

Global Market's reaction to recession fears appears exaggerated as the latest GDPNow has the economy growing at 2.50% GDP.

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The U.S. and European stock markets experienced another significant downturn to open the week following a 2% decline last week driven by a late-week sell-off; equity markets continue to face downward pressure on Monday. Our initial assessment of last week's and this week's market turbulence and sell-off is that considering various market factors marks the conclusion of one stock rotation phase and initiating another. The abrupt and severe market downturn sparked concerns that the Federal Reserve might have missed its opportunity to support a weakening U.S. economy. This shift ended the previous stock rotation, ushering in a new phase and leaving investors grappling to regain footing.

The Dow Jones fell 1,033.99 points, the S&P 500 dropped 160.23 points, and the Nasdaq Composite fell 576.08. Technology stocks significantly contribute to this decline, including the Magnificent Seven, which has seen drops as follows: NVIDIA fell 6.36%, Apple fell 4.82%, Alphabet fell 4.61%, Tesla fell 4.23%, and Amazon fell 4.10%. Microsoft fell 3.27%, and Meta only fell 2.54%.

As I mentioned about asset rotation, below is a good example: Warren Buffett's Berkshire Hathaway recently sold \$75.5 billion in stocks, reducing its stake in Apple by 50%. This move raised Berkshire's cash reserves to a record \$277 billion, signaling a shift towards a more conservative investment approach amid current market uncertainties. The reduction in Apple holdings suggests a more cautious outlook on technology stocks and a broader strategy to mitigate risks associated with potential economic challenges.

Key factors behind today's market action include:

- **Rising Recession Concerns:** Worries about a potential recession have escalated, sparked by a weaker-than-expected jobs report last week.
- **Global Market Pressure:** Japan's Nikkei index has plunged 12%, partly due to a divergence in monetary policies. While Japan tightens its policy, other major central banks are cutting rates, disrupting the Japanese yen and broader currency markets.
- **Technology Stock Declines:** Leading tech stocks, including Apple and NVIDIA, are experiencing significant losses, dragging down overall equity indexes. Defensive sectors are faring better, but the market decline is broad-based.
- **Safe Haven in Bonds:** As markets shift to a "risk-off" mode, U.S. Treasuries are rallying, pushing 10-year yields below 3.7% for the first time in over a year.
- **Geopolitical and Political Uncertainty:** Rising tensions in the Middle East, with threats of an Iranian retaliatory strike on Israel, add to the market's cautious sentiment.

Despite the sharp drop-in recent days, we do not believe this signals a fundamental shift in market direction.

The market's reaction to recession fears appears exaggerated. Last week's jobs report was disappointing but doesn't indicate a collapsing labor market. The economy may slow down, but current recession concerns seem overblown.

Also, the tech sector led the market rally earlier this year and is now leading the decline. This correction is concentrated in the most overheated segments rather than being an indiscriminate sell-off.

We must also consider the potential for the Fed to begin its rate-cutting cycle in September, which should provide economic support. Lower interest rates typically benefit financial markets, even as the debate continues over the Fed's responsiveness.

While market pullbacks can be unsettling, they are a normal part of market dynamics. Volatility is normal, and historically, the stock market has experienced multiple 5% dips and at least one 10% correction annually. Before this recent pullback, the market had only seen one 5% decline in 2024. The Current Market Position despite the recent drop, the S&P 500 is down just over 8% from its all-time high and remains up over 8% for 2024. It has also risen more than 20% since the last October pullback.

The Final Word

We do not dismiss the impact of the current pullback, nor do we expect an immediate reversal. However, this is more of a natural market correction following a strong rally than a signal of a deteriorating market foundation. The economy does not seem poised for a recession; corporate profits are still growing, and the Fed will likely cut rates soon. While volatility may persist as the market corrects, the underlying fundamentals of the bull market remain intact, suggesting this decline will ultimately prove temporary.

Key Economic Data:

- **U.S. ISM Services PMI:** rose to 51.40, up from 48.80 last month, increasing 5.33%.
- **U.S. ISM Services New Orders Index:** rose to 52.40, up from 47.30 last month, increasing 10.78%.
- **U.S. ISM Services Employment Index:** rose to 51.10, up from 46.10 last month, increasing 10.85%.
- **U.S. ISM Services Prices Paid Index:** rose to 57.00, up from 56.30 last month, increasing 1.24%.
- **U.S. Recession Probability:** rose to 55.83%, compared to 51.82% last month.
- **U.S. Retail Gas Price:** rose to \$3.598, up from \$3.587 last week, increasing 0.31%.

Eurozone Summary:

- **Stoxx 600:** Closed at 487.05, down 10.80 points or 2.17%.
- **FTSE 100:** Closed at 8,008.23, down 166.48 points or 2.04%.
- **DAX Index:** Closed at 17,339.00, down 322.22 points or 1.82%.

