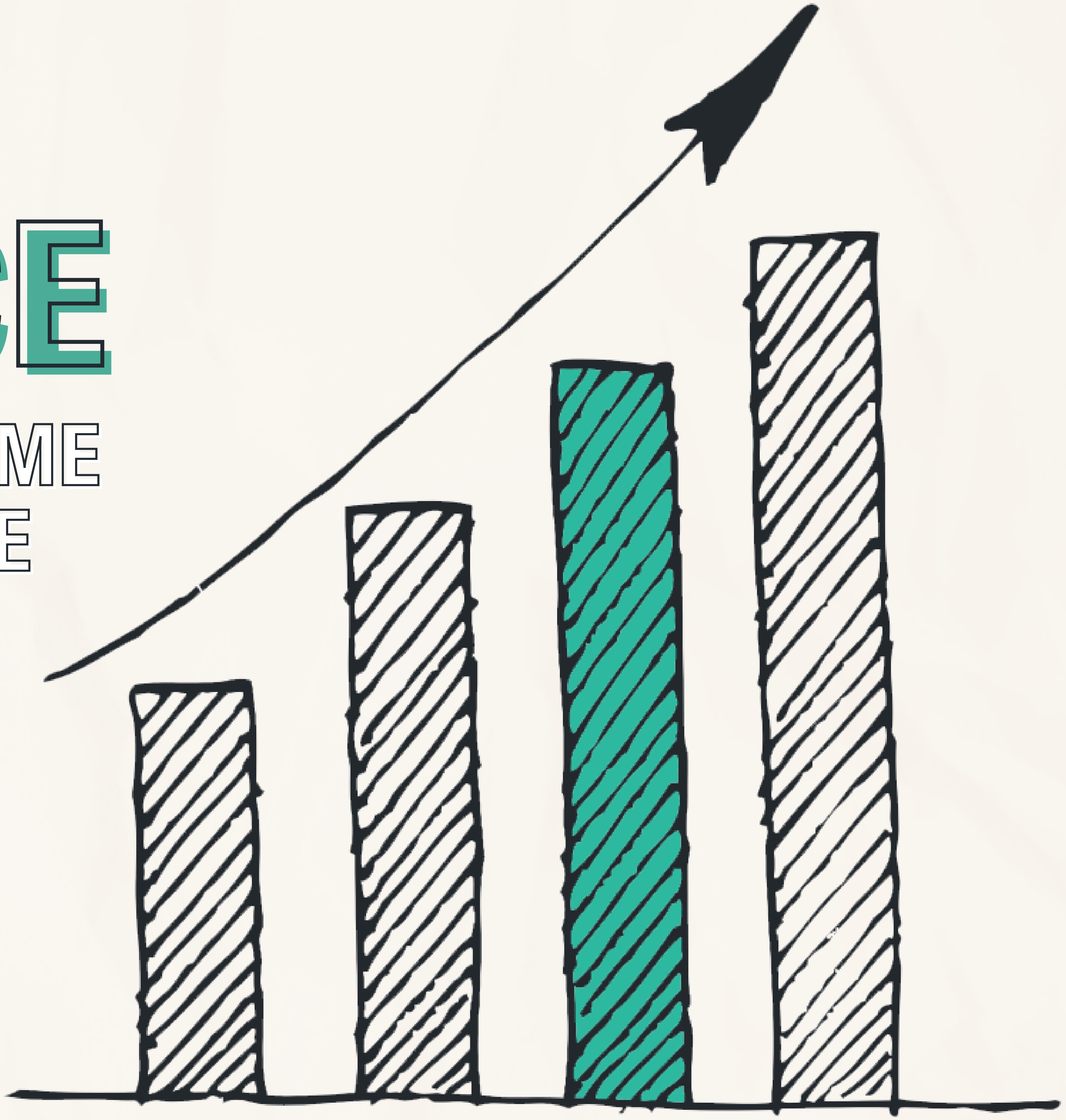
YAHOO FINANCE CHARTBOOK

VOLUME THREE

32 CHARTS THAT TELL THE STORY ABOUT MARKETS AND THE ECONOMY RIGHT NOW

JULY 2024



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A QUICK NOTE

An overarching feeling of optimism about both the economy and markets emerges from the third volume of the Yahoo Finance Chartbook, a trend similar to that seen in volume two in late January.

Across the 32 charts compiled by economists and strategists on Wall Street, we see broad confidence that the US economy can still achieve the vaunted "soft landing" outcome following the Fed's historic rate-hiking cycle.

Following a nearly 17% gain in the S&P 500 so far this year, equity strategists see room for the bull market to run further, as many areas of the market have only recently joined the rally.

However, at the midpoint of 2024, there is some doubt as to how long this can last without significant changes.

This volume of the Chartbook reflects markets and the economy at what Goldman Sachs economist Jan Hatzius called an "inflection point," where many things appear the same for now — but almost everything seems on the cusp of looking quite different.

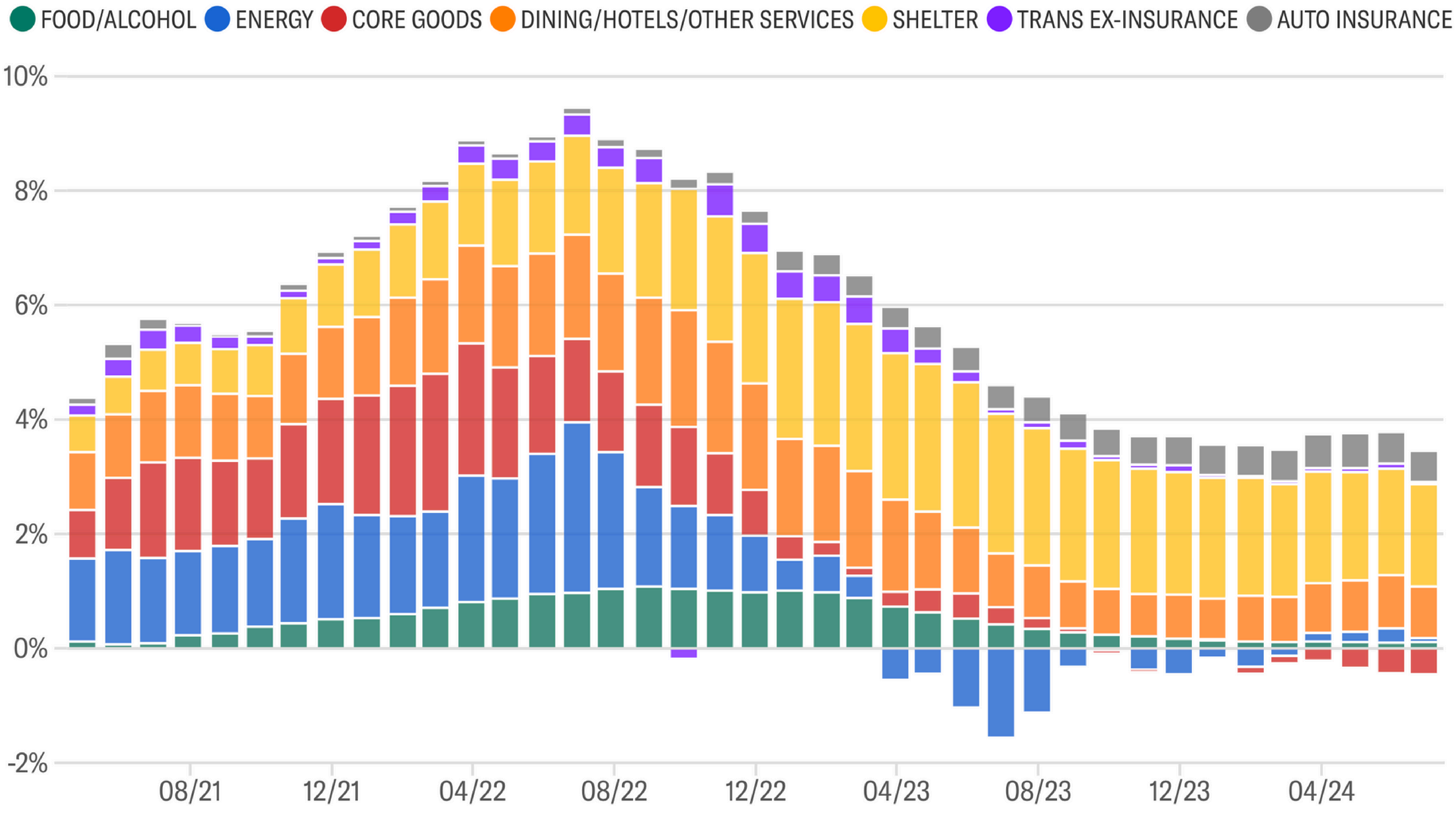
JOSH SCHAFER MARKETS REPORTER

Some expert commentary abridged in this version.

GO TO ARTICLE FOR FULL COMMENTARY

INFLATION CONTINUES SLOW DESCENT

Contribution to year-over-year change in CPI, non-seasonally adjusted



SOURCE: BUREAU OF LABOR STATISTICS; FACTSET; J.P. MORGAN ASSET MANAGEMENT VIA DAVID KELLY

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THE CASE FOR CUTTING RATES

EXPERT COMMENTARY

"Inflation should continue its slow descent and return to 2% by the middle of next year.

