

A Small-Cap and Value Stock Rally in July

AUGUST 2024



In July, the market experienced a shift in stock performance leadership with small-cap and value-oriented stocks gaining the most on average. While the S&P 500 Index of the largest U.S. companies returned slightly over 1% for the month, the Russell 2000 Index of small companies climbed 10%.

Value indices also outperformed their growth counterparts. In fact, in July, the large-cap Russell 1000 Value, which returned 5%, outperformed its counterpart Russell 1000 Growth by 6 percentage points—the widest monthly margin since March 2001! Among the S&P 500's 11 sectors, Information Technology and Communication Services sectors, which had been top performers over the first six months of 2024, fell in July. The 6-month lagging value-oriented sectors including Real Estate, Utilities and Financials all rose by more than 6% for the month.

With only a few mega-cap stocks producing most of the market performance in the first half of the year, many investors began searching for undervalued opportunities. In addition, the July inflation report boosted investors' confidence that the Federal Reserve would cut interest rates later this year. With lower borrowing costs, consumers benefit from a reduction in the rate on variable interest rate loans, such as credit cards and home equity loans. Mortgage rates, on average, will also tend to fall making home purchases more affordable. On the corporate side, smaller companies tend to benefit more than their larger peers from a reduction in rates.

The Fed has been closely watching the economy for signs of slowing. U.S. inflation rose 3.0% over the past year ending in June 2024, which was a smaller 12-month increase than the 3.3% rate reported in May.¹ In July, the unemployment rate ticked up to 4.3%.² Depending on future reports, the Fed could start cutting rates in September.

This month's stock market returns reminded investors of the importance of a diversified portfolio. Since stock performance leadership in small- and large-caps or growth and value stocks is difficult, at best, to predict and can change quickly, it is generally not recommended to hold too much of one's assets in only one area of the market. Rather, holding a variety of asset classes may reduce the likelihood that any one asset class would have a disproportionate adverse effect on an overall portfolio. Speak with your Financial Advisor regarding your evolving short- and long-term goals to ensure your portfolio is properly diversified according to your plans.

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1. U.S. Department of Labor. 2. U.S. Bureau of Labor Statistics

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