THE CAPITAL MARKETS

New Covenant Trust Company

Issue 7 | July 2024

MARKET UPDATE AT A GLANCE

The Dow Jones Industrial Average (DJIA) finished June at 39,119, up +1.12% for the month and +3.79% so far in 2024. The S&P 500 closed June at 5,460, up +3.47% for the month and up +14.48% year-to-date. The NASDAQ Composite gained +5.96% in June, up +18.13% for the year. Small-company stocks, as measured by the Russell 2000, ended June down -1.08% for the month, up +1.02 so far for the year. Technology (+19.50%) has been the best-performing sector so far in 2024.

Q2 2024 REVIEW: MARKETS KEEP DANCING TO 2023'S HITS, ROTATION MAY BE BREWING

The S&P 500 ended the first half of 2024 up over +15%, in large part driven by the same familiar factors that have pushed the market higher by +24% in 2023, and now over +50% since October of 2022.

Optimism surrounding softening inflation, falling interest rates and a productivity boom from artificial intelligence have been the key themes driving this 21-month rally. The S&P 500 has seen over 38 record-high closes in 2024, after going over two years without one.

Despite 2024 being an eventful, perhaps historic, year in several contexts, things have been remarkably calm in terms of markets.

The VIX Volatility Index hit a five-year low in June and has consistently been at low levels throughout the year. The bond market has traded within its tightest range in recent years, despite volatility in interest rate expectations and growing concern around future Treasury-funded U.S. budget deficits.

Markets have remained mostly content all year to continue running the 2023 playbook, despite some metrics becoming increasingly stretched as a result.

"Investors have been shifting from the mega-cap tech stocks that dominated the first half of the year into areas of the market that could benefit from potential rate cuts, such as shares of smaller companies and more economically sensitive sectors."

(Wall Street Journal, Hannah Miao, July 18, 2024)

VALUATIONS MAY BE HITTING A NEAR-TERM CEILING

The forward price-to-earnings ratio, a popular valuation metric signaling how relatively expensive a market or a stock is, on the S&P 500 ended June at 21.0, well above its 10 year average of 17.9.

The last time the forward P/E on the S&P 500 was above 20 was in 2021, and before that was in the last 1990s.

The Russell 1000 Growth Index, dominated by the Magnificent 7 mega-cap tech stocks, ended June with a staggeringly high forward P/E of 28.4, well above its 10-year average of 22.5. On the flip side, areas of the market like small caps, value stock, and international markets are all seeing valuations at or below their long-term averages.

As we head into the second half of 2024, many strategists are expecting to see some rotation away from the huge tech companies, which have driven the market to these lofty valuations, and toward some of the more fairly valued areas of the market. For now, markets are not expecting any near-term slowdown in the economy or recession, but with valuations as high as they are, any worse-than-expected news could spark volatility.

We're encouraging investors to focus on balance and diversification in this market, as some areas will zig and some will zag, sometimes sharply and without warning.

It's important to maintain a balanced exposure to all areas of the market.

With volatility risk elevated, as always, we also recommend investors ensure their asset allocations match their goals and time horizon, with any near-term needs in cash reserve.

"On July 11, a surprisingly cool inflation report appeared to change everything. While investors had long expected the Fed to begin trimming rates, the data made them nearly sure that those rate cuts would begin in September. Believing the shift toward lower rates was almost upon them, investors raced to trim their winning bets on tech and lean into parts of the market likely to rally when rate cuts lower borrowing costs and boost the economy."

(Wall Street Journal, Karen Langley, July 22, 2024)

ECONOMIC UPDATES

Month-over-month CPI inflation dropped in June for the first time in over four years, declining -0.1% from May, putting the 12-month rate at 3.0%.

This was viewed as great news for markets, as the Fed now has several months in a row of softening inflation, providing the evidence it may need for interest rate cuts in the near term.

In the labor market, 206,000 jobs were added in June, while the unemployment rate unexpectedly ticked up to 4.1%, its highest level since October of 2021.

