August Market Update

July brought mixed signals for investors to sort through. Inflation data pointed to cooling prices in June, and the labor market held steady even though the Federal Reserve grew more cautious without a rate hike.

At the same time, the U.S.-Iran conflict rattled supply concerns and whipsawed energy prices, while high-momentum stocks ceded ground as money shifted into other sectors.

Here's how it all shook out for the month:

Major U.S. Stock Indices

Market leadership shifted throughout the month. Smaller companies and value plays advanced while AI and chip stocks pulled back, although strong earnings reports from Microsoft and other tech heavyweights trimmed some losses.

- The S&P 500 slipped 0.13%.
- The Nasdaq 100 plunged 6.61%.
- The Dow Jones Industrial Average edged higher by 0.32%.

The Macro Outlook

Economic growth slowed, but didn't stall. Second-quarter GDP, which was released July 30, grew at a 1.5% annualized pace, as rising imports offset otherwise steady consumer spending. Retail activity held up through June even as shoppers grew more price-sensitive and confidence wavered. Consumer sentiment touched a five-month high in July, though renewed Middle East tensions and rising gasoline prices could make the improvement hard to sustain.

The labor market shows signs of a soft landing. June payroll gains, which were released July 2, came in well below expectations, and unemployment ticked up modestly, signs of a hiring slowdown rather than distress. However, jobless claims stayed low, showing no sign that layoffs are accelerating. Slower hiring and steady unemployment, alongside resilient consumer spending, paint a picture consistent with a soft landing, one where growth decelerates gradually rather than deteriorating quickly.

Inflation eased, yet Fed Chair Warsh isn't declaring victory. June's inflation report showed a decline broad enough to lift hopes policymakers could hold off on tightening, and traders quickly pared back bets on near-term hikes. Warsh offered little forward-looking guidance at the press conference after the Fed's July 28-29 meeting, having moved away from the communication strategy of his predecessor. Underlying price pressure remains well above target, and that gap with market optimism is likely to keep driving the debate until officials say more.

Energy remains the wild card that could upend the inflation story. A rebound in oil prices tied to renewed fighting between the United States and Iran has reignited concerns that supply shocks could reverse recent progress. That has shifted the market conversation. Instead of debating whether the dovish Fed might start cutting rates, investors are now weighing whether it will be forced into a rate hike, a shift that shows how quickly sentiment turns when energy price volatility returns.

The Bottom Line

The economy is still expanding, and inflation has eased on some measures, but neither trend is decisive enough for the Fed to call the fight won. Moderating growth alongside price pressure that hasn't fully retreated means policy uncertainty will likely persist into the fall.

The market looks healthier than it did earlier this year, with leadership broadening beyond a handful of tech heavyweights. But those stocks still carry outsized weight in driving index performance, and that concentration means sentiment can reverse quickly if they stumble.

For portfolios, the approach hasn't changed. Staying diversified and favoring a long-term outlook can help navigate a market still leaning on a single growth theme, especially with inflation and the Fed's next move still uncertain.

As always, if you have any questions, please don't hesitate to reach out to your advisor.

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