



Weekly Focus – Think About It

“If you’re a true creator, you think how to adapt the system to your needs, or innovate and change the model altogether.”

—Vanessa De Luca, journalist and editor

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	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.1%	14.5%	24.8%	8.4%	13.2%	10.8%
Dow Jones Global ex-U.S.	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; the DJ Equity All REIT Total Return Index does include reinvested dividends 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, Barron's, djindexes.com, 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,

Andrew Zittell
Yerba Buena Financial Partners

Sources:

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), <https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM>.

* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.

* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.

* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

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* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.

* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

* Asset allocation does not ensure a profit or protect against a loss.

* Consult your financial professional before making any investment decision.

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