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SUMMER MARKET COMMENTARY

By Tom Crow

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Index	Month End	Gain (Loss) by Period (ending June 30, 2024)			
		Month	Most Recent Quarter	Year-to-Date	Trailing Twelve Months
Dow Industrials	39,119	1.1%	(1.7%)	3.8%	13.7%
S&P 500	5,460	3.5%	3.9%	14.5%	22.7%
Nasdaq	17,733	6.0%	8.3%	18.1%	28.6%
Gold	2,330.90	(0.7%)	5.3%	13.0%	21.9%
Silver	29.37	(6.1%)	19.7%	23.5%	30.7%

Up until the last few days, the indices have continued to grind higher while our indicators show increasing odds for a pullback. Just keep in mind, markets can extend to the up or downside well beyond the “experts” opinions, and indicators can be wrong.

Nonfarm payrolls rose 272,000 in May, easily beating the consensus expected 180,000. While this seemed like a blowout number, civilian employment, an alternative measure of jobs that includes small-business start-ups, dropped 408,000 while the labor force (people who are either working or looking for work) declined 250,000. That pushed the unemployment rate up to 4.0%, which was the highest since January 2022. March and April payrolls were also revised lower by 15,000 jobs.

The labor force participation rate (the share of adults in the labor force) declined to 62.5% and the employment rate (the share of adults who are working) declined to 60.1%. Total hours worked and average hourly earnings increased enough to stay ahead of inflation.

In June, headline payrolls increased 206,000, but there are now clear signs the job market is decelerating. The prior month revisions subtracted 111,000 jobs from the earlier-reported gains. Private sector payrolls rose 136,000 in June, but were revised down by 86,000 for earlier months, bringing the net gain to just 50,000.

Meanwhile, civilian employment, an alternative measure of jobs that includes small-business start-ups, rose 116,000 in June but is up only 195,000 from a year ago. This is what has been causing the unemployment rate to continue to creep higher despite seemingly strong headline numbers. It is now at 4.1% versus 3.6% a year ago.

Notably, the household survey also shows full-time employment 1.55 million lower than it was a year ago. Full-time jobs were lost at the expense of part-time ones.

Another emerging sign of weakness in the labor market is that it's taking longer for unemployed workers to find new jobs. The median duration of unemployment is up to 9.8 weeks in June, which is the highest it has been since January 2023. This is consistent with the recent upward creep in continuing jobless claims.

The “core” employment we prefer to look at increased by only 47,000 in June, which is quite a bit lower than the average of roughly 70,000 per month during the first half of the year. That may be good news for the Fed, but maybe not so good news for workers as wage growth continues, but at a slower pace.

Average hourly earnings increased 0.3% in June and are up 3.9% versus a year ago. Back in June 2023, average hourly earnings were up 4.7% from the prior year. Given the Fed's target of 2.0% inflation plus productivity growth of around 1.5% per year, they're probably looking for wage growth in the vicinity of 3.5%, which is still a little lower than current levels.

The biggest unknown is whether monetary policy tight enough to reach the Fed's inflation goals is also tight enough to slow the economy further in the months ahead.

The stock market is cruising along but taking a closer look it's clear that until just recently this rally was largely confined to just a handful of stocks. Perhaps more importantly, there seems to be a lot to worry about that investors may be overlooking. So, what could go wrong? Here are just a few things to consider.

1. The odds of some kind of election crisis are increasing. Recent assassination attempts aside, the age and health of both leading candidates is a big wild card. Biden's performances during the debate and follow up interview days later did not help him, leading some members of the press, some of his high-profile celebrity supporters and an increasing number of democrats to turn against him. Trump has also had some lapses at rallies and in recent interviews when he

goes off script. Further, if recent elections are any indication, the outcome may not be known in November, due to recounts, and challenges amid charges of fraud. Markets hate uncertainty.

