	21.15	7.25	11.16	8.85
	Russell Mid Cap TR USD	2.03	6.13	12.14	20.16	3.52	11.24	9.58
	Russell Mid Cap Growth TR USD	2.48	4.83	9.27	19.07	(0.46)	10.50	10.61
	Russell Mid Cap Value TR USD	1.89	6.31	12.95	20.19	5.40	10.80	8.31
	Russell 2000 TR USD	(1.49)	7.51	10.39	18.47	0.60	9.68	8.03
	Russell 2000 Growth TR USD	(1.11)	6.81	11.74	17.67	(2.07)	8.35	8.21
	Russell 2000 Value TR USD	(1.88)	8.23	9.15	19.25	3.05	10.38	7.46
International Equities	MSCI ACWI Ex USA NR USD	2.85	5.13	11.22	18.21	2.11	7.56	4.42
	MSCI EAFE NR USD	3.25	4.56	11.96	19.40	4.13	8.61	5.20
	MSCI EAFE Growth NR USD	3.95	4.75	11.78	18.45	0.43	7.89	6.18
	MSCI EAFE Value NR USD	2.56	4.38	12.19	20.38	7.76	8.99	3.98
	MSCI Japan NR USD	0.51	5.58	13.00	19.69	3.80	8.12	6.36
	MSCI AC Asia Ex Japan NR USD	1.95	6.15	11.74	15.73	(3.44)	5.19	3.90
	MSCI Europe NR USD	3.94	3.79	12.34	19.79	4.80	9.41	5.15
	MSCI United Kingdom NR USD	3.33	5.78	15.11	21.98	8.95	8.72	3.51
	MSCI EAFE Small Cap NR USD	1.98	4.52	8.34	15.08	(2.39)	6.45	5.35
	MSCI EM NR USD	1.61	5.94	9.55	15.07	(3.06)	4.79	2.56
Fixed Income	Bloomberg US Govt/Credit TR USD	1.38	4.56	2.95	7.21	(2.31)	(0.02)	1.76
	Bloomberg US Govt/Credit Interm TR US	1.15	3.87	3.55	7.11	(0.38)	0.96	1.80
	Bloomberg US Govt/Credit Long TR USD	2.08	6.66	1.19	7.46	(7.62)	(2.80)	1.83
	ICE BofA US High Yield TR USD	1.59	4.58	6.29	12.48	2.54	4.27	4.56
	Credit Suisse HY USD	3.05	5.68	(0.05)	5.46	(7.78)	(4.10)	(1.73)
	Morningstar LSTA US LL Index TR USD	2.54	6.51	15.97	23.44	5.77	12.14	8.78
	FTSE WGBI NonUS USD	2.54	6.51	15.97	23.44	5.77	12.14	8.78
	Bloomberg Gbl Agg Ex USD TR USD	3.13	5.85	0.79	6.44	(5.83)	(2.53)	(1.13)
REITs	FTSE Nareit All REITs TR	5.37	15.32	10.39	20.82	0.04	4.50	6.81
	Wilshire US REIT TR USD	6.42	15.61	11.92	21.67	1.89	5.42	6.83

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

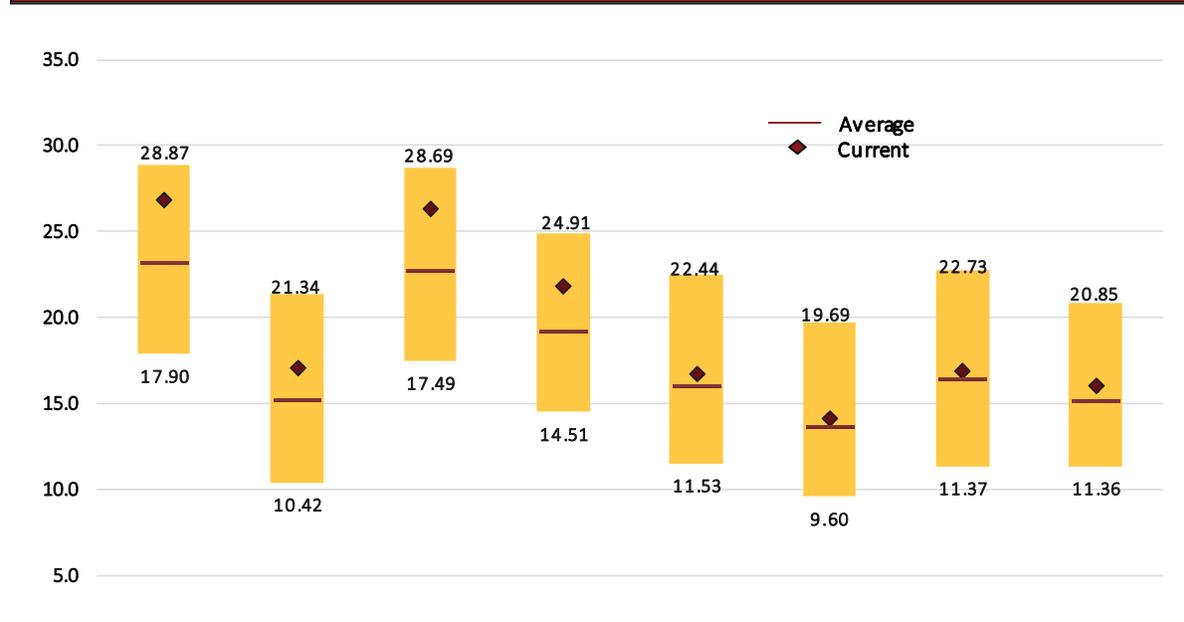
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Current Trailing P/E vs. Trailing 5-Year High, Low Average