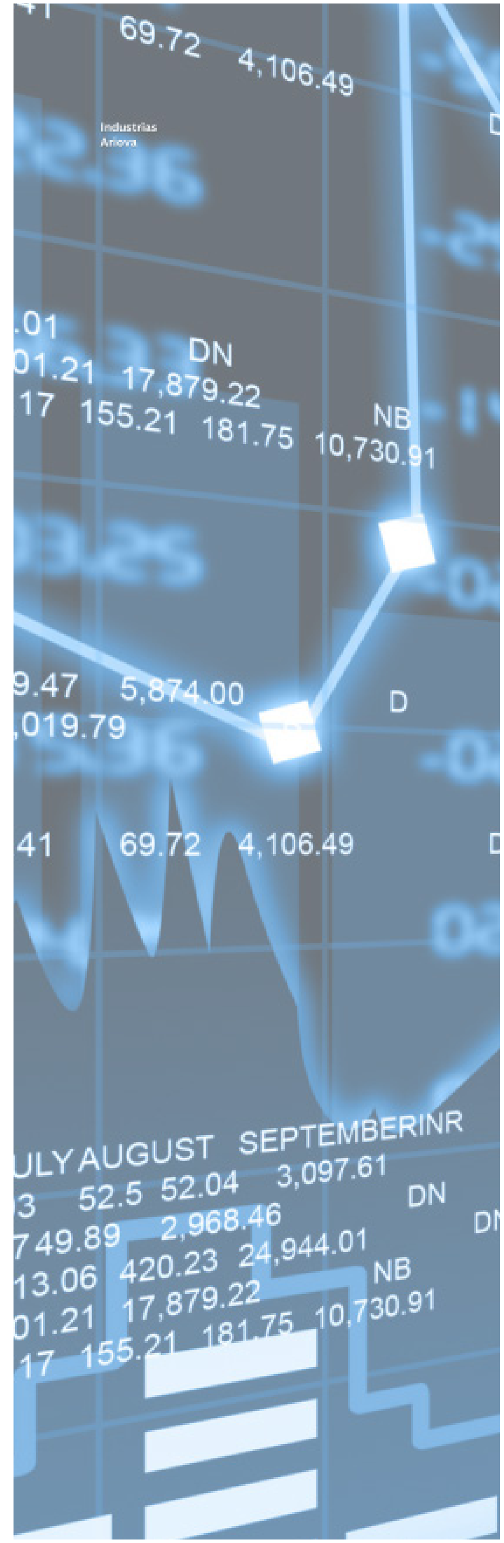
The unemployment rate is ticking up in large part due to increases in labor force participation. The so-called prime age labor force participation rate, measuring workforce levels for those ages 25 to 54, rose to 83.7% in June, its highest level in more than 22 years.

Falling inflation and a softening-but-still-strong labor market is being described by some as a Goldilocks scenario for markets.

Should inflation heat back up, or should the labor market get too cold, markets may correct sharply from their current lofty valuations, which are pricing in significant optimism that these measures will continue to trend in a favorable direction.

Market Metrics

Index or Metric	Close as of 5/31/2024	Close as of 6/30/2024	Change Previous Month End	2024 YTD % Change
Dow Jones Industrial Average	38,686.32	39,118.86	+432.54	3.79%
S&P 500	5,277.51	5,460.48	+182.97	14.48%
NASDAQ Composite	16,735.02	17,732.60	+997.58	11.48%
RUSSELL 2000	2,075.80	2,065.00	-10.80	1.02%
Fed Funds Rate	5.25% - 5.50%	5.25% - 5.50%	UNCHANGED	
2-Year Treasury	4.89%	4.71%	-0.18%	
10-Year Treasury	4.51%	4.36%	-0.15%	
Crude Oil $ per Barrel	$76.99	$81.54	+4.55	13.80%
Gold $ per Troy oz.	$2,345.80	$2,339.60	-$6.20	12.93%
UK Point in U.S. $	$1.2732US=1£	$1.2641US=1£	$ STRONGER	-0.84%
Euro in U.S. $	$1.0856US=1	$1.0717US=1	$ STRONGER	-2.98%
Canada $ per U.S. $	$1.36315C=$1.00US	$1.36835C=$1.00US	$ STRONGER	3.77%
Japan Yen per U.S. $	157.145¥=$1.00US	160.86¥=$1.00US	$ STRONGER	14.10%



NEW COVENANT TRUST
A Subsidiary of the Presbyterian Foundation

200 E. 12th Street | Jeffersonville, IN 47130
trustservices@presbyterianfoundation.org | 800-858-6127, Option. 6
newcovenanttrust.com