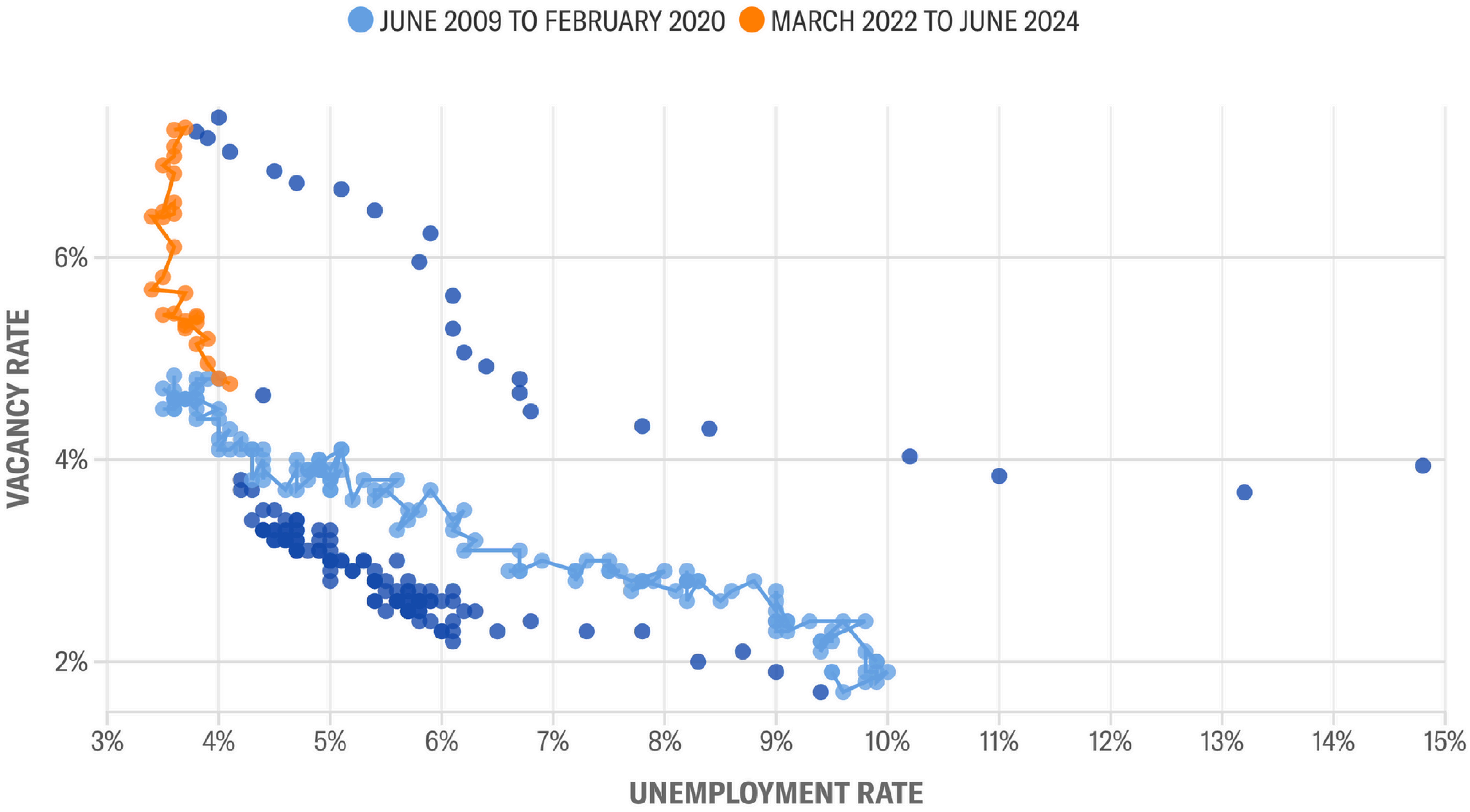
If, as expected, inflationary pressures ease through the summer, the Federal Reserve should feel comfortable cutting rates twice this year, delivering a first cut in September."

DAVID KELLY

J.P. MORGAN ASSET MANAGEMENT

LABOR MARKET AT AN 'INFLECTION POINT'

The Beveridge Curve shows the unemployment rate against the job openings rate.



SOURCE: BUREAU OF LABOR STATISTICS; GOLDMAN SACHS VIA JAN HATZIUS

THE CASE FOR CUTTING RATES

EXPERT COMMENTARY

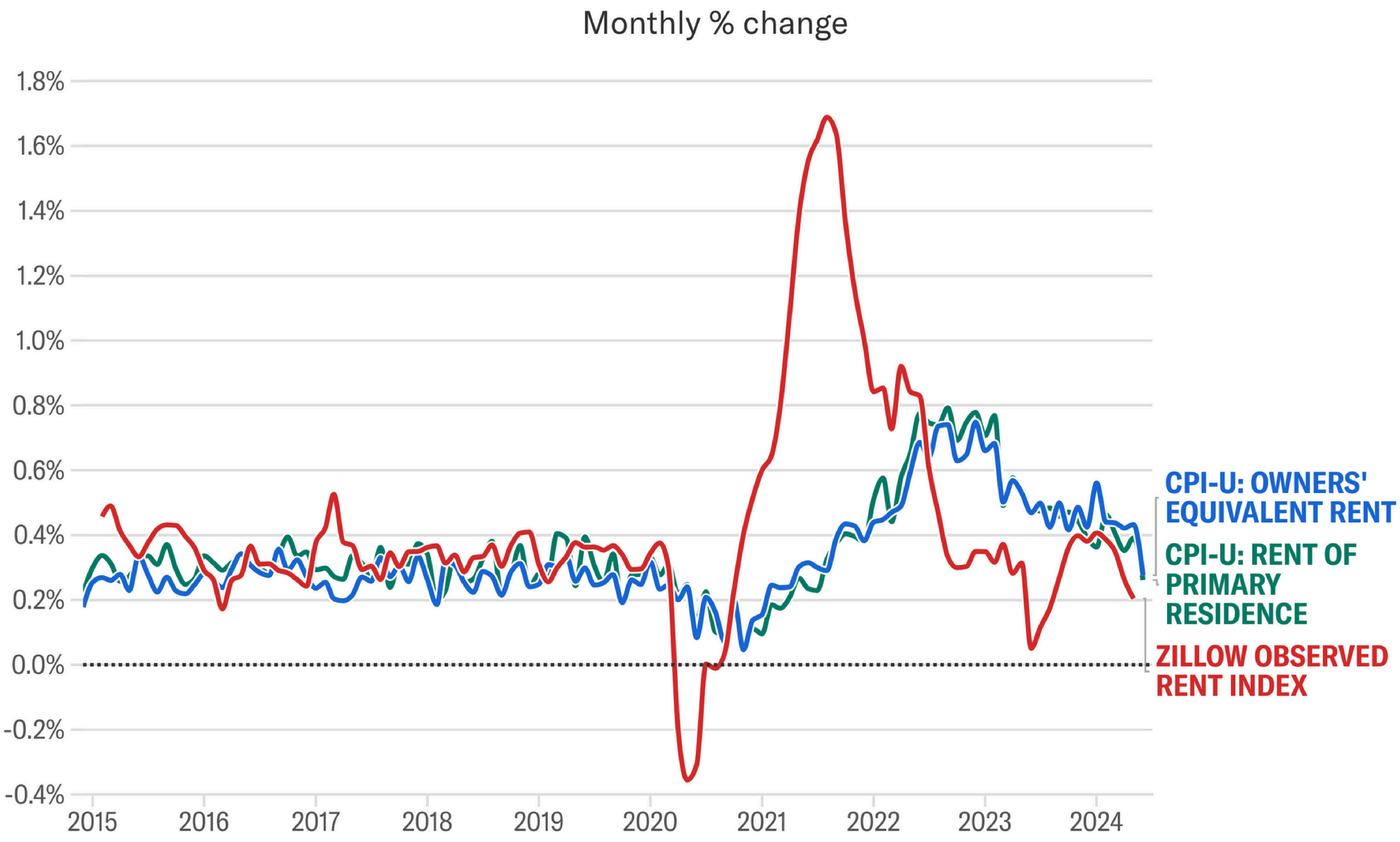
"The normalization of the US labor market over the last 2 years has occurred in a very benign fashion...

... We have moved down the steep post-pandemic Beveridge curve and back to the flatter pre-pandemic Beveridge curve. This means we may be approaching an inflection point at which further softening in labor demand results in a bigger and much less welcome increase in unemployment."

JAN HATZIUS

GOLDMAN SACHS

RENT RETURNING TO PRE-PANDEMIC LEVELS



SOURCE: BUREAU OF LABOR STATISTICS; ZILLOW; DEUTSCHE BANK VIA BRETT RYAN

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THE CASE FOR CUTTING RATES

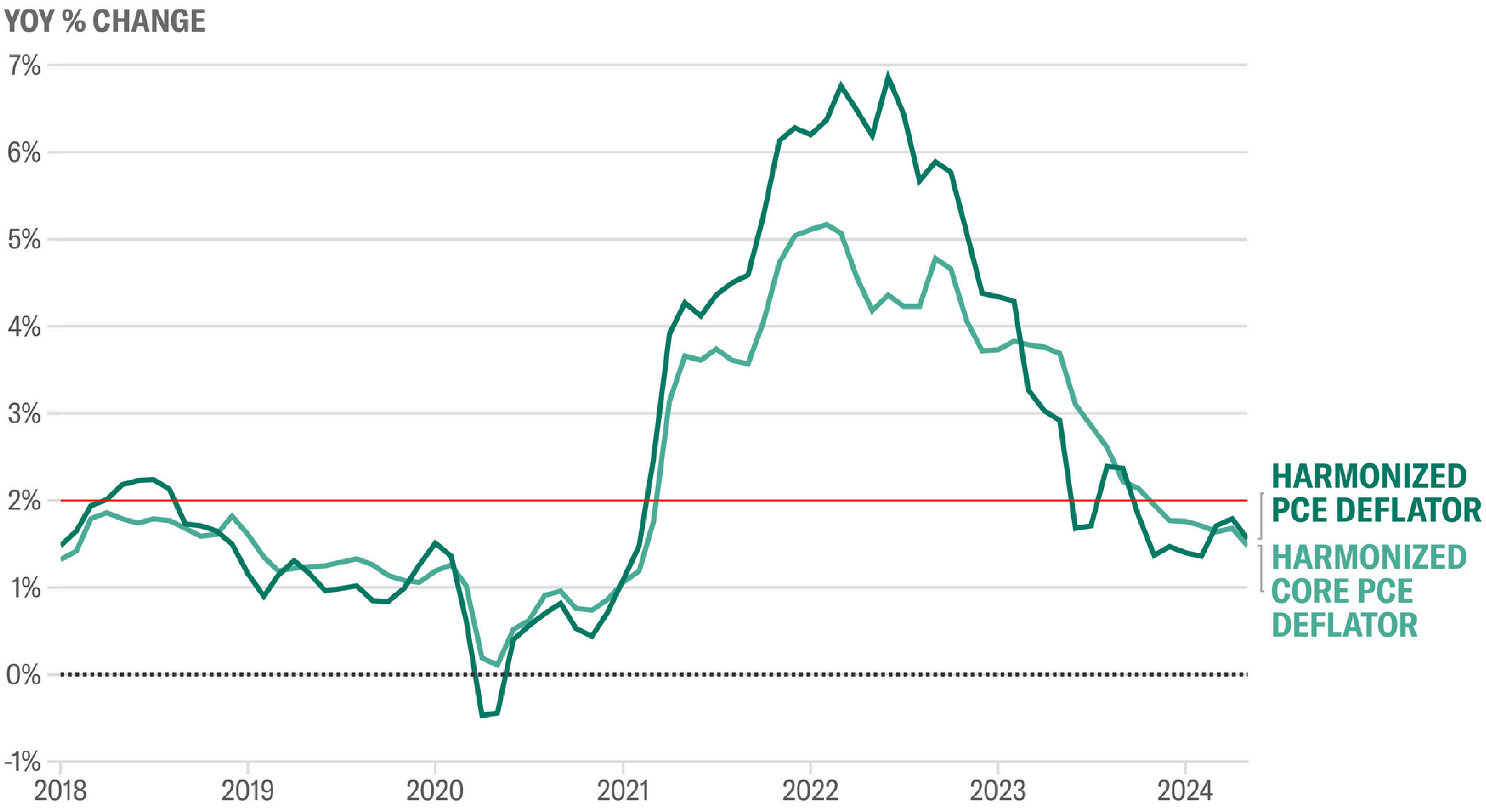
EXPERT COMMENTARY

"The drop in primary rents and owners' equivalent rents in the June CPI data is a 'game changer' and should meaningfully boost Fed officials' confidence that inflation remains on a trajectory back to its 2% target."