	S&P 500	Russell 2000	Russell 1000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Mar-21	Mar-21	Mar-21	Mar-21	Mar-21	Jan-21	Mar-21	Jan-21
Low Month	Mar-20	Sep-22	Sep-22	Sep-22	Sep-22	Oct-22	Sep-22	Sep-22

Source: Morningstar; Data as of 8/31/2024

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates ³ per US \$		Inflation ²
	Latest ¹	2024 ¹	2025 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	3.00	1.80	1.90	4.30	3.91	-	-	3.20
China	0.70	4.70	4.50	5.20	2.18	7.09	7.28	0.40
Japan	0.80	1.00	1.00	2.70	1.06	145.95	145.94	2.70
United Kingdom	0.60	1.10	1.10	4.20	4.00	1.31	1.27	3.30
Euro Area	0.30	0.70	1.50	6.40	2.98	1.11	1.09	2.80
Germany	-0.10	0.80	1.20	6.00	2.58	1.11	1.09	2.90
France	0.20	0.90	1.50	7.30	3.01	1.11	1.09	1.50
Italy	0.20	0.80	1.50	6.50	3.69	1.11	1.09	1.90
Canada	0.50	1.40	2.10	6.40	3.54	1.35	1.35	1.70
India	1.90	6.60	6.60	9.20	6.86	83.89	82.81	4.75
Mexico	0.20	2.20	2.10	2.90	10.02	19.66	16.74	4.05
Brazil	1.40	1.90	2.10	6.80	12.08	5.62	4.86	4.66

