Forefront Asset Management, LLC Monthly Newsletter

SUNDAY, August 4th, 2024

FOR MARKET CLOSE — Friday, August 2nd, 2024

U.S. Equity Market Assessment and Economic Outlook

The assumptions that have driven this year's markets are rapidly being reassessed as the A.I. (artificial intelligence) trade is coming to an end and the Fed has yet to cut interest rates. With a weakening American consumer which is showing up in a rash of disappointing corporate earnings, shareholders are becoming skeptical that this market has any further legs upward. As of this past weekend, with the likes of Warren Buffett cutting his Apple position in half and the Japanese central bank finding it hard to tread water by printing money and keeping their interest rate pegged at 0.25%, the markets are having indigestion. We remain long equities (for now) and are still in the camp that a recession is getting closer and closer with the markets potentially peaking in the fall timeframe because of expectations for a Federal Reserve pivot. As always, this could move up or back. Lastly, should the Federal Reserve delay in their response to the markets by not cutting rates, we may have already reached the top. The latter is not our favorite scenario but one we must consider.

Market Technical Indicators

Long Term Bull-Bear Indicator (Years)

Status: POSITIVE

Quarterly Timeframe Indicator (Monthly to Quarterly)

Status: POSITIVE

Shorter Timeframe Indicator (Weeks to Months)

Status: POSITIVE (flashing yellow)

THE COMPLETE PICTURE // READING THE INDICATORS

THREE INDICATORS ACROSS THREE TIMEFRAMES

1. Yearly Trend Indicator — POSITIVE since April 21, 2023
2. Quarterly Trend Indicator— POSITIVE since January 1, 2024
3. Short term Trend Indicator— POSITIVE since Nov 16, 2023

When all three indicators are in a POSITIVE status, we read the market as being in a CYCLICAL BULL MARKET

THIS MONTH'S ECONOMIC NEWS

FOR THE U.S. MARKET

INDEX	*PRIOR WEEK CLOSE*	THIS WEEK'S CLOSE	WEEK'S CHANGE %	% CHANGE YTD
DJIA	40,589.34	39,737.26	**-2.10%**	5.43%
S&P 500	5,459.10	5,346.56	**-2.06%**	12.09%
Nasdaq comp.	17,357.88	16,776.16	**-3.35%**	11.76%
S&P 400 (midcap)	3,074.96	2,948.01	**-4.13%**	5.98%
Russell 2000	2,260.07	2,109.31	**-6.67%**	4.06%

Continued cooling in labor market:

On the macro front, sentiment was primarily driven by Friday's nonfarm payrolls report, which indicated a more rapid cooling in the labor market than anticipated. The Labor Department reported that the economy added only 114,000 jobs in July, well below expectations and the lowest in three months, with only 97,000 jobs from the private sector, the least in 15 months. The unemployment rate also jumped from 4.1% to 4.3%, the highest since October 2021. Earlier, the Labor Department noted that voluntary job quits fell to 3.82 million in June, the lowest since November 2020, a key indicator of labor market conditions. Additionally, job openings fell slightly to 8.18 million but stayed above the April low of 7.92 million. Another factor shaking confidence in the economy was the unexpected drop in the Institute for Supply Management's gauge of July manufacturing activity to 46.6, the lowest since last November, indicating nearly two years of continuous contraction in the sector. Interestingly, manufacturing jobs remained steady in July, while the tech sector shed 20,000 jobs.

INTERNATIONAL MARKETS

LOOKING AT THE GLOBAL PICTURE

GLOBAL EXCHANGE INDEX	*PRIOR WEEK CLOSE*	THIS WEEK'S CLOSE	WEEK'S CHANGE %	% CHANGE YTD
CANADA - TSX	22,814.81	22,227.63	-2.57%	6.06%
UK - FTSE 100	8,285.71	8,174.71	-1.34%	5.71%
FRANCE - CAC 40	7,555.00	7,251.80	-4.01%	-3.86%
GERMANY - DAX	18,417.55	17,661.22	-4.11%	5.43%
CHINA - SHANGHAI COMP	2,890.90	2,905.30	0.50%	-2.34%
JAPAN - NIKKEI 225	37,667.41	35,909.70	-4.67%	7.31%

