

Beacon Weekly Investment Insights

The S&P 500 had another winning week, delivering a 1.3% gain, while the Dow Jones Industrial Average and Nasdaq Composite gained 0.3% and 2.4%, respectively. Performance last week was largely a microcosm of year-to-date performance. That is, technology-oriented growth stocks noticeably increased in value and most other indexes generated unspectacular results. Specifically, the Nasdaq Composite and Russell 1000 Growth index are up 14.1% and 15.8%, respectively, thus far in 2024. In contrast, the Dow Jones Industrial Average (+2.9%), Russell 1000 Value (+5.7%), and Russell 2000 (-0.03%) noticeably lag the returns of their growth-oriented brethren.

In a word or two, the difference in performance may largely be explained by artificial intelligence (AI) stocks and there is no stronger AI firm than NVIDIA. NVIDIA surged another 10.3% last week and is up an astounding 144% year-to-date on the heels of tremendous 2023. The total value or market capitalization of NVIDIA's stock is now approximately \$3 trillion dollars. The firm surpassed the market cap of Apple last week and now only trails Microsoft's \$3.15 trillion value. These three tech titans now account for an astonishing 20% weight of the entire S&P 500, which obviously has 500 components. NVIDIA's primary founder, Jensen Huang, now has a net worth in excess of \$100 billion dollars and will soon be mentioned in the same breath as other tech visionaries, Steve Jobs, Bill Gates, and Jeff Bezos.

Perhaps the most important economic report released last week was the nonfarms payroll or jobs report. The report, which was published last Friday, showed a stronger-than-expected jobs market, with a net addition of 272,000 jobs and an unemployment rate that edged up to 4%. This latter figure snaps a streak of 24 consecutive months of an unemployment reading below 4%. As we have discussed in our past writings, the unemployment rate may increase when the total number of jobs also increases if more people are looking for work, in addition to some other nuances in the calculation. The consensus estimate for the number of new jobs was 185,000, resulting in a sizeable 47% upside surprise.

This unexpected strength in the labor market tempered expectations for interest rate cuts by the Federal Reserve later in the year. About a week ago the first rate cut by the Fed was expected to occur in September. Currently, the odds are now skewed towards the first cut occurring in November. Although most equity indexes remain in positive territory, the Bloomberg Barclays Aggregate Bond Index is down 1.1% year-to-date, largely due to the upward drift in long-term interest rates. Looking at some of the Fed's peers, the European Central Bank (ECB) and Bank of Canada (BOC) kicked off their rate cutting cycles with each central bank delivering a modest 25 basis point cut. This dynamic in concert with China's Central Bank announcing a pause in their 18-month gold buying program, helped drive the U.S. Dollar Index (DXY) to modestly rise and gold to noticeably fall. Gold fell nearly 4% on Friday, but remains up a healthy 11.6% year-to-date.

The Institute for Supply Chain Management (ISM) released their Manufacturing and Services Reports last week. The reports reverted to their recent historical patterns, with the ISM Manufacturing Index showing modest weakness and the ISM Services Index showing moderate strength. In short, the reports, in concert with the aforementioned jobs report, do not signal an imminent recession and suggest continued GDP growth in the neighborhood of 2%.

Turning to the economic calendar, the Federal Open Market Committee will meet this week and there are also noteworthy sentiment and inflation related reports. Although it is almost a forgone conclusion that the Fed will hold short-term rates constant on Wednesday, its commentary and outlook subsequent to the meeting often moves markets. On Wednesday the Consumer Price Index (CPI) report will be released and will be followed on Thursday by the Producer Price Index (PPI), a measure of wholesale inflation. If either report comes in too hot it has the potential to further delay Fed rate cuts and negatively impact asset prices.

A measure of business confidence, the National Federation of Business (NFIB) Small Business Optimism Index, will be released on Tuesday. Since small businesses generate the bulk of new jobs, some analysts tend to watch it closely. On Friday the University of Michigan Consumer Sentiment Index will be released, which often provides a pulse on consumer spending. In short, it may be an eventful week in the financial markets as we get close to the official start to the summer.

Market Scorecard:	6/7/2024	YTD Price Change
Dow Jones Industrial Average	38,798.99	2.94%
S&P 500 Index	5,346.99	12.10%
NASDAQ Composite	17,133.13	14.13%
Russell 1000 Growth Index	3,533.13	15.78%
Russell 1000 Value Index	1,722.63	5.72%
Russell 2000 Small Cap Index	2,026.55	-0.03%
MSCI EAFE Index	2,368.97	5.49%
US 10 Year Treasury Yield	4.430%	56 basis points
WTI Crude Oil	\$75.38	5.68%
Gold \$/Oz.	\$2,311.10	11.55%



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