



## Seven Critical Turning Points & Their Implications for the Markets, Economy, and Sentiment

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### From All Time Highs to Downturn, The Week In Wall Street

Our initial assessment of last week's market turbulence and sell-off is that considering various market factors, it marked the conclusion of one stock rotation phase and initiated 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 their footing.

In the final week of July, markets experienced an unexpected flurry of activity: earnings reports, central bank meetings, and labor-market data combined to create a complex picture. The Federal Reserve maintained rates, but Chair Powell acknowledged growing labor market risks.

The catalyst for this sudden downturn began to develop as the market opened on Thursday, August 1, with the release of two key economic indicators. Last week's initial jobless claims rose to 249,000, significantly higher than the forecasted 235,000 and 8.26% above last week's 230,000. This marked the highest level of jobless claims since August 2023, sending a wave of anxiety through investors. Another way of seeing the data is that the last six weeks of unemployment claims have mostly trended higher; below, we share the most recent eight-week period:

1. 7/27: 249,000 Unemployment Claims
2. 7/20: 235,000 Unemployment Claims
3. 7/13: 245,000 Unemployment Claims
4. 7/6: 223,000 Unemployment Claims
5. 6/29: 239,000 Unemployment Claims
6. 6/22: 234,000 Unemployment Claims

There is a noticeable increase in unemployment claims for the week ending on 7/27 to 249,000 compared to the previous week's 235,000, suggesting a rise in layoffs or job losses during that week.

The data indicates that while the number of weekly unemployment claims has fluctuated, there has been an upward trend in the most recent weeks, particularly in July. These numbers signal emerging challenges in the labor market that require monitoring and are an early warning sign of rising unemployment, an economic slowdown, or both.

The other issue is that the ISM Manufacturing PMI index fell to a disappointing 46.8, signaling economic contraction and missing expectations. This is some 6.83% below the PMI above 50, which signals an

expansion of the manufacturing economy. As you can see from the last seven reporting periods, the Manufacturing PMI was only above 50 once during 2024.

1. 7/31: 46.8
2. 6/30: 48.5
3. 5/31: 48.7
4. 4/30: 49.2
5. 3/30: 50.3
6. 2/29: 47.8
7. 1/31: 49.1

Then, this past Friday, August 2, the markets reacted to a disappointing jobs report that revealed an increase in the unemployment rate to its highest level since 2021. Nonfarm employment rose by 114,000 in July, falling short of the anticipated 175,000, a 34.85% miss. This development spurred a risk-averse sentiment across the markets, with consumer staples emerging as the best-performing sector of the S&P 500.

By the close of markets Friday, the damage was surprising; the five indexes we follow took a drastic shift down as follows:

- Dow Jones fell 835.71 points or -2.10%.
- S&P 500 fell 134.79 points or -2.06%.
- Nasdaq Composite fell 735.55 points or -3.35%.
- Birling PR Stock Index fell 226.21 points or -5.02%.
- Birling U.S. Bank Index fell 475.71 points or -7.21%.

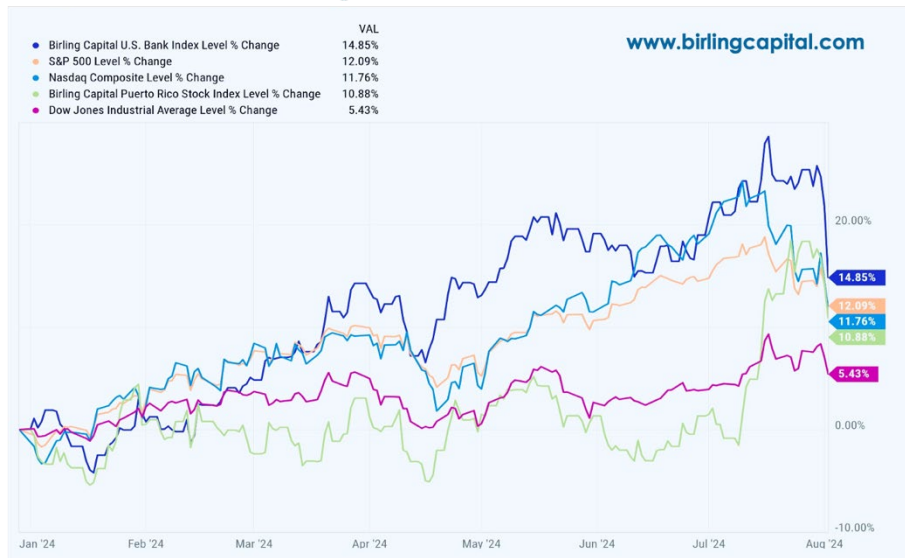
### The Five Indexes Ranked from Higher to Lower as of 8.3.24