Europe

The pan-European STOXX Europe 600 Index fell 2.92% in local currency terms as weak U.S. economic data sparked growth concerns, causing major stock indexes to decline: Germany's DAX dropped 4.11%, France's CAC 40 fell 4.01%, Italy's FTSE MIB lost 5.30%, and the UK's FTSE 100 declined 1.34%. UK gilt yields decreased following the Bank of England's (BoE) first rate cut in four years, reducing its key interest rate by a quarter point to 5.00%, a move passed by a 5-4 vote. Governor Andrew Bailey emphasized a cautious approach to further cuts to ensure low inflation. German bund yields also fell amid expectations of more rate cuts from the European Central Bank. In the eurozone, annual inflation increased to 2.6% in July from 2.5% in June, contrary to expectations of a decline to 2.4%, though services inflation eased for the first time in three months. Inflation varied across countries, easing in Spain but rising in Germany, France, and Italy. The region's economy grew 0.3% sequentially (0.6% year-over-year) in the second quarter, driven by growth in France, Italy, and Spain, while Germany's economy unexpectedly contracted. The unemployment rate rose to 6.5% in June from 6.4% in May, but consumer confidence in the euro area improved steadily since February, bolstered by optimism about declining borrowing costs.

Japan

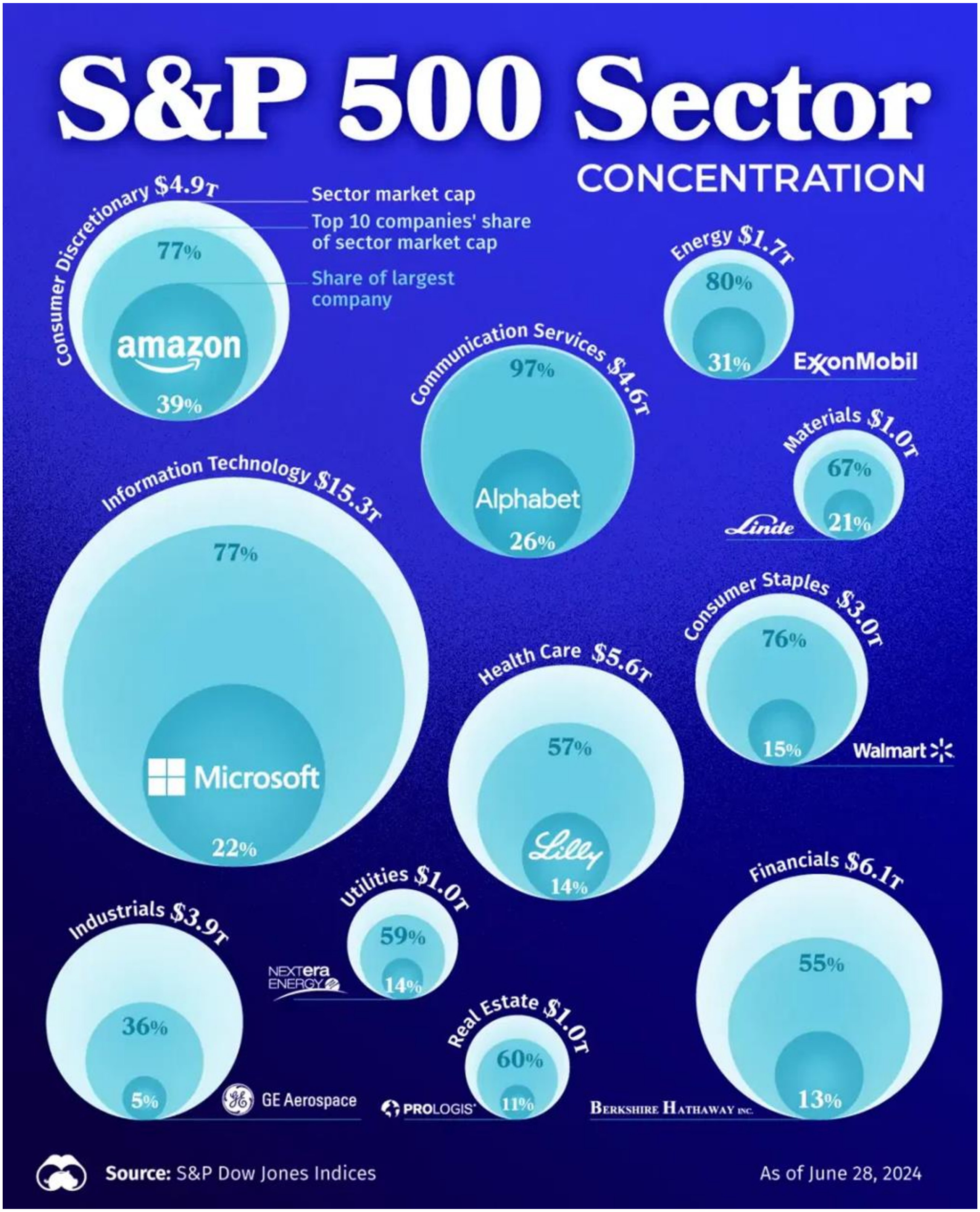
During a week marked by a hawkish shift from the Bank of Japan (BoJ), Japan's stock markets suffered significant losses, with the Nikkei 225 Index falling 4.67% and the broader TOPIX Index dropping 6.0%. Disappointing U.S. macroeconomic data further dampened investor risk appetite, leading to one of the biggest one-day drops in the Nikkei's history, comparable to those during the March 2020 coronavirus pandemic and the October 1987 "Black Monday" crash. The yen's rebound to around JPY 148.9 against the U.S. dollar from JPY 153.7 the previous week continued to hamper earnings outlooks for Japan's export-oriented companies. In the fixed income market, the yield on the 10-year Japanese government bond (JGB) fell to 0.98% from 1.06%. The BoJ raised its key short-term interest rate to around 0.25% from 0% to 0.1%, marking its second hike this year, and outlined plans to taper bond purchases to about JPY 3 trillion in the first quarter of 2026, reducing purchases by about JPY 400 billion each quarter. Additionally, the BoJ lowered its core inflation outlook for fiscal year 2024 to 2.5% from 2.8% and slightly cut its growth outlook to 0.6% from 0.8%.