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD

2. In terms of Core CPI

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

4. Germany, France, and Italy currency exchange rates are taken at the Euro Area exchange rates

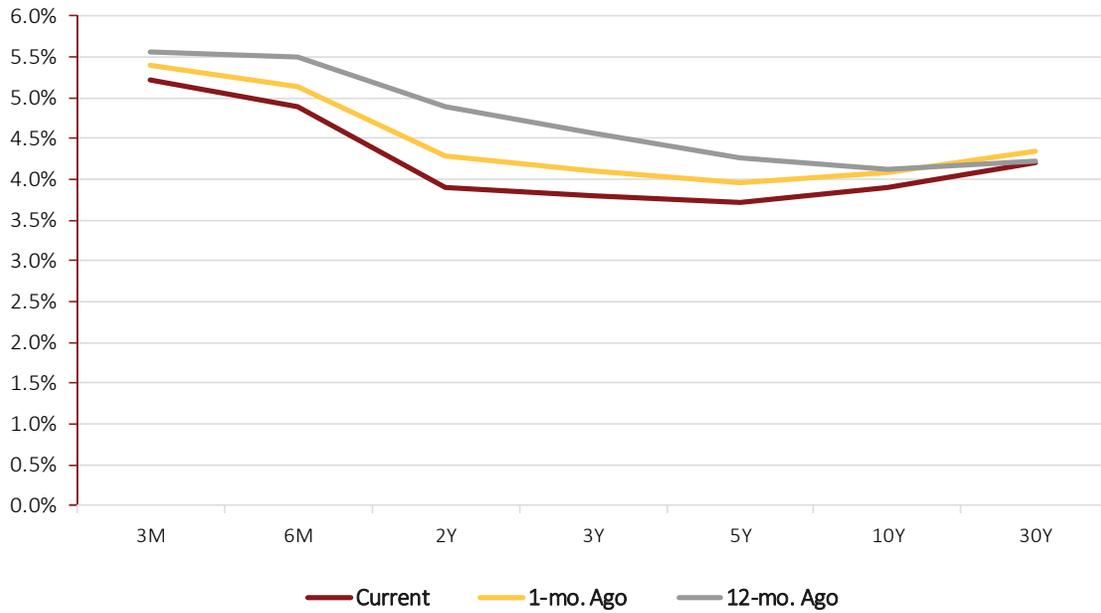
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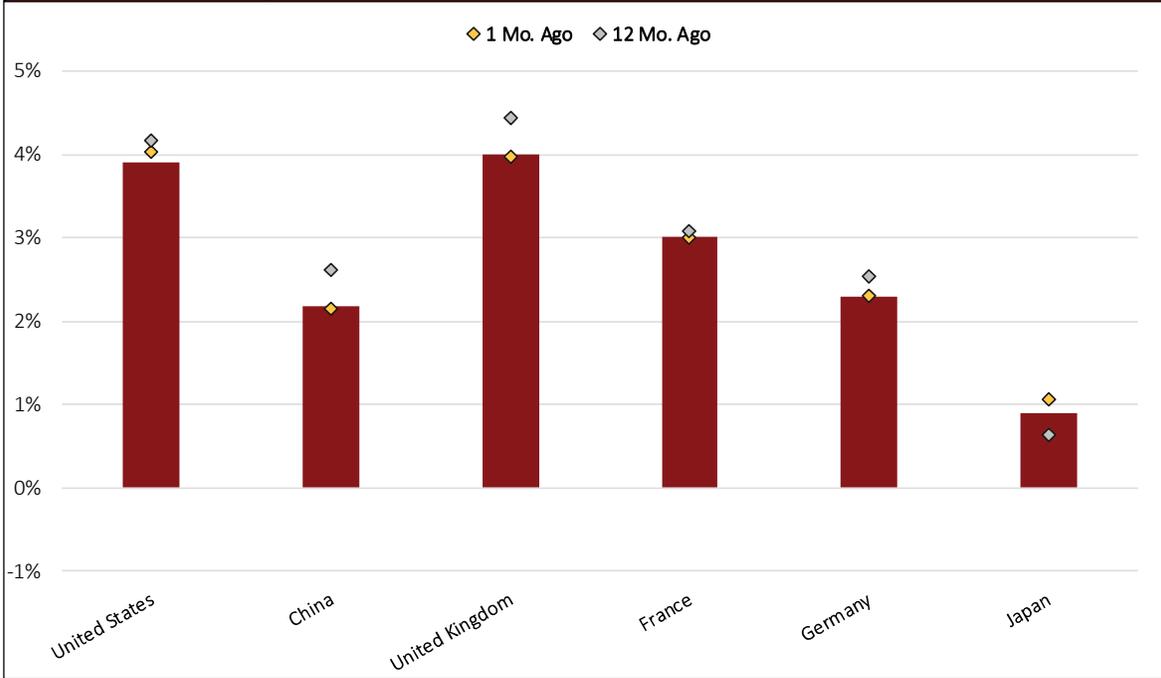
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U.S. Treasury Yield Curves