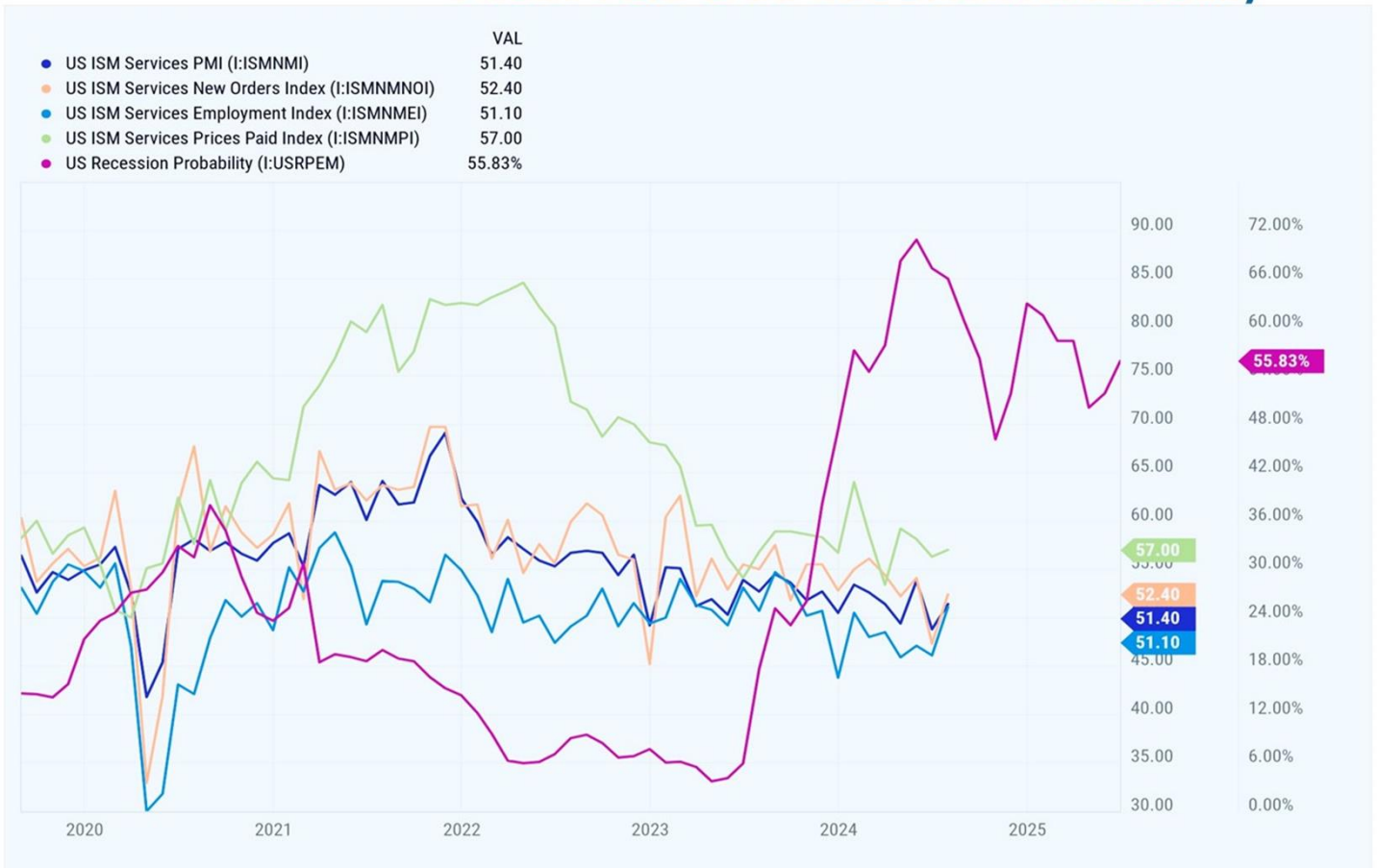
Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 38,703.27, down 1,033.99 points or 2.60%.
- **S&P 500:** closed at 5,186.33, down 160.23 points or 3.00%.
- **Nasdaq Composite:** closed at 16,200.08, down 576.08 points or 3.43%.

- **Birling Capital Puerto Rico Stock Index:** closed at 3,706.96, down 112.66 points or 2.95%.
- **Birling Capital U.S. Bank Stock Index:** closed at 5,310.22, down 303.53 points or 5.72%.
- **U.S. Treasury 10-year note:** closed at 3.78%.
- **U.S. Treasury 2-year note:** closed at 3.89%.



US ISM Services PMI, US Services New Orders, US Services Employment Index, US Services Prices Paid & US Recession Probability





Wall Street Recap

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