



# PRECISION

## Financial Services, Inc.

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## July Market Update

Hope you are doing well! June was an excellent month to be a long-term investor in the U.S. financial markets.

### Major U.S. Stock Indexes

Major U.S. stock indexes were on a mission in June, with the S&P 500 Index having its best month since October 2022. Investors cheered falling inflation throughout June and ended the month – and quarter – with a bang across the S&P 500, Nasdaq, and Dow Jones Industrial Average.

AI and technology were front and center all month, with tech giants like NVIDIA and Meta Platforms outperforming. Markets are in love with the AI craze, and the momentum seems to defy logic for recession watchers.

For June, the mega-cap, tech-heavy Nasdaq 100 increased by 6.49%, the S&P 500 rose by 6.47%, and the Dow Jones Industrial Average saw an uptick of 4.56%.

### Volatility Dissipates

S&P 500 volatility, as measured by the \$VIX, dried up in June, signaling fearless and calm investors. The \$VIX (also known as the Fear Index) started the month at \$17.24, which was already a subdued level in the eyes of many market participants.

But fast forward to the end of the month, and the \$VIX closed the month below \$13.50. This kind of reading had not been seen since pre-pandemic days, not even during the stock market rally in 2021.

Moral of the story? Investors feel confident. Whether this is short-term or long-term is up for debate. Regardless, it seems market bears are currently in summer hibernation!

### Bullish Sentiment Dominates Narrative

Many market watchers are seemingly still awaiting the most highly anticipated recession in history. Solid fundamental reasons exist for such logic, including monetary policy, elevated interest rates, inflation, and an inverted yield curve.

However, markets don't always behave how most people think they will. Long-term investors have an edge here, as there is only a small element of market timing (i.e., making buying/selling decisions based on market predictions) with long-term investing.

### AI, Technology Outperform Industrials, Value

AI and tech continue to attract new investment in this surprisingly resilient economy.

It's worth noting that tech IPOs (initial public offerings) have been dry amid the higher interest rate environment and varying valuation metrics. This means you may not have heard about as many new tech companies to invest in on the stock market in recent years.

However, **tech and AI** have been finding new private investors at a furious pace in recent months.

In addition, large-cap tech has been leading the market, while old-school industrials and value-oriented stocks have lagged. Seeing tech lead markets higher is constructive and keeps the door open to broader market strength, which we saw a bit of evidence of in June.

However, a broader market rally across more sectors would be even better. That is what is on the mind of many heading into July.

### **Fed Pauses Rate Hikes**

After ten consecutive interest rate hikes, the Fed finally took a break in June, leaving the benchmark overnight lending rate unchanged.

Let's not get too excited just yet, though. Federal Reserve Chair Jerome Powell did signal more restriction is coming – and that the Fed intends to complete two more rate hikes later this year.

Back in March, expectations were for one more rate hike in 2023, and we are now at two for the remainder of 2023. Still, a more hawkish-sounding Fed didn't deter the appetite of stock market bulls as June came to a close.

### **Treasury Yields Rise**

The benchmark 10-year note yield rose in June, settling near 3.82% for the month, up from the May monthly settlement near 3.63%.

In recent days, Fed Chair Powell has sounded hawkish – meaning more rate hikes are on his mind – and economic data has also been healthy, contributing to a rise in yields.

Short-term duration Treasuries also rose in June, and the 2/10 yield curve has remained inverted. An inverted yield curve is a classic sign of recession. So far, this stock market will not hear it!

### **Jobs Growth**

Nonfarm payrolls for May (released in June) again showed continued labor market strength. The jobs number came in way above expectations, showing 339,000 jobs created versus 190,000 expected. Professional and business services led the way in job creation.

Rising interest rates are intended to cool job demand, yet employers continue to add workers at a healthy pace. The American labor shortage is quite a phenomenon, and in some locales, it may be difficult to locate skilled trade workers.

This strong employment data leaves the data-dependent Fed's pathway to higher interest rates open.

### **Inflation: Lowest Year-Over-Year Data in Two Years**

The most recent Consumer Price Index (CPI) data for May, released in June, had Wall Street bulls on parade:

- CPI increased only 0.1% month-over-month.
- CPI increased 4% from one year ago, a two-year low.
- Core CPI (which excludes volatile food and energy) rose 5.3% from one year ago.

- Food prices are still higher by 6.7% from a year ago.

Considering that inflation was running at a 6% clip year-over-year back in March, stock market bulls had lots of logic behind their stampede into stocks last month.

### Message of the Markets

So what is the message of the markets right now? One message seems to be that declining inflation metrics are superseding the inverted yield curve and Fed-induced recession fears. Many will argue that this message does not make sense – and that is yet another reason that it's good to be a long-term investor.

If a trader or investor was trying to time the market in March during the regional banking panic, they more than likely would not have participated in the gains we just saw in June! **Long-term investors stay the course with discipline.**

With that said, please feel free to reach out if you have any investing questions or concerns.

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