BRETT RYAN
DEUTSCHE BANK

'HARMONIZED' INFLATION BELOW THE FED'S TARGET

Change in the price of goods and services paid by households over time, excluding the implicit cost of homeownership



SOURCE: BUREAU OF ECONOMIC ANALYSIS; MOODY'S ANALYTICS VIA MARK ZANDI

THE CASE FOR CUTTING RATES

EXPERT COMMENTARY

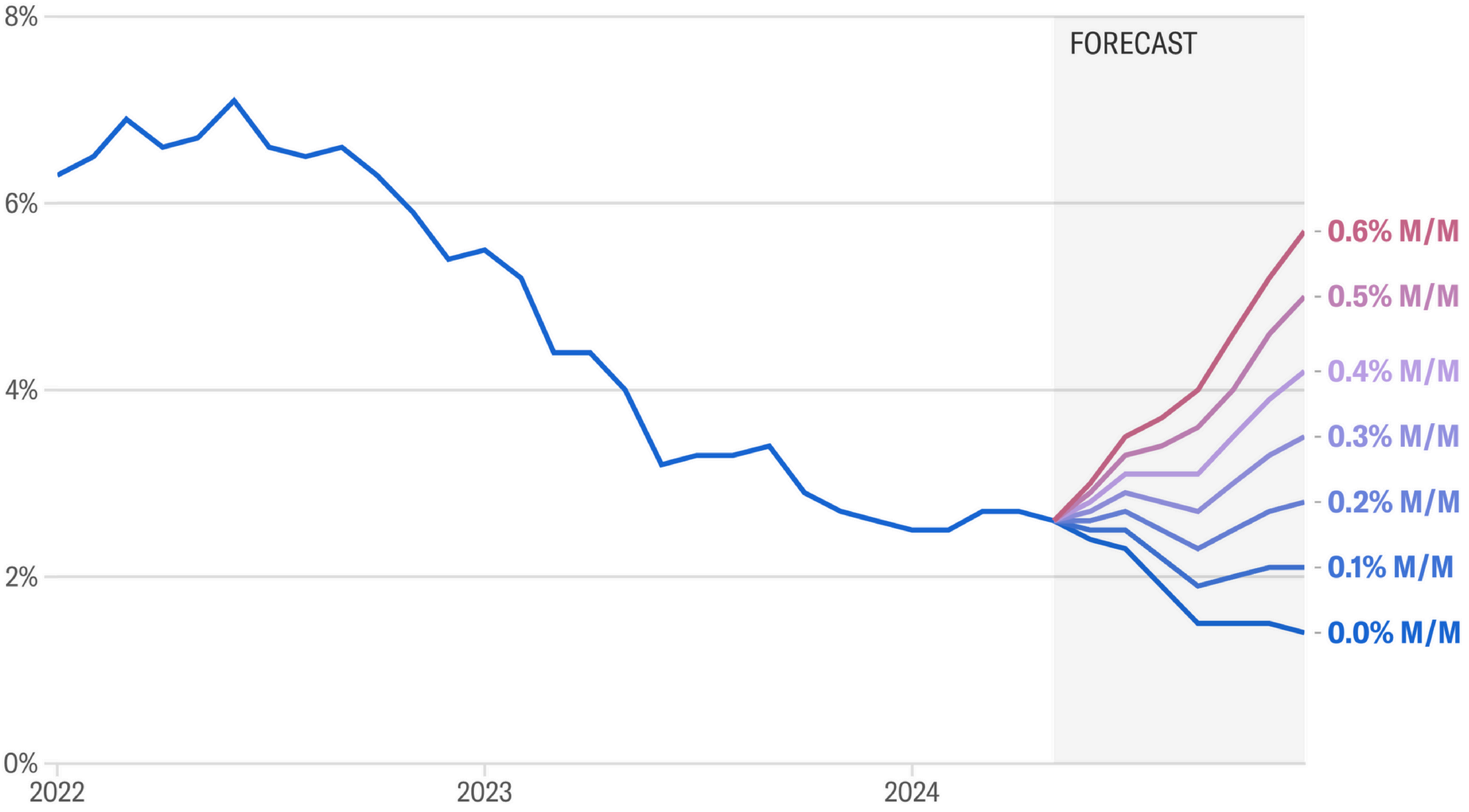
"Inflation, as measured by the harmonized consumer expenditure deflator, is firmly below the Federal Reserve's 2% target...

... Fed officials should call out harmonized inflation as critical to watch. By so doing, it will make it easier for the Fed to make the case that inflation is where it needs to be for them to do the right thing and lower interest rates."

MARK ZANDI
MOODY'S

INFLATION DATA FACES TOUGH COMPARISONS

Year-over-year PCE inflation by month-over-month PCE inflation outcome



SOURCE: BUREAU OF LABOR STATISTICS; BUREAU OF ECONOMIC ANALYSIS; EY VIA GREGORY DACO

THE CASE FOR CUTTING RATES

EXPERT COMMENTARY

“While softer consumer spending growth ... will continue to provide a healthy disinflationary impulse, it's not until September that inflation readings will fall below that uncomfortable plateau [of around 2.6%-2.7%].

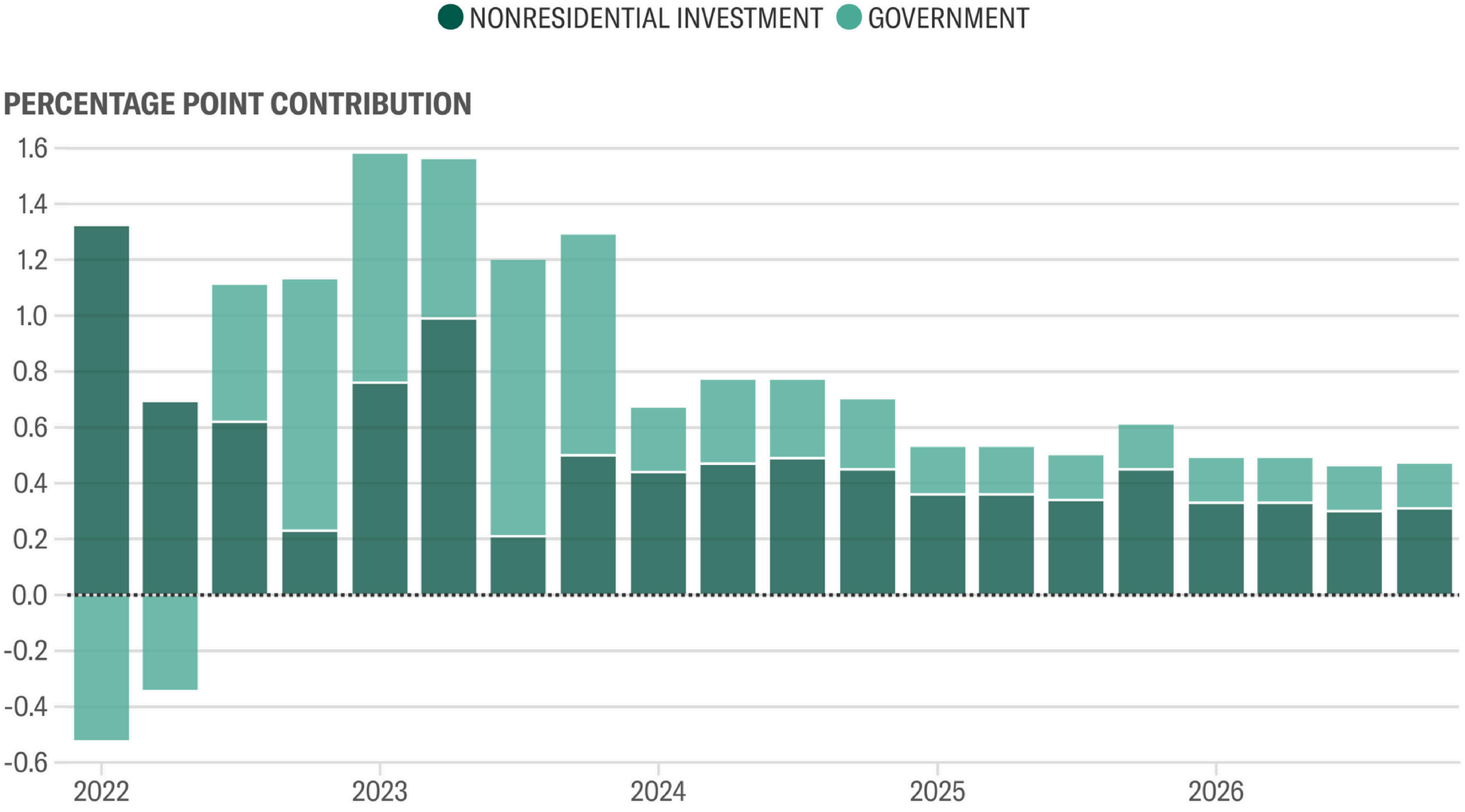
We foresee headline and core PCE inflation ending the year around 2.5% [year over year].”

GREGORY DACO

EY

FISCAL SPENDING MAY HELP SLOW INFLATION

Contribution to real GDP growth, by percentage points



SOURCE: BANK OF AMERICA SECURITIES VIA MICHAEL GAPEN

THE CASE FOR CUTTING RATES

EXPERT COMMENTARY

"The contribution from fiscal [policy] to the growth rate of the US economy should moderate over time ... And, to a lesser degree, business spending should follow the same path.

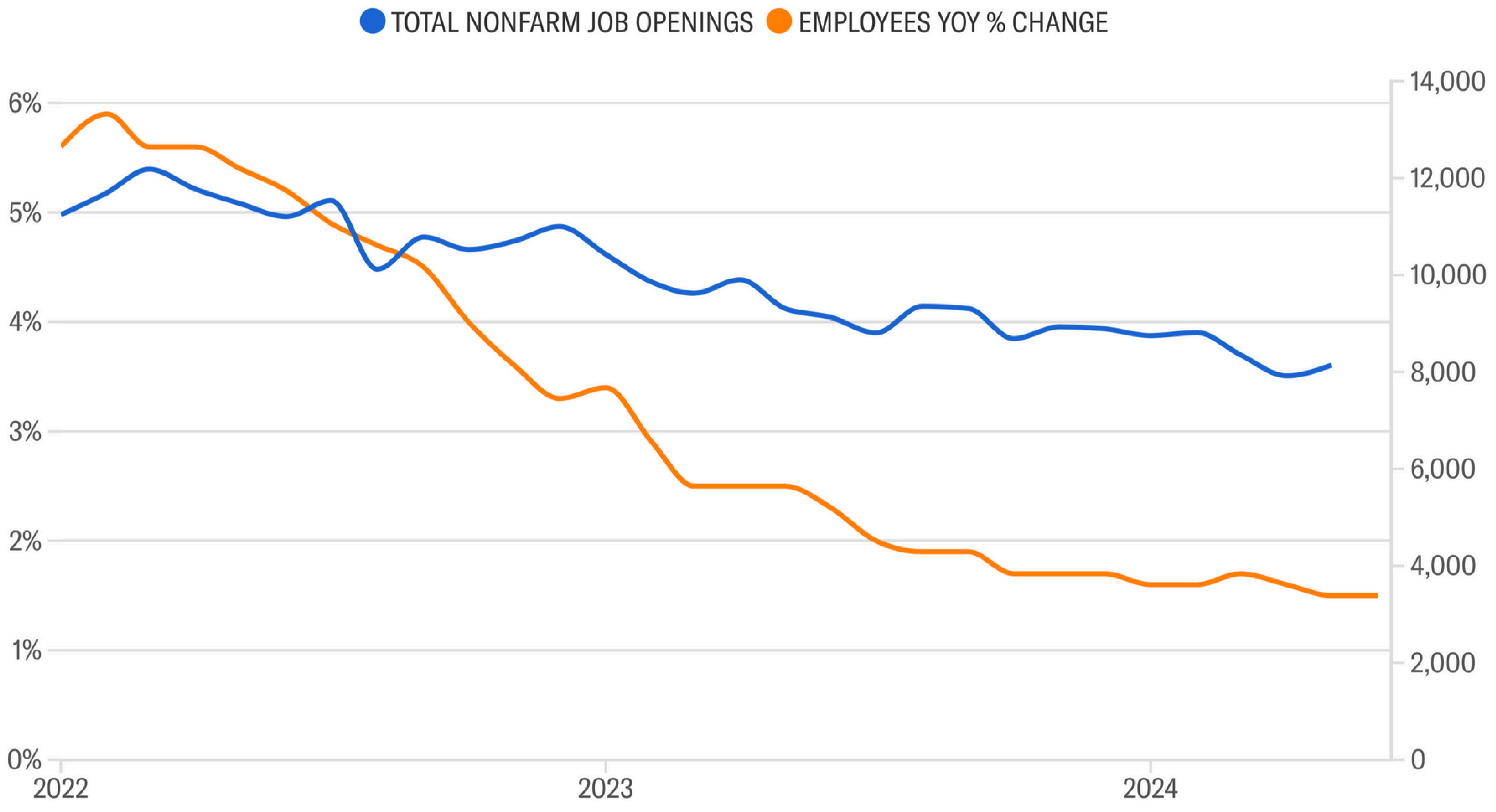
This is part of the reason we assume growth moderates and inflation decelerates."