However, even with this lousy week, the YTD returns are still in the double or single digits, and we rank them from higher to lower:

- **Birling US Bank Index** has a YTD Return of **14.85%**.
- **S&P 500** has a YTD return of **12.09%**.
- **Nasdaq Composite** has a YTD return of **11.76%**.
- **Birling PR Stock Index** has a YTD return of **10.88%**.
- **Dow Jones** has a YTD return of **5.43%**.



### Dow Jones, S&P 500, Nasdaq Composite, Birling PR Stock Index, Birling US Bank Index Returns YTD 8.2.24



## The seven critical turning points that will likely shape market performance in the coming months:

### 1. Federal Reserve Policy: Easing Cycle on the Horizon with a Focus on Jobs.

After a significant tightening cycle, the Fed has signaled the possibility of an easing cycle. Inflation has been the primary concern, but with progress in stabilizing prices, attention is shifting to employment. The Fed left its policy rate unchanged at 5.25% - 5.50% but indicated the potential for a rate cut in September. Chair Powell stated, "The job is not done on inflation. Nonetheless, we can afford to begin dialing back the policy rate restriction." With inflation moving in the right direction, the Fed is now more sensitive to labor market risks, likely leading to multiple rate cuts this year. We predict the first one will happen in September, followed by one or two before the year ends.

### 2. Labor Market: Cooling but Still Adding Jobs.

The U.S. labor market has been cooling, transitioning from overheated conditions. July's payrolls report showed 114,000 new jobs, below expectations, with a rise in the unemployment rate to 4.3% and modest wage growth. This suggests a quicker adjustment to slower economic growth, reinforcing expectations for a September rate cut. Despite this, employment conditions remain healthy, with average payroll gains of 170,000 over the past three months and an unemployment rate still historically low at 4.3%.

### 3. Yield Curve: Bond Market Rally and Potential End of Inversion.

For over two years, the yield curve has been inverted. However, recent signals from the Fed and economic risks have driven a bond market rally, reducing yields. The 2-year yield fell to 3.88%, and the 10-year yield dropped to 3.80%. We expect short-term yields to decrease faster than long-term yields, normalizing the yield curve. Investors should consider the reinvestment risk of cash-heavy portfolios as yields decline.

### 4. Market Leadership: Diversification Beyond Tech.

The recent rotation out of growth stocks highlighted tech giants, which reported strong growth but didn't meet high expectations. The Nasdaq entered correction territory. Despite this, A.I. will drive future earnings growth. Beyond tech, earnings growth in sectors like financials and healthcare highlights the importance of diversification. Defensive sectors that move inversely with bond yields can provide stability, and we expect a balanced market leadership as the Fed starts cutting rates.

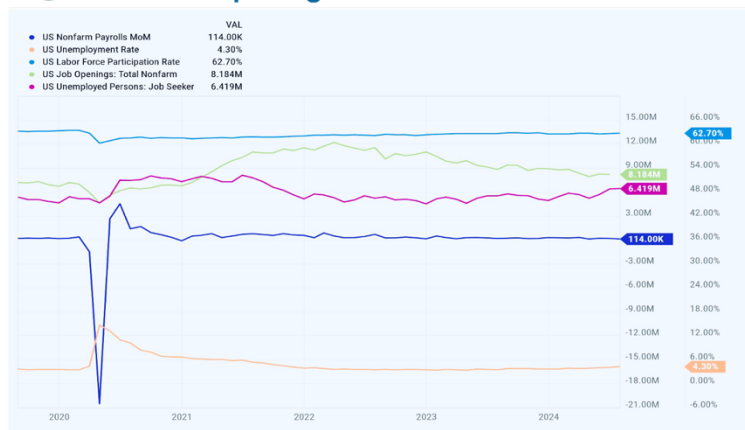
### 5. Volatility: Anticipating Market Fluctuations.

Volatility was low in the year's first half but has increased recently. The VIX index, a proxy for market fluctuations, has risen. Concerns about the Fed's timing on rate cuts and election-related uncertainties could drive volatility. Historically, first-half solid performances often lead to positive returns in the second half. Despite potential pullbacks, the overall outlook remains positive, with inflation nearing targets, a slow but expanding economy, rising productivity, and corporate earnings growth. We recommend using pullbacks to rebalance, diversify, and invest fresh capital.

