



The stock market was roundly positive in July as investors grew more comfortable with the “goldilocks” scenario of a healthy economy and slowing inflation that could allow the Federal Reserve’s interest rate hike cycle to come to an end. The strong returns in July were also a good example of stock market “rotation.” That refers to the investor behavior of “rotating” into different segments of the market, particularly when holdings in another particular area are perceived to have reached full value.

That is a welcome development, given the consternation of some that year-to-date stock market gains were too narrowly concentrated in a few mega-cap technology companies. The notable valuation premium to the rest of the market in tech has raised the bar of investor expectations for that group of stocks. That increases their risk profile, at least in the short term. Thus, while the market prepared itself for the technology behemoths to release their second-quarter earnings, investors “rotated” into more cyclical areas like the energy and financials sectors that had lagged behind the gains of the technology sector year-to-date. The energy sector benefitted from higher prices for oil and natural gas, while financials were led by a strong rebound in the banking industry, which has been depressed since the collapse of Silicon Valley Bank.

There remains an ongoing debate on the chances or timing of a recession. The economic data in July, including details on consumer spending, the labor market, business investment and second-quarter GDP, instilled investor confidence that, at least for now, “not yet” or “not anytime soon” is the answer to the recession question. This has been reinforced by the second-quarter earnings season, with companies beating Wall Street expectations at the highest margin in the last couple of years.

In summary, the S&P 500 finished July higher for the 5th straight month, up 3.21%; the Russell Midcap Index was 3.97% higher; and the small-cap Russell 2000 Index led the major indices with a 6.12% gain. Investors “rotated” some towards more value and cyclical-oriented investments and smaller capitalization stocks. That is an encouraging sign. While the investment landscape is not devoid of potential potholes going forward, “rotation” is an important feature of a healthy stock market environment.

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Sincerely,

A handwritten signature in blue ink that reads "Ward Brown". The signature is fluid and cursive.

Ward Brown, Chairman of Argent Investment Committee (wbrown@argentcapital.com)