MICHAEL GAPEN

BANK OF AMERICA SECURITIES

LABOR DATA SUPPORTS SEPTEMBER CUT

Payrolls and job openings



SOURCE: BUREAU OF LABOR STATISTICS; DYNAMIC ECONOMIC STRATEGY VIA JOHN SILVIA

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THE CASE FOR CUTTING RATES

EXPERT COMMENTARY

"The Fed, Powell, and others have cited these series as benchmarks for easier labor market conditions.

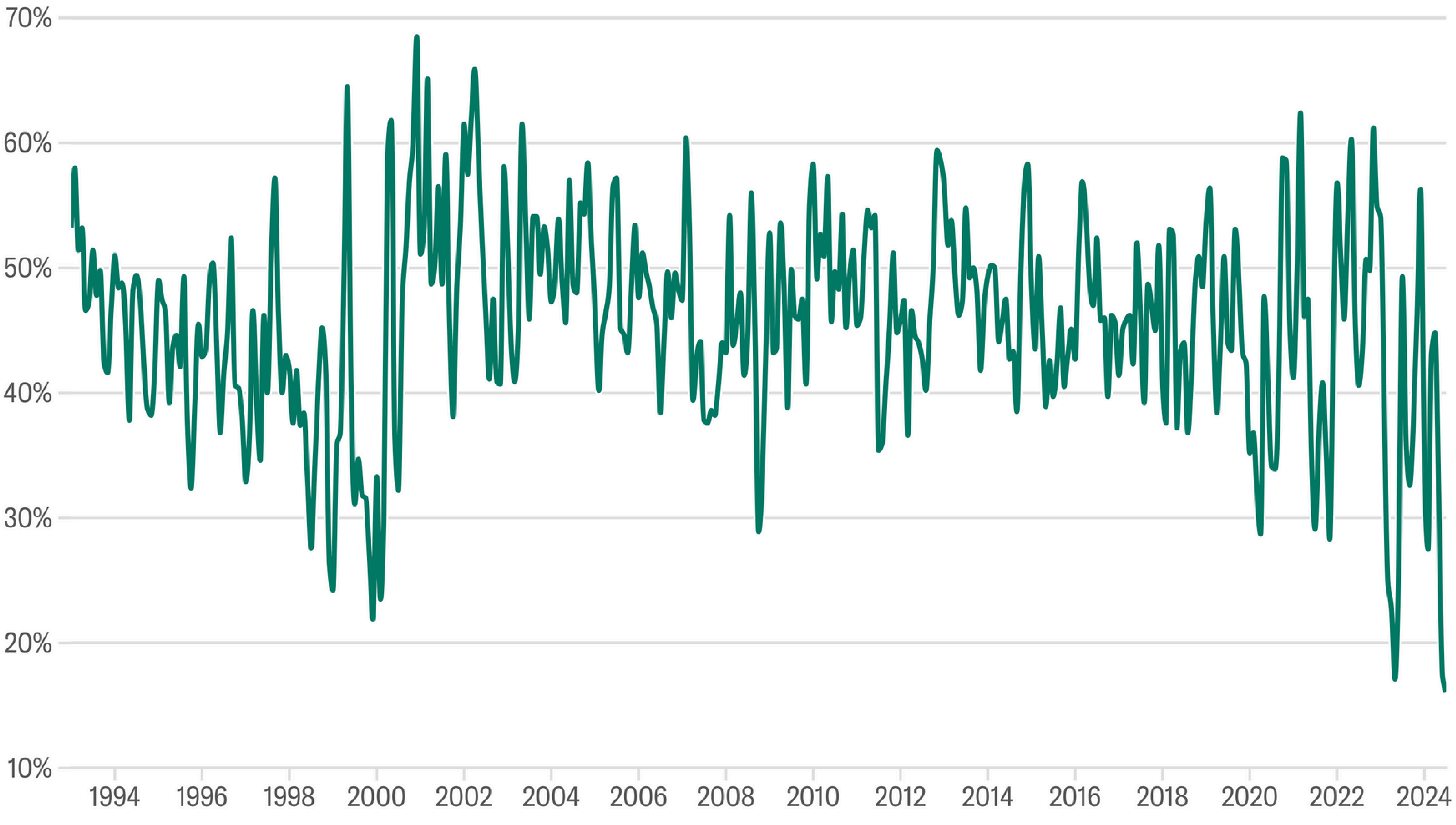
These two series support the argument the Fed will ease in September."

JOHN SILVIA
DYNAMIC ECONOMIC STRATEGY

BACK TO TOP

STOCKS OUTPERFORMING S&P 500 AT HISTORIC LOW

% of S&P 500 members outperforming the index (trailing two months)



SOURCE: BLOOMBERG; CHARLES SCHWAB VIA LIZ ANN SONDERS • DATA AS OF 7/12/2024

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THE STATE OF THE BULL MARKET

EXPERT COMMENTARY

"During the past year, a historically low percentage of the S&P 500 has outperformed the index itself, while churn/ rotations/weakness under the surface remains acute.

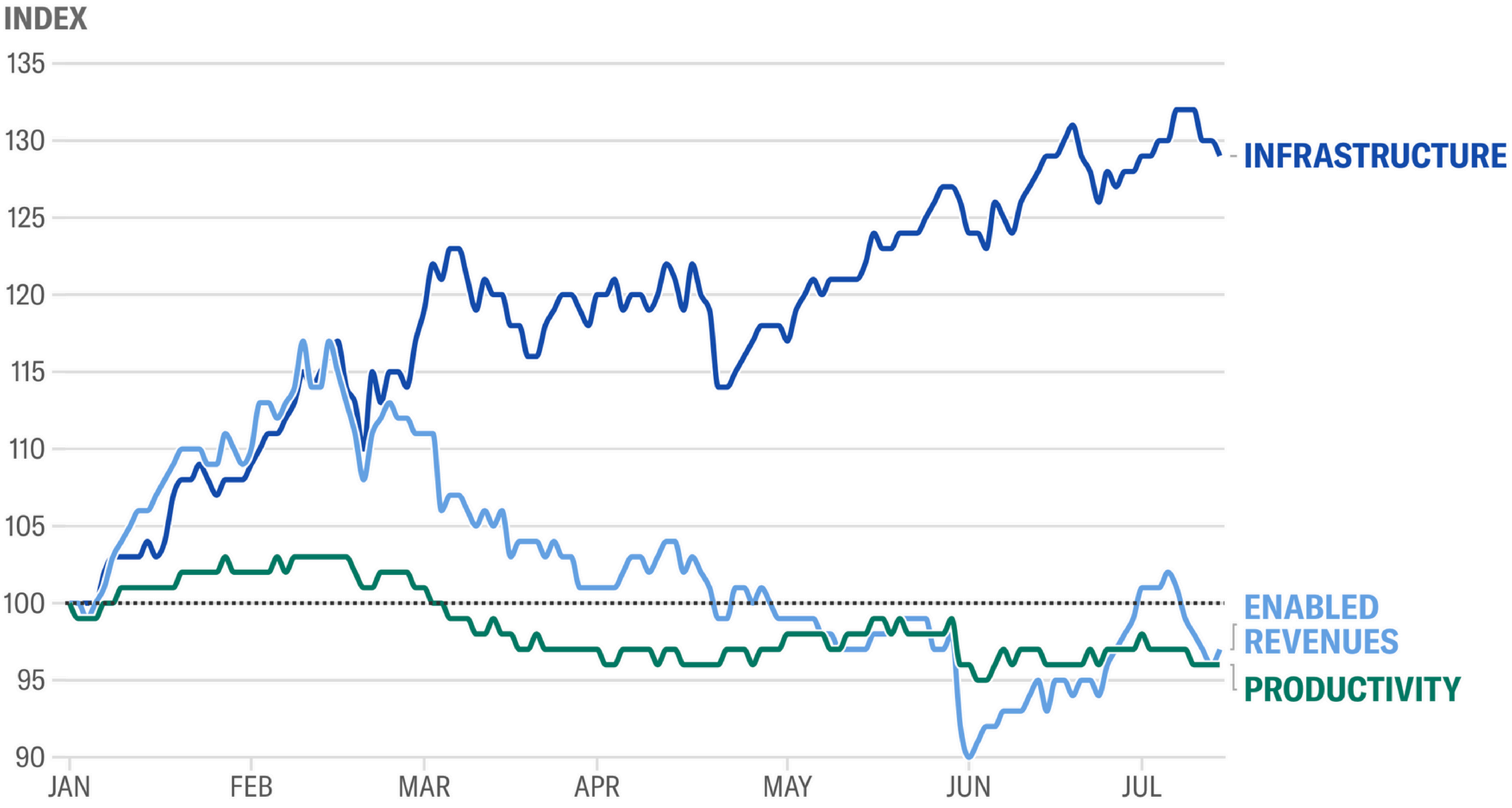
The better-than-expected [June] CPI report unleashed some rotation into smaller cap stocks, and we think there will be continued bouts of that rotation."