China

Chinese equities showed mixed performance as weak manufacturing data dampened investor sentiment. The Shanghai Composite Index rose 0.5%, while the blue-chip CSI 300 fell 0.73%. In Hong Kong, the Hang Seng Index declined 0.45%. The official manufacturing Purchasing Managers' Index (PMI) slipped to 49.4 in July from 49.5 in June, marking the third consecutive monthly contraction with declines in production and new orders, as reported by the National Bureau of Statistics. The nonmanufacturing PMI, measuring construction and services activity, dropped to 50.2 from 50.5 in June, attributed to seasonal factors and extreme weather. Separately, the private Caixin/S&P Global survey showed an unexpected contraction in manufacturing activity for the first time in nine months, with the Caixin PMI falling to 49.8 in July from 51.8 in June, indicating slowing momentum in China's export sector. Despite these challenges, industrial profits rose by 3.6% in June year-over-year, up from 0.7% in May, driven by stronger industrial production and slower producer price declines. However, ongoing weakness in domestic demand has fueled speculation that Beijing will introduce further measures to stimulate the economy, as recent efforts have struggled to boost consumption.

THIS WEEK'S HIGHLIGHTED STORY

https://www.voronoiapp.com/markets/The-Biggest-Company-of-Every-SP-500-Sector-1730
July 11th, 2024



Tech Earnings Growth Forecasted

What We're Showing

The 11 sectors of the S&P 500, each sector's total market capitalization, the top 10 companies' share of their sector's market cap, and the share of the largest company of the sector.

Key Takeaways

- Communication Services is the most concentrated sector by far, with the top 10 companies accounting for 97% of the sector's market cap.
- Sectors home to big tech companies like Amazon, Alphabet, and Microsoft, are among the most concentrated.
- Among all sectors, Amazon makes up the greatest share of their sector, accounting for a staggering 39% of the Consumer Discretionary sector's total market cap.

