

## WEEKLY INSIGHT

July 19, 2024

### Small Caps Surge in Wild Week for Equity Markets

Small caps began moving higher after a better-than-expected CPI report. Changing presidential polls added more fuel and pushed them up 9.2% on the week. The S&P 500 was down 0.8% as the crowded technology trade began to unwind. The NASDAQ finished down 3.5% on the week. Core bonds were up 0.9% as September rate cut probabilities moved to 100%.

Small caps rallied 11.5% over a five-day stretch. It was the largest five-day gain since the COVID lows in early 2020. It was also the largest five-day gain that occurred outside a major bear market low in at least 30 years. Making things interesting was the fact that technology shares, especially large cap, sold off sharply. It was well known that long tech, short small caps was a crowded trade. It would unwind in a violent manner. The Russell 2000 outpaced the S&P 500 by 10% over a five-day period. This was the highest dispersion since 1987 and the second-largest ever.

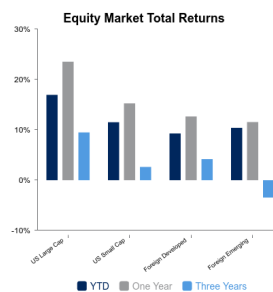
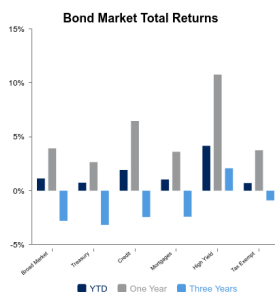
Semiconductors had a daily drop of 6.8% following comments from both presidential candidates and the continued rotation in the markets. It was the largest daily decline since March 2020. Meanwhile, homebuilders were up 16.6% in the largest ever five-day rally outside of a bear market low.

### Falling Inflation Positions the Fed to Cut

The key economic data point this week was CPI, which came in lower-than-expected last Thursday. The core reading was up 0.1% versus the previous month. The headline number was negative 0.1%, which spooked more than a few economists and analysts. There continues to be a wide divide in views on whether a recession is quickly approaching versus a soft-landing and reaccelerating economy. The negative CPI print is a red flag for those that fall in the former camp.

The Leading Economic Index came in at -0.2% versus the previous month. It continues to improve but has now gone 28 consecutive months without a positive monthly reading. This is the longest stretch without a positive reading in the entire 65-year series.

The market moved September to a 100% probability of a cut following the CPI report. The 10-year Treasury traded down 4.15%, its lowest level since March. The other key development is the Treasury curve beginning to steepen, although it remains inverted in most cases. Fed rhetoric supported the notion of beginning to cut interest rates with improving inflation readings, although they seemed to indicate July was unlikely to see action.



Interest Rates (%)	Current	12M Ago	3YR Ago
Fed Funds Rate (Upper)	5.50	5.25	0.25
3-Month T-Bill	5.37	5.37	0.04
10-Year Treasury	4.28	3.97	1.36
30-Year Treasury	4.48	4.01	1.99
10-Year Corporate AA	5.16	5.17	N/A
10-Year High Yield Corp	6.55	7.28	4.41

Commodity Prices (\$)	Current	12M Ago	3YR Ago
Gold (\$/oz.)	2,371.26	1,932.23	1,808.32
Oil (WTI, \$/barrel)	82.10	74.83	74.56

Currencies	Current	12M Ago	3YR Ago
USD (Dollar Index Spot)	105.05	101.73	92.13
USD/EUR	0.92	0.91	0.84

**Jim Dombek,**  
JD, CTFA, AFTA  
Director of Trust Services  
& Counsel  
(815) 748-5011

**Keith Akre, CFA, CFP**  
Senior Trust Officer  
(815) 748-1443

**Mary Phelan, CTFA**  
Trust Officer &  
Operations Supervisor  
(815) 748-1607

**Carrie Thompson, JD**  
Trust Officer &  
Legal Counsel  
(815) 748-5012

**Stacia Little**  
Trust Officer  
(815) 748-1609