### 6. Investor Sentiment: Gauging Market Confidence.

Investor sentiment plays a crucial role in market dynamics. The U.S. Investor Sentiment, measured by the Bull-Bear Spread, provides insight into the prevailing mood among investors. Here's a breakdown of the

## BIRLING CAPITAL ADVISORS, LLC US NonFarm Payrolls, US Unemployment Rate, US Labor Participation Rate, US Job Openings & US Job Seekers



current figures. The Bull-Bear Spread is 19.69%, representing the percentage difference between bullish (optimistic) and bearish (pessimistic) investors.

This figure is up from 11.44% last week, suggesting that investor optimism has grown significantly over the past week. Consider that the long-term average Bull-Bear Spread is 6.66%. The current level of 19.69% is significantly higher than this average, suggesting that investor sentiment is considerably more optimistic than usual.

The current sentiment reflects cautious optimism, with investors reacting to mixed economic signals. Shifts in sentiment can drive market volatility, as positive news can spur investment, while adverse developments may lead to sell-offs. Monitoring sentiment indicators will be essential to understanding market movements.

## 7. Political Uncertainty and Market Implications: Presidential Elections.

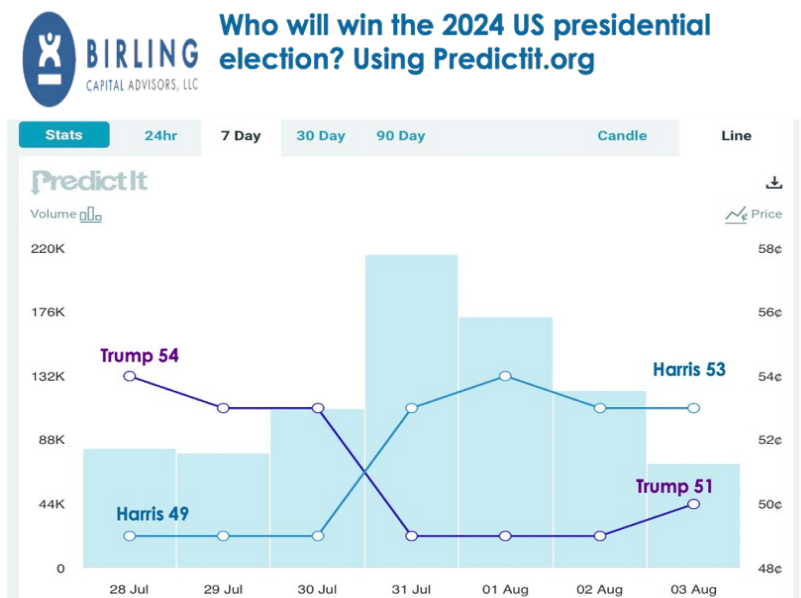
The upcoming presidential elections add a layer of uncertainty to the markets. Election outcomes can significantly impact fiscal policy, regulatory changes, and economic strategies. Historical data suggests that markets tend to be volatile during election periods, but the overall long-term impact depends on the election results and subsequent policy implementations.

Another widely used tool is PredictIt.org, which had President Trump at 54 on July 28 versus Vice President Harris at 49. By August 3, Vice President Harris rose to 53, overtaking President Trump, who fell to 50.

PredictIt.org is a prediction market that allows users to trade shares on the outcomes of various events, primarily focusing on political events.

These are just tools for investors interested in monitoring political races. The Democratic National Convention and selecting Harris's running mate will be critical events influencing the race.

While these political changes have kept the macroeconomic landscape the same, they have introduced new uncertainties with lots of noise, which could lead to increased market volatility. Historically, market volatility rises before elections and subsides afterward, regardless of the election outcome, as markets adjust to new realities.



## The Final Word: Navigating the Shifting Stock Market Landscape

The markets have faced a series of significant developments that suggest a shifting landscape. Investors should be mindful of the Fed's evolving policy focus, the labor market's trajectory, the potential end of the yield curve inversion, shifts in market leadership, the likelihood of increased volatility, investor sentiment, and the implications of the upcoming presidential elections. These factors are essential in navigating the financial environment and making informed investment decisions.

By staying informed and adaptable, investors can better position themselves to capitalize on opportunities and mitigate risks in this dynamic market environment.



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