LIZ ANN SONDERS
CHARLES SCHWAB

GO TO ARTICLE FOR FULL COMMENTARY

INVESTORS SKEPTICAL ABOUT SOME AI GROWTH

Indexed return of AI stocks vs. equal-weight S&P 500



SOURCE: GOLDMAN SACHS VIA DAVID KOSTIN

THE STATE OF THE BULL MARKET

EXPERT COMMENTARY

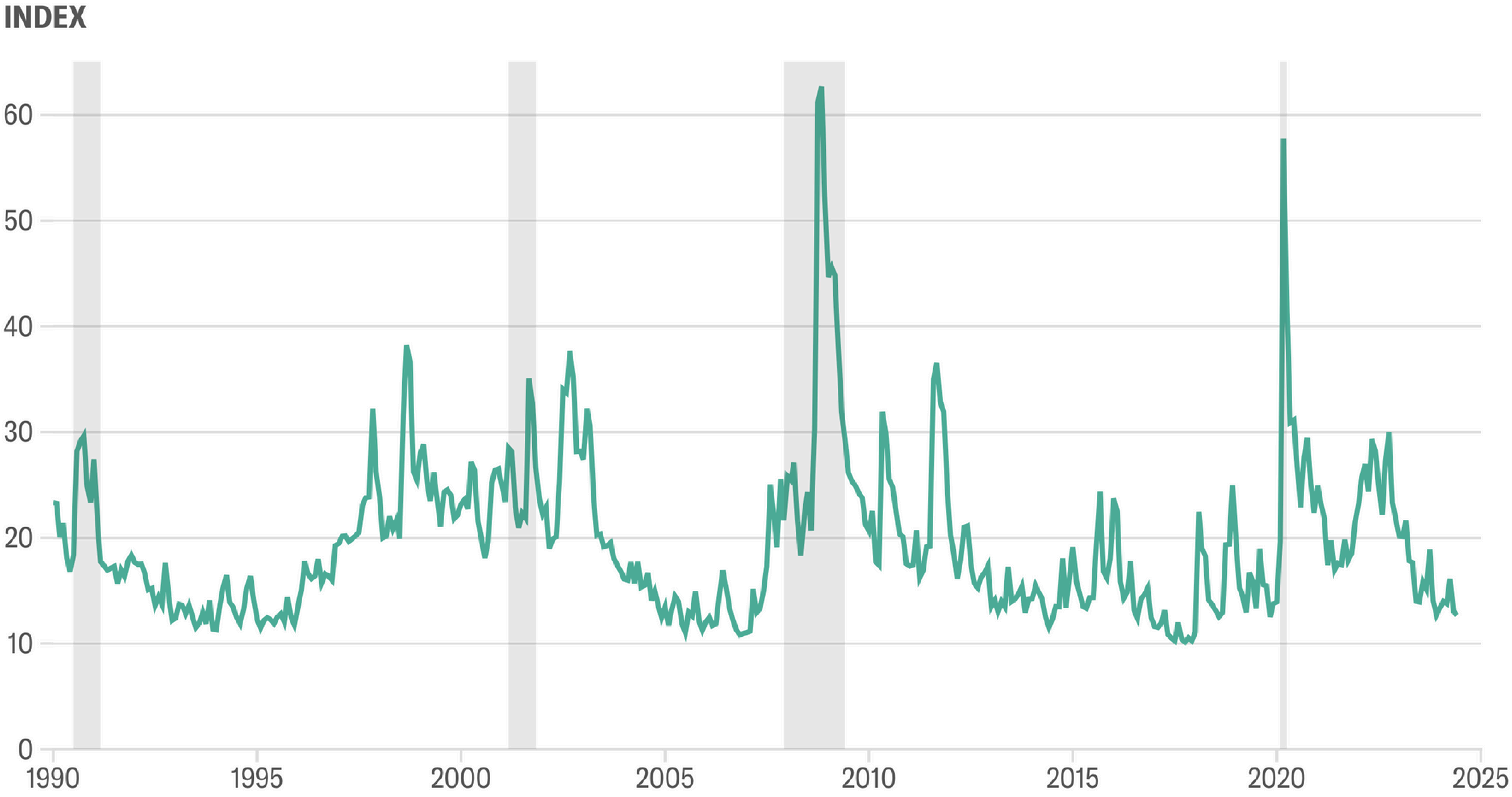
“Investors have expressed confidence in the trajectory of AI [infrastructure] investment...

However, the flat performance of the other groups signals that investors remain skeptical about the longer-term impacts of AI adoption.”

DAVID KOSTIN
GOLDMACH SACHS

LOW VOLATILITY IS NORMAL IN BULL MARKETS

CBOE volatility index



SOURCE: CHICAGO BOARD OPTIONS EXCHANGE; DATATREK RESEARCH VIA NICHOLAS COLAS • SHADED AREAS INDICATE U.S. RECESSIONS

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THE STATE OF THE BULL MARKET

EXPERT COMMENTARY

“Low expected volatility, as measured by the CBOE VIX Index, is a common feature of bull markets. ...

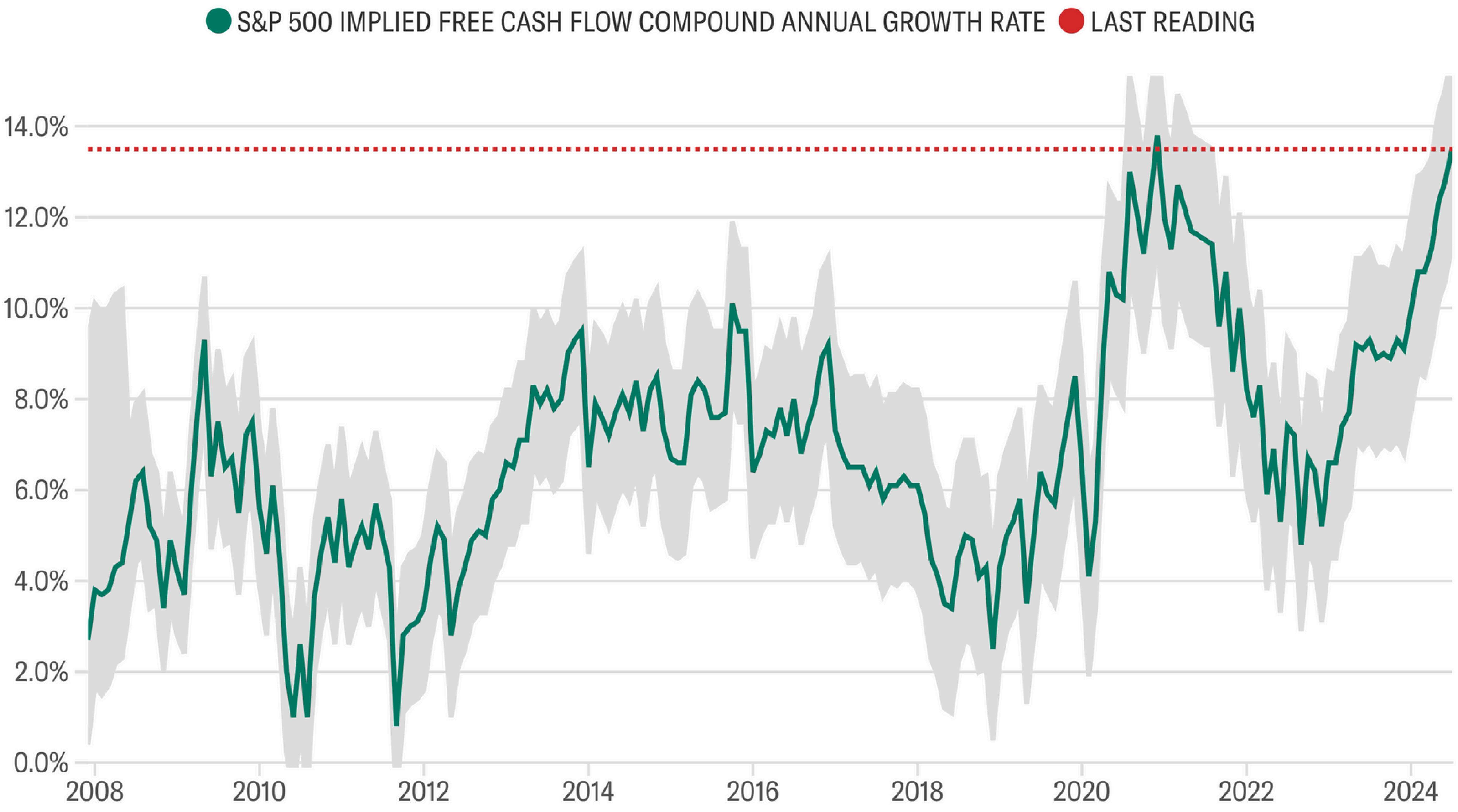
Many market observers are worried the VIX is too low, signaling unhealthy complacency.

We disagree, and the history of Wall Street's 'Fear Index' supports our view.”

NICHOLAS COLAS
DATATREK RESEARCH

GROWTH EXPECTATIONS NEAR CYCLE HIGHS

S&P 500 market-implied 5-year free cash flow growth



SOURCE: FACTSET; HAVER ANALYTICS; CITI RESEARCH VIA SCOTT CHRONERT

EXPERT COMMENTARY

"This chart is our way of measuring how much growth markets are pricing into current index levels. Right now, we are near post-pandemic highs.

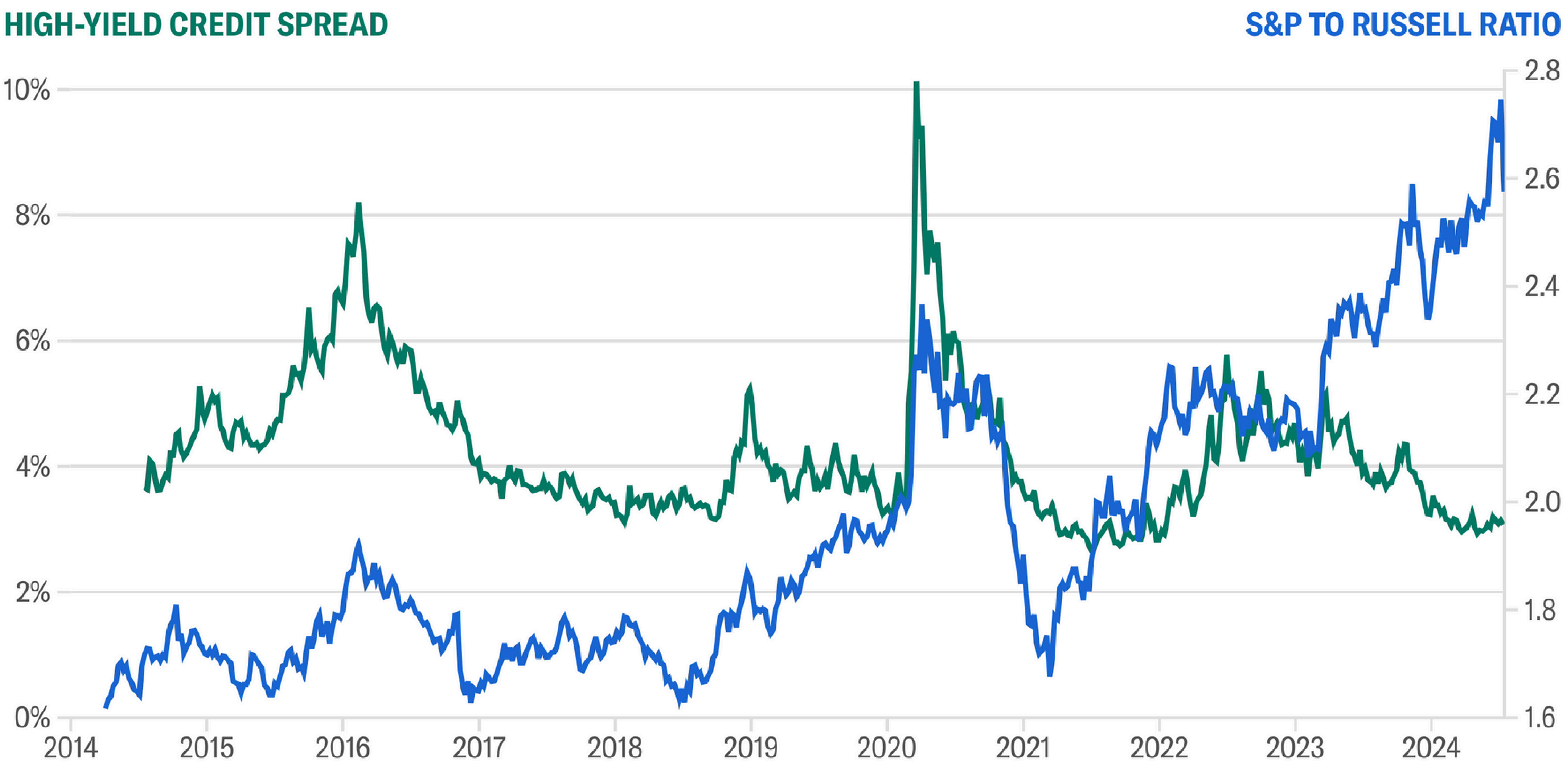
This means market expectations are high for fundamentals. Basically, you need strong earnings results and follow-through in guidance to support the market or push it higher ..."

