

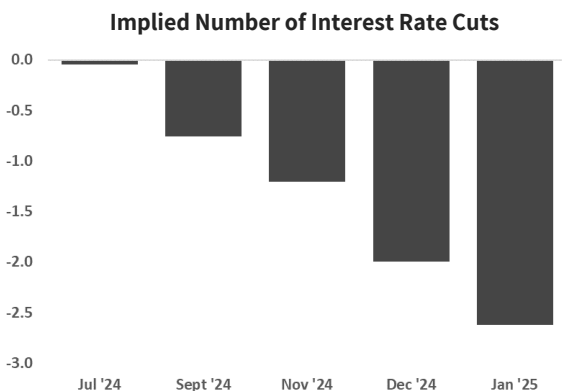
## Why Interest Rate Cuts Are Becoming More Likely

The Fourth of July holiday may have shortened last week’s trading schedule, but the holiday could not keep investors from growing increasingly focused on the probability of interest rate cuts to come. The bond market has reflected as much with 2-year and 10-year treasury yields falling 0.11% and 0.15% percent, respectively, over the past week. Falling rates have also helped the so-called “long-duration” (*i.e.*, growth) stocks continue their rally. Year to date, the Russell 1000 Growth index has returned 25.3% while its Value counterpart has returned 6.3%.

Last week’s economic data signaled a cooling economy which, when combined with slowing inflation in April and May, suggest that rate-cut hopes are well founded. Headline job growth of 205,000 in June might suggest a red-hot labor market. Downward revisions to April and May—and other signs of moderation, including an uptick in the unemployment rate to 4.1%—indicate that the labor market, on balance, is slowing, however. A slowing labor market should ease pressure on wages and prices, giving the Federal Reserve further support to move forward with rate cuts. Lower-than-expected figures from July’s ISM manufacturing and services indexes further suggest that economic activity is moderating.

In addition to Independence, lower interest rates—or rather the hope thereof—offered many investors additional reasons to celebrate last week.

### CHART OF THE WEEK



Source: Bloomberg, as of July 9, 2024.

FOMC Meeting Date

### Index Returns (%)

Equities	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.
S&P 500	5573	1.81	2.08	17.69	28.57	10.14
Russell 1000 Growth	3810	2.85	3.82	25.31	40.11	11.80
Russell 1000 Value	1713	0.35	-0.28	6.32	13.92	5.16
FTSE High Dividend Yield*	416	0.43	0.17	8.01	16.94	7.48
S&P Small and Mid Cap	16131	0.23	-0.72	3.26	12.23	2.74
MSCI EAFE	2361	1.80	2.04	7.93	16.83	4.08
MSCI EM	1107	2.13	2.27	10.04	16.11	-2.74

\* Bloomberg U.S Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

### Index Characteristics

NTM P/E	NTM P/E (20Y med)	NTM P/S	NTM P/S (20Y med)	Div. Yld
23.1	16.7	3.0	1.7	1.3
32.8	19.8	5.6	2.0	0.6
16.9	14.9	1.7	1.4	2.2
12.9	14.3	1.5	1.6	4.2
16.9	19.1	1.2	1.2	1.7
15.0	14.7	1.5	1.1	3.0
13.4	12.6	1.4	1.3	2.5

Fixed Income	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.
U.S. Aggregate	4.88	1.38	0.80	0.08	4.80	-2.90
U.S. Int. Gov/Credit	4.70	0.85	0.56	1.05	5.52	-1.10
U.S. Corporates	5.34	1.58	1.05	0.55	7.26	-2.84
High Yield	7.84	0.58	0.45	3.05	11.61	1.66
Municipals (1-10)	3.39	0.29	0.20	-0.57	2.69	-0.41

### Levels

Currencies	Last	1 Wk Ago	Prev YE	3 Yrs Ago
DXY	105.11	105.72	101.33	92.42
\$ per €	1.08	1.07	1.10	1.18
\$ per £	1.28	1.27	1.27	1.38
¥ per \$	161.29	161.44	141.04	109.72

Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago
2-yr Treasury	4.63	4.74	4.76	4.25	4.86	0.20
10-yr Treasury	4.28	4.43	4.40	3.88	4.00	1.29
30-yr Treasury	4.47	4.61	4.56	4.03	4.03	1.93
3-mo. LIBOR	5.66	5.58	5.59	5.59	5.56	0.12
6-mo. CD rate	5.35	5.38	5.42	5.28	5.78	0.22
Prime Rate	8.50	8.50	8.50	8.50	8.25	3.25
30-yr fixed mortgage	7.26	7.37	7.26	6.99	7.37	3.06

### Levels (%)

Commodities	Last	1 Wk Ago	Prev YE	3 Yrs Ago
Oil (WTI)	81.53	82.81	71.69	55.63
Gasoline	3.51	3.51	3.12	3.14
Natural Gas	2.64	2.44	2.51	3.69
Gold	1924	2329	2063	1803
Copper	8350	9527	8464	9288
Wheat	604	562	628	612
BBG Index	237.76	238.80	226.43	197.67

### LAST WEEK IN REVIEW

- **ISM Manufacturing (June):** Modest downside surprise, signaling contraction in manufacturing—48.5.
- **ISM Services (June):** Large downside surprise, signaling unexpected contraction in services sector—48.8.
- **Payrolls (June):** 206K jobs created, concentrated in healthcare and government workers. Downward revisions to April and May and uptick in unemployment to 4.1%.

### THIS WEEK

- **Consumer Price Index (June):** 7/11
- **Initial Jobless Claims (week, July 6):** 7/11
- **Producer Price Index (June):** 7/12
- **U. of Mich. Sentiment (July):** 7/12

### S&P SECTOR RETURNS