2. Sometimes, when the labor market softens, economic slowdowns come very quickly. If grouchy and uncertain consumers stop or slow their spending, GDP growth could rapidly shift from good to mediocre by this fall.

3. The Fed's obsession with getting to an arbitrary inflation goal of 2% could backfire. We alluded to this earlier, but while central banks in Canada and Europe have acknowledged an easier monetary policy is necessary, the Fed could (and usually does) hold rates too high for too long and stall economic growth. Notice we're not hearing much about "soft landings" anymore?

4. The threat of continued global instability is growing. Ukraine may be able to hold off Russian advance this summer, but a breakthrough is unlikely. In Israel, despite rumored peace talks, continued guerrilla warfare is a very real threat. Iran and China will certainly continue their efforts to destabilize the Middle East, and those calling for a ceasefire seem to have forgotten that a ceasefire was in place... right up until Hamas decided to break it this time.

5. While some are claiming that there is no precedent in recorded history for the scorching heatwave we're experiencing in much of the world, the data doesn't really support that. We've had comparable global heat waves in the past, but there's little doubt we're in one now and it could very well fuel more powerful storms, high winds, and widespread fires beyond what we've already experienced for several more months.

6. Largely overshadowed by more-exciting headlines, a Commercial Real Estate collapse is yet another looming economic wild card as office workers continue to stay home, and cities face a lingering glut of empty office buildings. Landlords are collecting less rent while facing continuing mortgage payments, or being forced to refinance in a higher-rate environment, and their maintenance expenses are just as susceptible to inflation as everyone else's.

The bottom line is that the U.S. economy has been remarkably resilient, and that could continue, but our sense is that consumers may pull back on spending and investing until there's more political clarity and clear signs of lower inflation, neither of which are likely to come until winter. Again, our indicators, which have guided us safely through similar situations in the recent past are telling us to reduce exposure to risk.

Things can, and often will change quickly. We update our view of things daily, not monthly or quarterly, so we're ready to take advantage of opportunities when they arise. Stay tuned, and we'll be back with another update in a month or two, or sooner if necessary. Please don't hesitate to call or email if you have questions or comments or just want to talk.

As somewhat of a P.S. to this Commentary... I really had intended not to spend any time on the events of this past weekend, but I just read a piece shared by Jim Woods, credited to his friend, Brandon Brison entitled "THIS. IS. NOT. FUNNY." made me change my mind, so I'll leave you with a handful of my plagiarized and reorganized thoughts of his from that piece with which I wholeheartedly agree, and which apply to "we the peoples'" post-election behavior every bit as much as they apply to last weekend's assassination attempt.

*It doesn't matter what you think about the personality of the person targeted. **When murdering your political enemies becomes acceptable, bad, bad things soon follow.** I am not a fan of politics, politicians or bureaucrats, but they exist because debate is a preferable proxy for tribal violence.*

I have never personally experienced war in my homeland, but when you remove the "proxy" aspect and move from the realm of the mind to the realm of raw force, the only possible outcome is warfare, oppression and genocide, and even if your side "wins" no one emerges unscathed.

I'm not the type who thinks violence is forever off the table. I believe many things are worth fighting for, and some things are worth dying for, but if I'm ever driven to the point of taking up arms to defend my family, it will be mournfully and with a realistic idea of the horrible and dangerous world that is to come.

I hope and pray that day will never arrive, in my lifetime or my children's lifetimes or their children's lifetimes. I hope that we can somehow continue to muddle through the next few centuries or longer on the power of mean words, harsh rhetoric, gritty debate, compromise and ugly unity so future generations can live in relative prosperity and peace.

If any silver lining can be found in the weekend's assassination attempt, I hope that it causes every single person in this nation to stop for a second and reflect on how close we came to a civilization-fracturing event. And I hope that the people sharing their smug celebrations of the failed assassin from the safe confines of their social media platforms realize how colossally stupid their first take was and that they sober up to the realities of the world as it actually is... not the "Scripted Reality TV" version.