SCOTT CHRONERT
CITI RESEARCH

THE STATE OF THE BULL MARKET

LARGE-CAP RALLY 'CONFLICTS WITH SOUND ECONOMIC THEORY'

High-yield credit spread and relative performance of S&P 500 to Russell 2000



SOURCE: RICHARD BERNSTEIN ADVISORS VIA RICHARD BERNSTEIN

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EXPERT COMMENTARY

“Historically, large-cap stocks (higher quality) tend to outperform smaller-cap stocks (lower quality) when high-yield credit spreads are widening.

However, the relationship has reversed since the end of 2022. Large-cap stocks have outperformed smaller-cap stocks despite credit spreads narrowing.

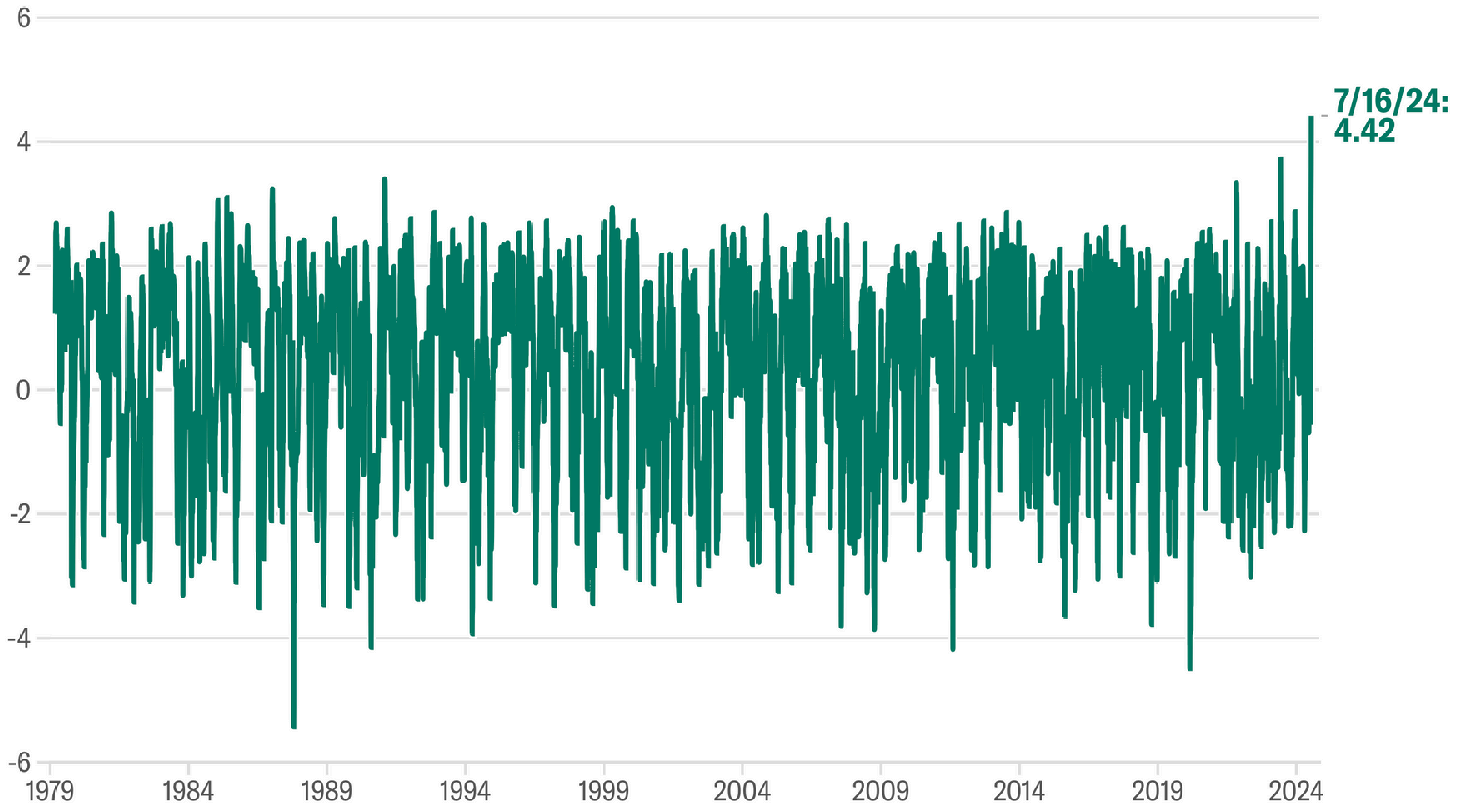
This is quite rare ...”

RICHARD BERNSTEIN

RICHARD BERNSTEIN ADVISORS

SMALL CAPS ARE 'SUSCEPTIBLE TO LARGE SWINGS'

Russell 2000 historical daily overbought/oversold readings



SOURCE: BESPOKE VIA PAUL HICKEY

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THE STATE OF THE BULL MARKET

EXPERT COMMENTARY

"On July 16, the Russell 2000 closed 4.42 standard deviations above its 50-day moving average. ... For major US Indices (S&P 500, DJIA, Nasdaq, and Russell 2000), it is the most overbought reading in history!

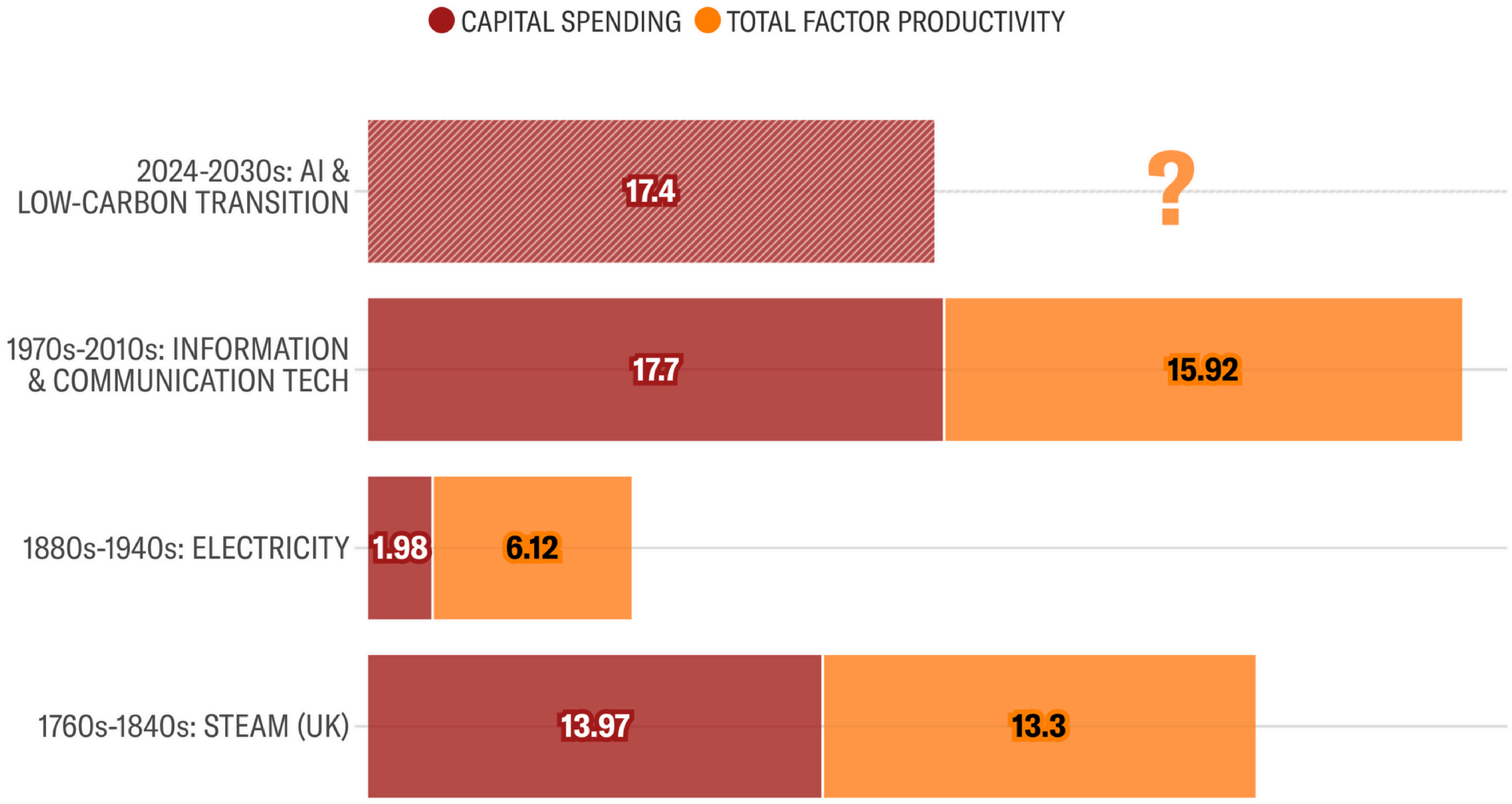
The size of the Russell makes it susceptible to large swings, and the last several days are a perfect example."

PAUL HICKEY

BESPOKE INVESTMENT GROUP

PRODUCTIVITY BOOM TO FOLLOW AI SPENDING?