Data

Sector	Market Cap	Largest Constituent	Share of largest constituent in sector	Top 10 Share of Sector's Market Cap	Number of Companies in Sector
Energy	$1.7T	Exxon Mobil	30.9%	79.5%	22
Materials	$1.0T	Linde plc	21.4%	67.1%	28
Industrials	$3.9T	GE Aerospace	4.7%	35.7%	78
Consumer Discretionary	$4.9T	Amazon	38.8%	76.6%	52
Consumer Staples	$3.0T	Walmart	14.7%	75.7%	38
Health Care	$5.6T	Eli Lilly and Company	13.5%	56.6%	63
Financials	$6.1T	Berkshire Hathaway	12.9%	54.7%	71
Information Technology	$15.3T	Microsoft	22.3%	77.3%	67
Real Estate	$1.1T	Prologis	10.5%	60.2%	31
Utilities	$1.0T	NextEra Energy	14.0%	59.3%	31
Communication Services	$4.6T	Alphabet	25.8%	96.5%	22

ADDITIONAL MARKET HIGHLIGHT

https://www.voronoiapp.com/demographics/Vineyard-UT-is-Americas-Fastest-Growing-Housing-Market-1814

July 21 2024

	10-Yr Housing Stock Growth (%)	10-Yr Population Change (%)	Population in 2022
1 Vineyard, UT	+7,204%	+7,054%	12,663
2 Blackwells Mills, NJ	+1,980%	+2,292%	10,047
3 Fulshear, TX	+1,138%	+1,200%	21,552
4 Woodbridge, VA	+692%	+838%	42,619
5 Nocatee, FL	+382%	+391%	22,950
6 Niskayuna, NY	+368%	+319%	20,629
7 Horizon West, FL	+234%	+285%	58,595
8 Celina, TX	+233%	+237%	21,501
9 Melissa, TX	+228%	+192%	15,244
10 Palmview, TX	+215%	+175%	15,245

Source: StorageCafe analysis of U.S. Census Data

HOW VIX WORKS

The Volatility Index or VIX is the annualized implied volatility of a hypothetical S&P 500 stock option with 30 days to expiration. It can help investors estimate how much the S&P 500 Index will fluctuate in the next 30 days. While the VIX only measures the volatility of the S&P 500 Index, it has become a benchmark for the U.S. stock market.

The VIX is often referred to as the market's "fear index or fear gauge". The performance of the VIX is inversely related to the S&P 500 – when the price of the VIX goes up, the price of the S&P 500 usually goes down.

If the VIX is rising, demand for options is increasing, and therefore, becoming more expensive. If the VIX is falling, there's less demand, and options prices tend to fall. One thing to keep in mind is that current volatility cannot be known ahead of time. That's why it's a good idea to use the VIX in tandem with technical and fundamental analysis.

HOW CAPE WORKS

The cyclically adjusted price-to-earnings ratio (CAPE) can be used to smooth out the shorter-term earnings swings to get a longer-term assessment of market valuation. An extremely high CAPE ratio means that a company's stock price is substantially higher than the company's earnings would indicate and, therefore, overvalued. It is generally expected that the market will eventually correct the company's stock price by pushing it down to its true value.

In the past, the CAPE ratio has proved its importance in identifying potential bubbles and market crashes. The historical average of the ratio for the S&P 500 Index is between 15-16, while the highest levels of the ratio have exceeded 30. The record-high levels occurred three times in the history of the U.S. financial markets. The first was in 1929 before the Wall Street crash that signaled the start of the Great Depression. The second was in the late 1990s before the Dotcom Crash, and the third came in 2007 before the 2007-2008 Financial Crisis.

https://www.multpl.com/shiller-pe

Sources:

All index and returns data from Norgate Data and Commodity Systems Incorporated and Wall Street Journal

News from Reuters, Barron's, Wall St. Journal, Bloomberg.com, ft.com, guggenheimpartners.com, zerohedge.com, ritholtz.com, markit.com, financialpost.com, Eurostat, Statistics Canada, Yahoo! Finance, stocksandnews.com, marketwatch.com, visualcapitalist.com, wantchinatimes.com, BBC, 361capital.com, pensionpartners.com, cnbc.com, FactSet, Morningstar/Ibbotson Associates, Corporate Finance Institute.

Commentary from T Rowe Price Global markets weekly update — https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update