Source: Federal Reserve Bank of St. Louis, U.S. Department of the Treasury

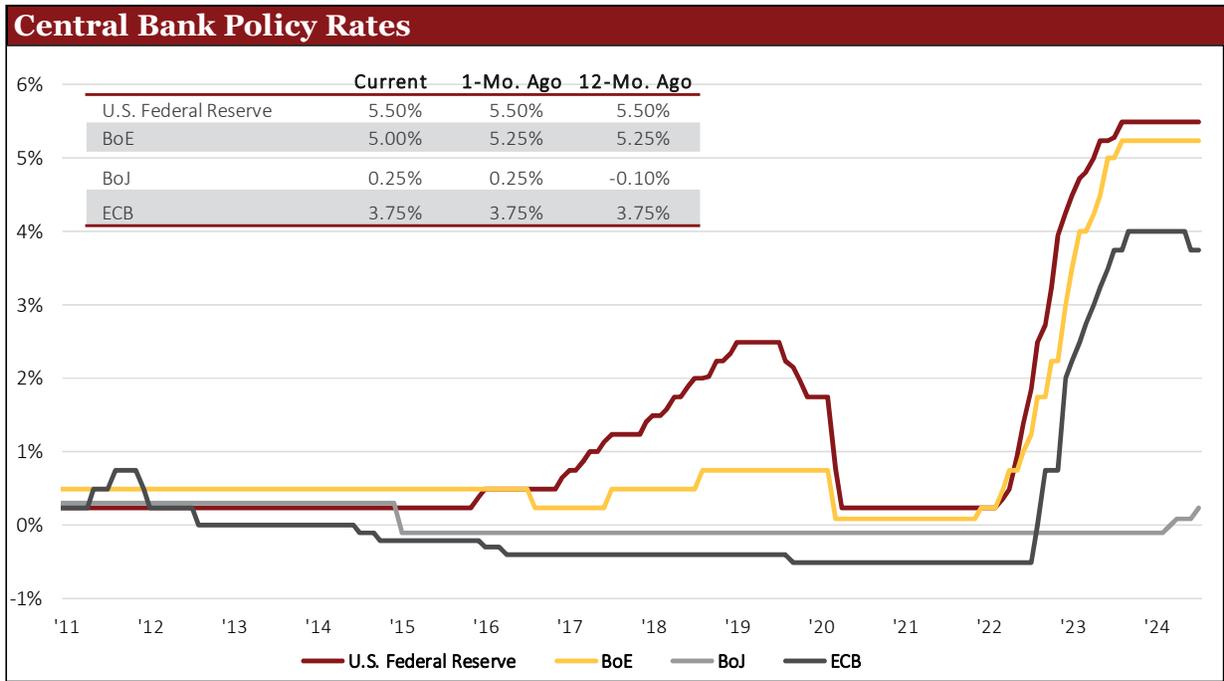
10-Year Sovereign Yields



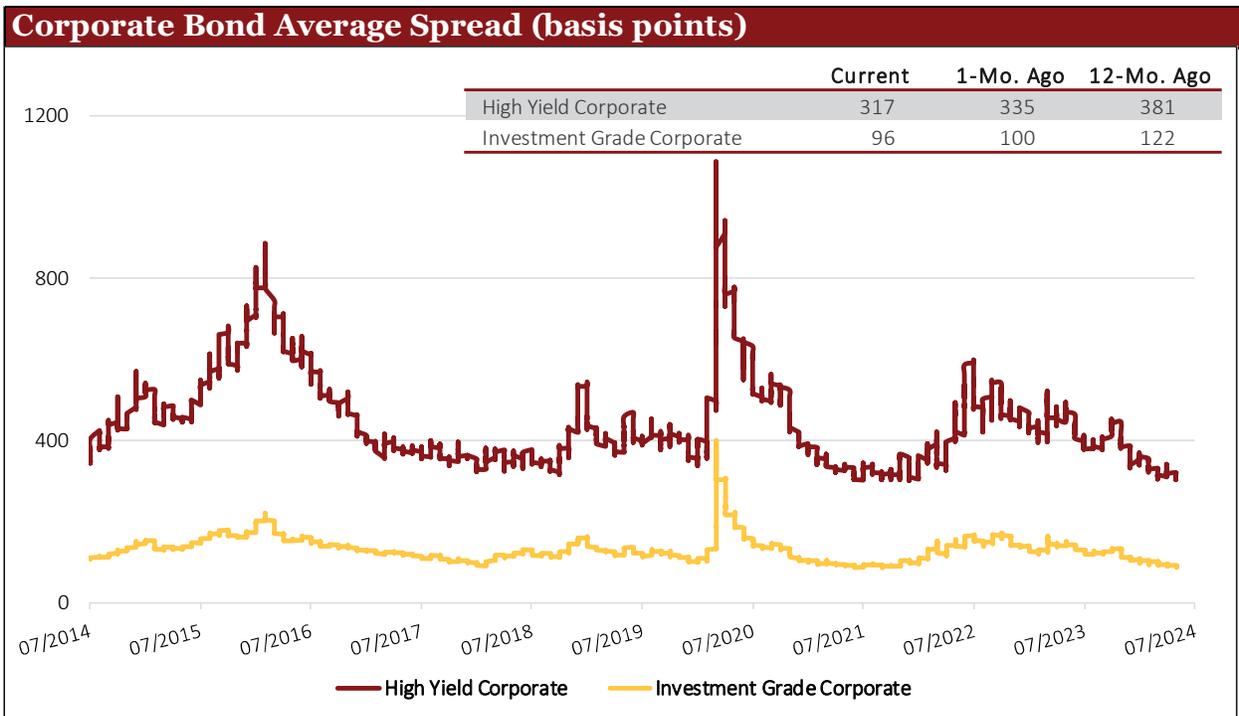
Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics; Data as of 9/1/2024

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Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics



Source: Federal Reserve Bank, Bank of America