Total cumulative contributions to GDP, in percentage points



SOURCE: BLACKROCK INVESTMENT INSTITUTE VIA JEAN BOIVIN

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THE STATE OF THE BULL MARKET

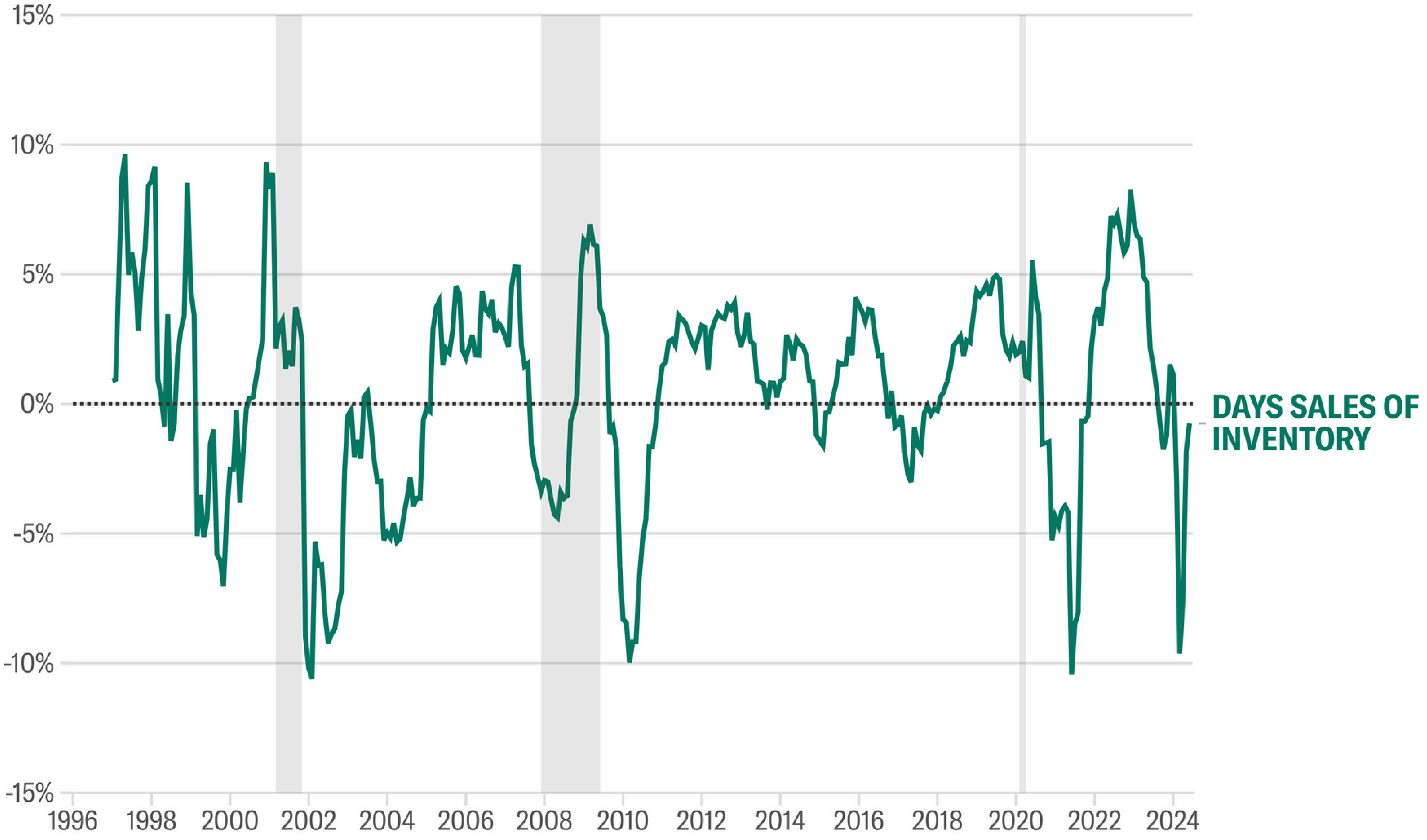
EXPERT COMMENTARY

"AI and the low-carbon transition could spur historically large capital spending — and in a much shorter space of time than previous technological revolutions.

We see a possible investment boom ahead that could transform economies and markets. But the speed, scale, and impact of that investment is unclear."

JEAN BOIVIN
BLACKROCK INVESTMENT INSTITUTE

END OF DE-STOCKING CYCLE BULLISH FOR STOCKS



SOURCE: BANK OF AMERICA SECURITIES VIA OHSUNG KWON • SHADED AREAS INDICATE RECESSIONS

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THE STATE OF THE BULL MARKET

EXPERT COMMENTARY

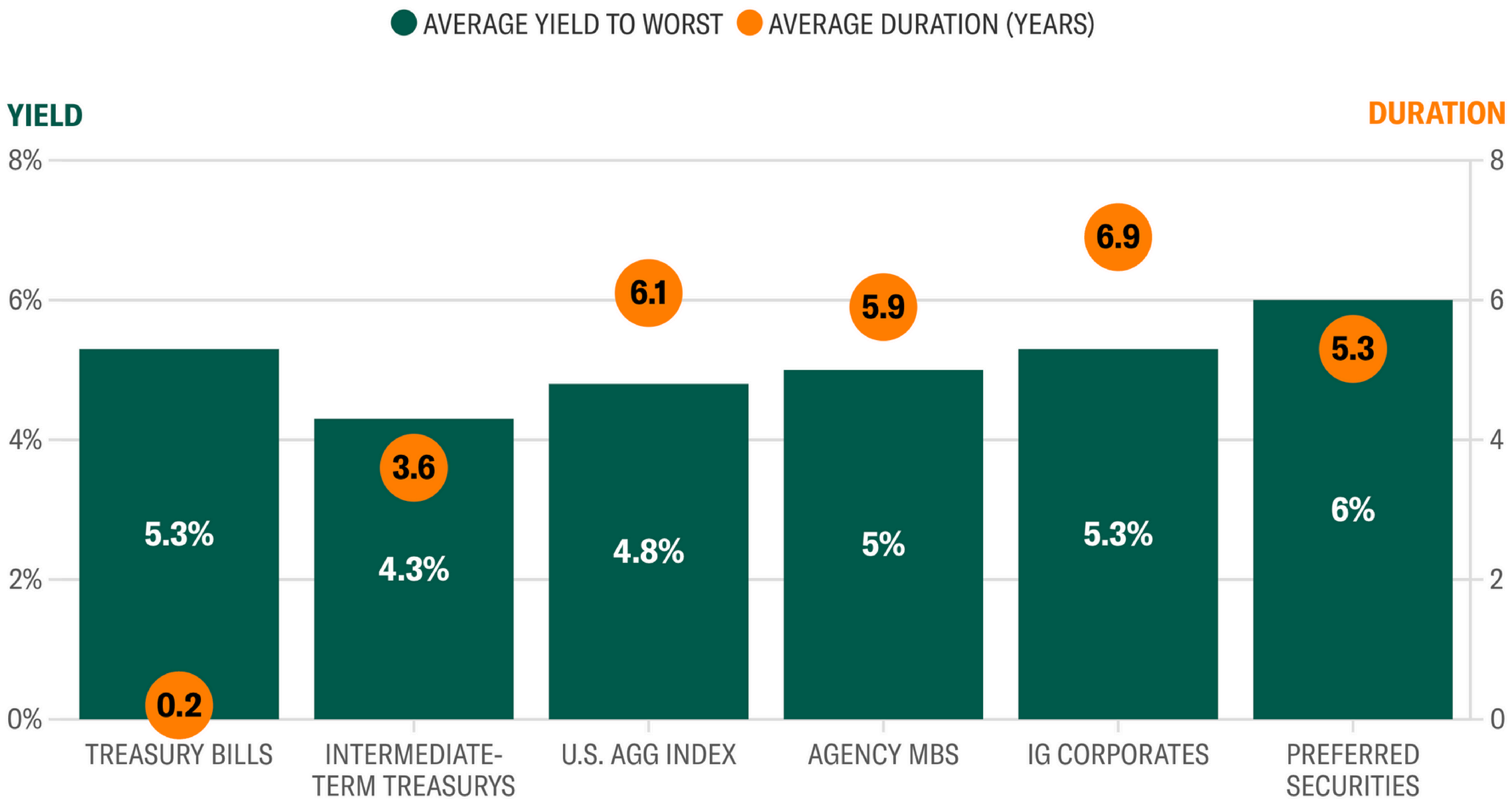
"The de-stocking cycle over the past 18-24 months has been one of the sharpest in history ...

But the sharp inventory contraction started to moderate for the third straight month in June, suggesting that the de-stocking cycle is likely coming to an end."

OHSUNG KWON

BANK OF AMERICA SECURITIES

OTHER INSTITUTIONAL INVESTMENTS ARE OFFERING HIGHER YIELDS THAN TREASURY BILLS



SOURCE: BLOOMBERG; SCHWAB CENTER FOR FINANCIAL RESEARCH VIA KATHY JONES

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EXPERT COMMENTARY

"We have been encouraging investors to look beyond the Treasury market for yield.

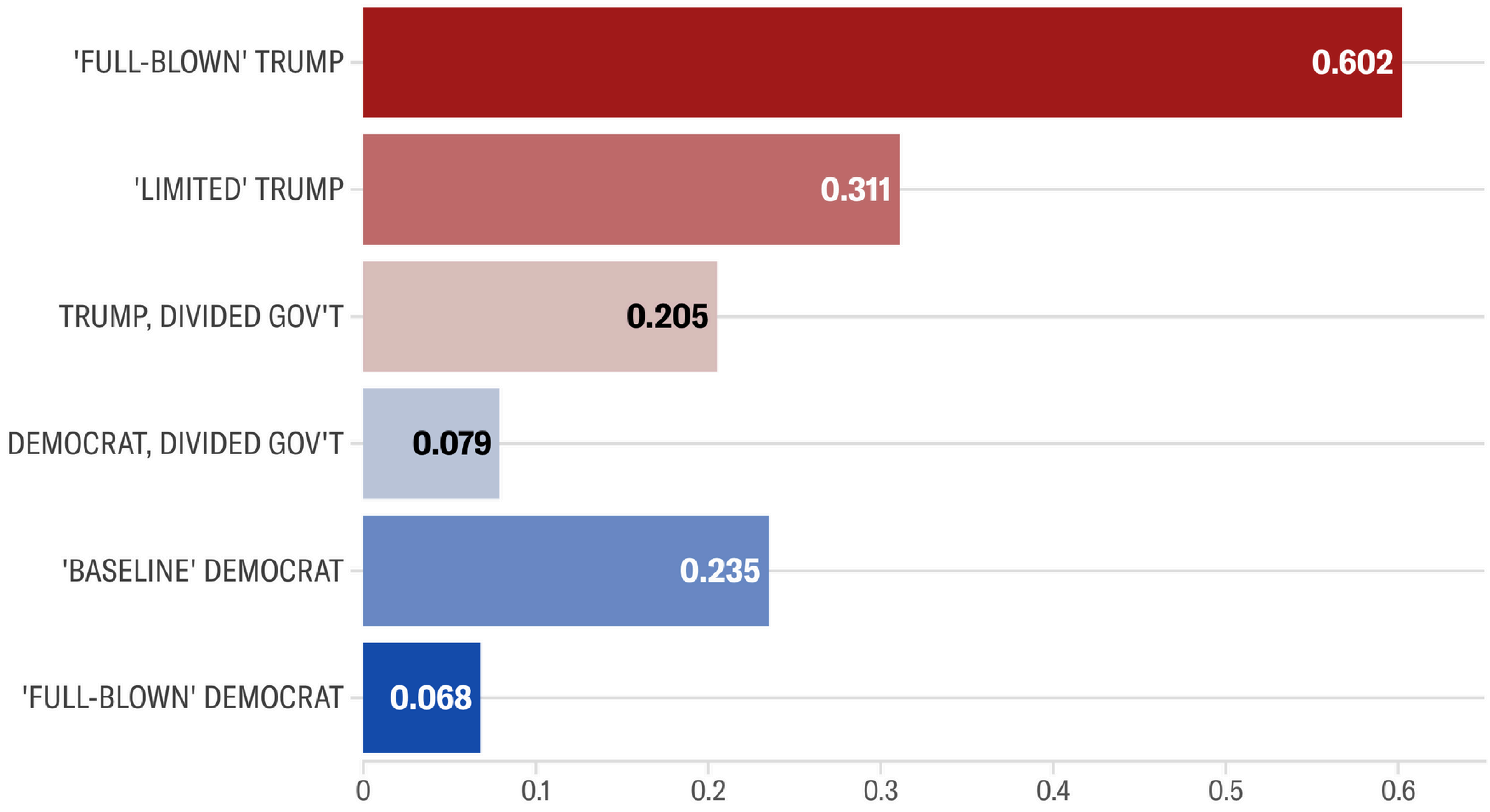
Currently, there are opportunities to build a portfolio of yields 5% or more over the next 5 to 10 years without taking significant credit risk."

