

A Welcome Rally in Beleaguered Stocks

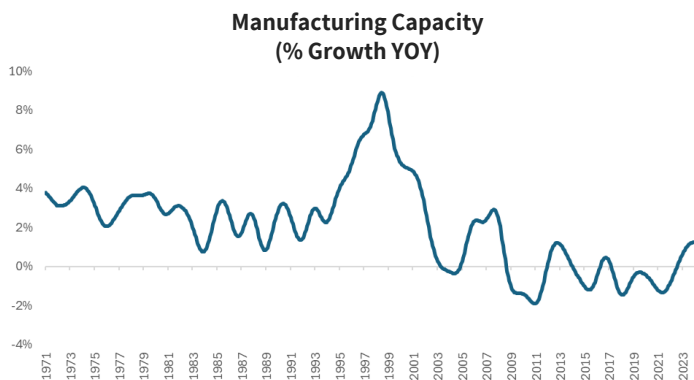
A rotation out of the crowded AI trade has benefited beleaguered small cap and value stocks. A historically narrow market, led by a handful of large tech companies, left many market watchers anticipating that companies with cheaper valuations would eventually catch up, at least momentarily. However, cheap valuations are not the only factor supporting an equity market broadening. Resurging demand for infrastructure to support AI and related technology also helps.

Aging infrastructure presents a bottleneck to the successful implementation of AI. Additionally, persistent underinvestment in U.S. infrastructure over the past decade has led to a 1% annual decline in manufacturing capacity from 2008 to 2022.¹ The average age of private nonresidential structures is now the oldest in nearly 70 years.² According to the American Society of Civil Engineers, roads, bridges, airports, dams, and water systems are in poor condition, earning a C- grade.³

As demand for AI accelerates, we believe infrastructure spending will begin to pick up in the near term, providing fundamental support for broader market leadership.

1. Federal Reserve, Industrial Production, www.federalreserve.gov.
2. U.S. Energy Information Administration, Commercial www.eia.gov/consumption/commercial/data.
3. ASCE Report Card for America's Infrastructure, www.infrastructurereportcard.org.

CHART OF THE WEEK



Source: Federal Reserve, Industrial Production & Capacity Utilization Data, www.federalreserve.gov

Index Returns (%)						
Equities	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.
S&P 500	5464	-1.80	0.13	15.44	21.00	8.96
Russell 1000 Growth	3562	-3.67	-2.93	17.16	25.53	8.44
Russell 1000 Value	1789	0.62	4.25	11.15	14.17	6.84
FTSE High Dividend Yield*	432	0.29	3.92	12.05	15.50	8.77
S&P Small and Mid Cap	17263	0.81	6.28	10.55	14.55	5.25
MSCI EAFE	2340	-1.13	1.16	7.00	10.05	3.65
MSCI EM	1077	-0.72	-0.34	7.25	6.22	-2.63

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

Fixed Income						
	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.
U.S. Aggregate	4.75	0.49	1.66	0.94	4.54	-2.85
U.S. Int. Gov/Credit	4.53	0.42	1.38	1.88	5.47	-0.97
U.S. Corporates	5.24	0.41	1.72	1.22	6.31	-2.92
High Yield	7.65	0.20	1.73	4.36	11.05	2.10
Municipals (1-10)	3.23	0.13	0.87	0.09	2.84	-0.27

Key Rates						
	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago
2-yr Treasury	4.40	4.49	4.76	4.25	4.88	0.21
10-yr Treasury	4.18	4.25	4.40	3.88	3.96	1.27
30-yr Treasury	4.42	4.49	4.56	4.03	4.01	1.92
3-mo. LIBOR	5.51	5.55	5.59	5.59	5.63	0.13
6-mo. CD rate	5.20	5.26	5.42	5.28	5.77	0.13
Prime Rate	8.50	8.50	8.50	8.50	8.50	3.25
30-yr fixed mortgage	7.14	7.16	7.26	6.99	7.26	3.01

Index Characteristics					
NTM P/E	NTM P/E (20Y med)	NTM P/S	NTM P/S (20Y med)	Div. Yld	
22.6	16.7	2.9	1.7	1.3	
30.2	19.8	5.2	2.0	0.6	
17.8	14.9	1.8	1.4	2.1	
13.7	14.3	1.6	1.6	4.0	
18.3	19.0	1.3	1.2	1.6	
14.8	14.7	1.5	1.1	3.0	
13.0	12.6	1.4	1.3	2.6	

Levels				
Currencies	Last	1 Wk Ago	Prev YE	3 Yrs Ago
DXY	104.56	104.45	101.33	91.86
\$ per €	1.08	1.09	1.10	1.19
\$ per £	1.28	1.29	1.27	1.40
¥ per \$	153.27	155.59	141.04	109.48

Levels				
Commodities	Last	1 Wk Ago	Prev YE	3 Yrs Ago
Oil (WTI)	74.99	76.96	71.34	57.43
Gasoline	3.50	3.51	3.12	3.17
Natural Gas	2.12	2.19	2.51	4.06
Gold	2407	2410	2063	1828
Copper	8894	9047	8464	9800
Wheat	523	543	628	705
BBG Index	226.01	230.67	226.43	208.20

LAST WEEK IN REVIEW

- **Existing Home Sales (June):** -5.4% MoM. Tight inventories and high mortgage rates continue to weigh on sales.
- **2Q U.S. GDP, First Estimate:** Upside surprise. 2.8% vs. 2.0% estimate. High contribution from inventories likely to reverse in Q3.
- **PCE Inflation (June):** HL 0.1% MoM, 2.5% YoY. Core 0.2% MoM, 2.6% YoY.

THIS WEEK

- **JOLTS (June):** 7/30
- **FOMC Rate Decision:** 7/31
- **Productivity and Unit Labor Costs (2Q):** 8/1
- **ISM Manufacturing (July):** 8/1
- **Payrolls and Unemployment (July):** 8/2

S&P SECTOR RETURNS

