AMJ Financial Wealth Management
Weekly Market Commentary
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The Markets

Some good news and some volatility.

Last week was a mixed bag as investors weighed positive economic news against concerns that stock prices for some chipmakers may not be sustainable. Here are the highlights:

- **Inflation slowed to zero.**

  On Friday, one of the Fed's favored measures of inflation – the Personal Consumption Expenditures (PCE) Index – showed that headline inflation was flat in May. Both headline inflation and core inflation, which excludes volatile food and energy prices, were up 2.6 percent year over year. That's a significant improvement from May 2023 when headline inflation was 3.8 percent year over year, and core inflation was 4.6 percent. The Fed's target is 2.0 percent.

  Falling inflation bolsters "the case for lower interest rates later this year. At the same time, household spending rebounded after a pullback in April, and incomes showed solid growth, offering some hope that price pressures can be tamed without lasting damage to consumers," reported Augusta Saraiva of *Bloomberg*.

- **The banks are alright.**

  Every year, the Federal Reserve (Fed) conducts a stress test to see whether "large banks* are sufficiently capitalized and able to lend to households and businesses even in a severe recession. They evaluate the financial resilience of banks by estimating losses, revenues, expenses, and resulting capital levels under hypothetical economic conditions."

  Last week, the Fed released its report, and all the banks tested – 31 of them – passed. Each bank was able to absorb losses in highly stressful hypothetical scenarios while maintaining its minimum capital requirements.

- **AI stocks were up and down.**

  Investors have high expectations for artificial intelligence (AI) chipmakers. As a result, share prices for many chip companies have dramatically increased in value over the past year. Last week, we saw some volatility. A leader in the category experienced a correction, which is a decline of at least 10 percent, before rebounding, reported Charlotte Yang and Yoolim Lee of *Bloomberg*.

  In addition, we saw the stock price of a company that makes computer memory chips drop after it reported earnings last week. The company's "shares had more than doubled in the year prior to its Wednesday report, but — even with an outlook roughly in line with the average of analyst estimates — the company was punished for not outperforming elevated expectations."

Last week, major stock market indices delivered a mixed performance. Connor Smith of *Barron's* reported, "The Dow rose 3.8% in the first half of the year. The S&P 500 rose 14.5%. The Nasdaq Composite rose 18%." Yields on longer maturities of U.S. Treasury bonds moved higher over the week.

**This category includes organizations – U.S. bank holding companies, covered savings and loan holding companies, and intermediate holding companies of foreign banking organizations – with $100 billion or more in assets.*

Data as of 6/28/24	1-Week	YTD	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	-0.1%	14.5%	24.8%	8.4%	13.2%	10.8%
Dow Jones Global ex-U.S. Index	0.3	3.8	9.6	-2.7	3.1	1.5
10-year Treasury Note (yield only)	4.3	N/A	3.7	1.5	2.0	2.5
Gold (per ounce)	-0.2	12.2	22.1	9.4	10.6	5.9
Bloomberg Commodity Index	-0.7	2.4	0.7	2.8	4.9	-2.9

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

HOW MAY I HELP YOU? During the 20th century, manufacturing drove economic growth in many countries. As Japan recovered from the devastation of World War II, it produced inexpensive goods that carried the label, "Made in Japan." As wages rose, manufacturers moved production and the labels on low-cost goods changed to "Made in China," "Made in Vietnam," and "Made in India," among other places.

The Economist cited Harvard Professor Dani Rodrik, explaining that manufacturing boosted economic development for three primary reasons. It helped less developed countries:

- Produce goods that could be sold in global markets.
- Improve productivity through technological advancement.
- Create jobs by putting unskilled laborers to work.

As manufacturing has become more capital intensive, we've begun to see a change. Instead of pursuing manufacturing, emerging countries are now outsourcing services. Recently, an example of this type of cross-border commerce went viral when a social media post showed a cashier at a Japanese fried chicken joint in New York City working via screen from the Philippines.

"The importance of services is growing in part because they are gaining some of the attributes of manufacturing. Start with cross-border commerce. Trade in services reached nearly $8 [trillion] last year, up 60% from a decade ago. Trade in manufacturing is three times bigger—but only grew 25% over this period," reported Arjun Ramani and Mike Bird of *The Economist*.

The sophistication of outsourced services varies. For instance, "The Philippines is a giant when it comes to all kinds of outsourced back-office business. Ghana is Africa's IT hub. Turkey is known for health tourism…"

Only time will tell whether service exports can improve standards of living in emerging countries as manufacturing does.

Best regards,

Angela M. Bender

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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