KATHY JONES
SCHWAB CENTER FOR FINANCIAL RESEARCH

BACK TO TOP

PROJECTED INFLATION ACROSS ELECTION SCENARIOS

Change in core PCE percentage points from current law scenario



SOURCE: OXFORD ECONOMICS VIA BERNARD YAROS

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A PENDING US PRESIDENTIAL ELECTION

EXPERT COMMENTARY

“No matter the result on Election Day, policymaking during the next presidential term will add to inflation...

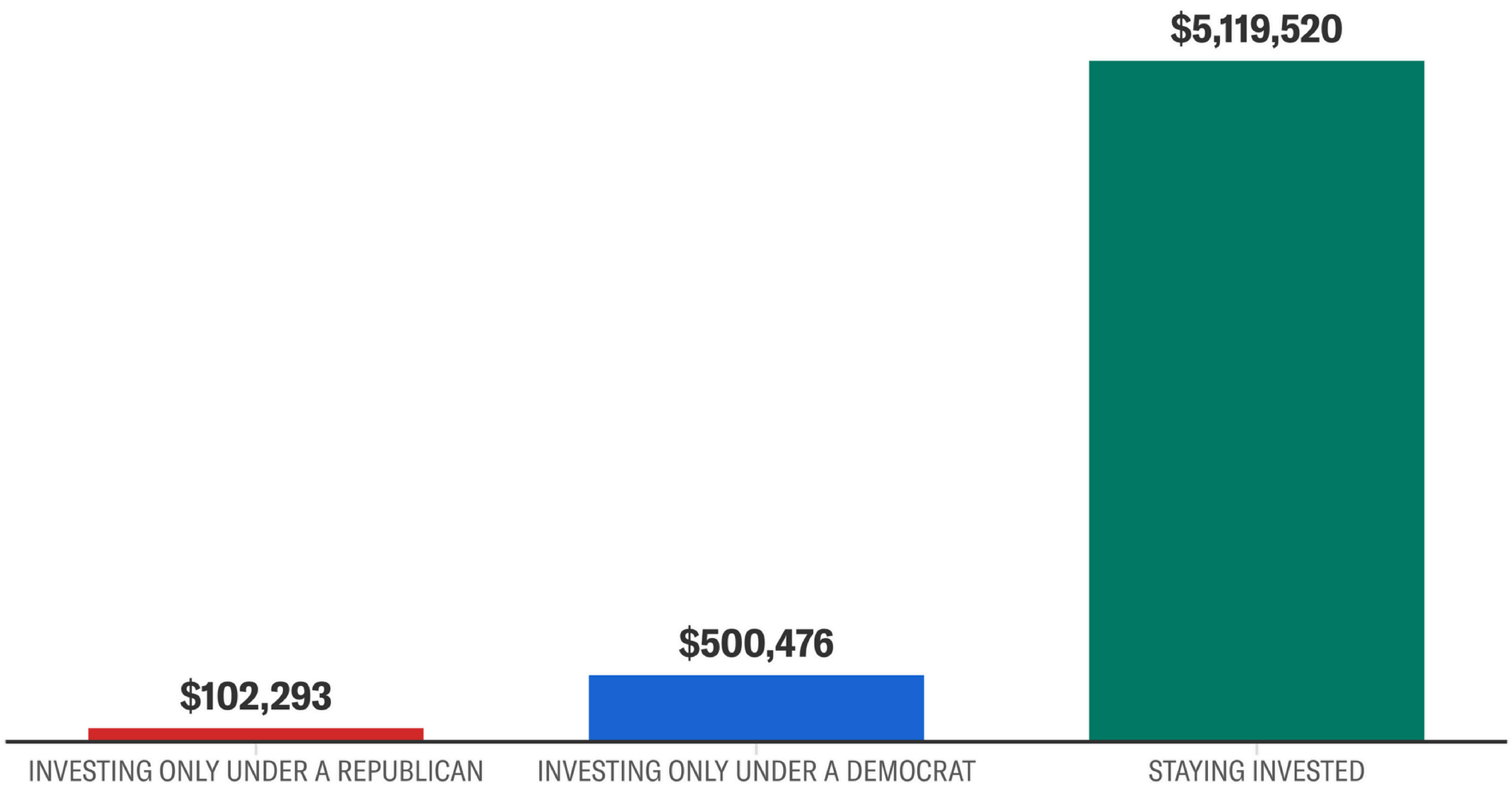
The inflationary impact is greatest in a 'full-blown Trump' scenario where a Republican trifecta doubles down on tax cuts, higher defense spending, and tariffs.”

BERNARD YAROS
OXFORD ECONOMICS

GO TO ARTICLE FOR FULL COMMENTARY

STAY INVESTED NO MATTER THE POTUS

Growth of $10,000: 1961 to 2023



SOURCE: SCHWAB CENTER FOR FINANCIAL RESEARCH; MORNINGSTAR; TKER VIA SAM RO

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EXPERT COMMENTARY

"If you started with $10,000 in 1961 and invested in the S&P 500 only when there was a Republican in the White House, your investment would've grown to $102,000 in 2023.

If you did the same but with a Democrat in the White House, that investment would've grown to $500,000.

But none of that compares with the $5.1 million you would've had if you had stayed invested the whole time, regardless of who was president."

SAM RO
TKER

TREASURY POLICY LEANS ON YIELDS

10-year term premium (ACM method)

SOURCE: FEDERAL RESERVE BANK OF NEW YORK; UBS VIA JONATHAN PINGLE

EXPERT COMMENTARY

"The rising debt issuance appeared to pressure yields higher. Then, in November, the Treasury Department announced shifting issuance to short-term bills, weighing on longer-term bond yields.

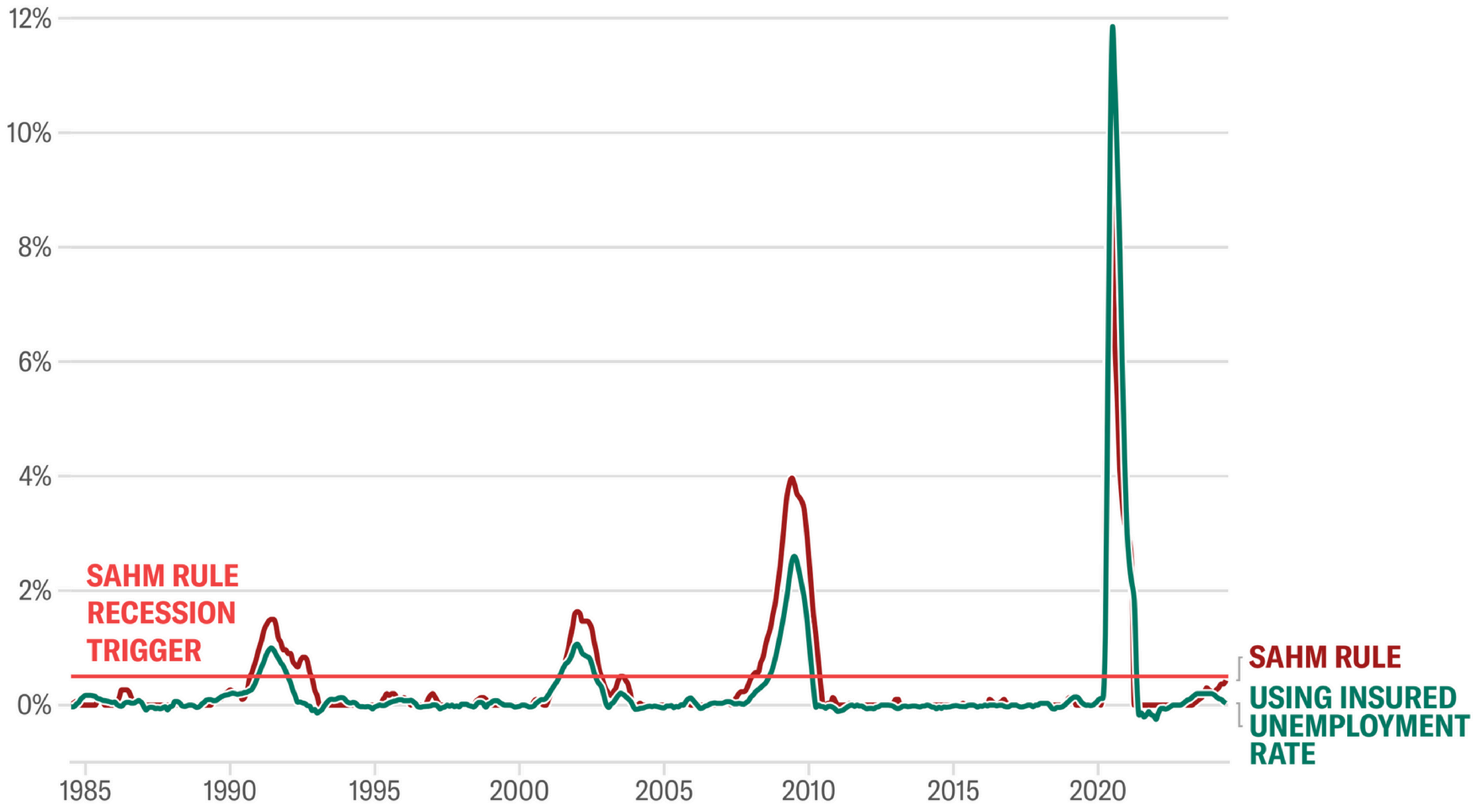
This could have implications for the coming expiration of the 2017 tax cuts and impact on markets of sustaining large deficits over time."

JONATHAN PINGLE
UBS INVESTMENT BANK

BACK TO TOP

THE LABOR MARKET ISN'T 'CRACKING'

Yardeni Research recession indicator



SOURCE: YARDENI RESEARCH VIA ED YARDENI & ERIC WALLERSTEIN

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THE HEALTH OF THE U.S. ECONOMY

EXPERT COMMENTARY

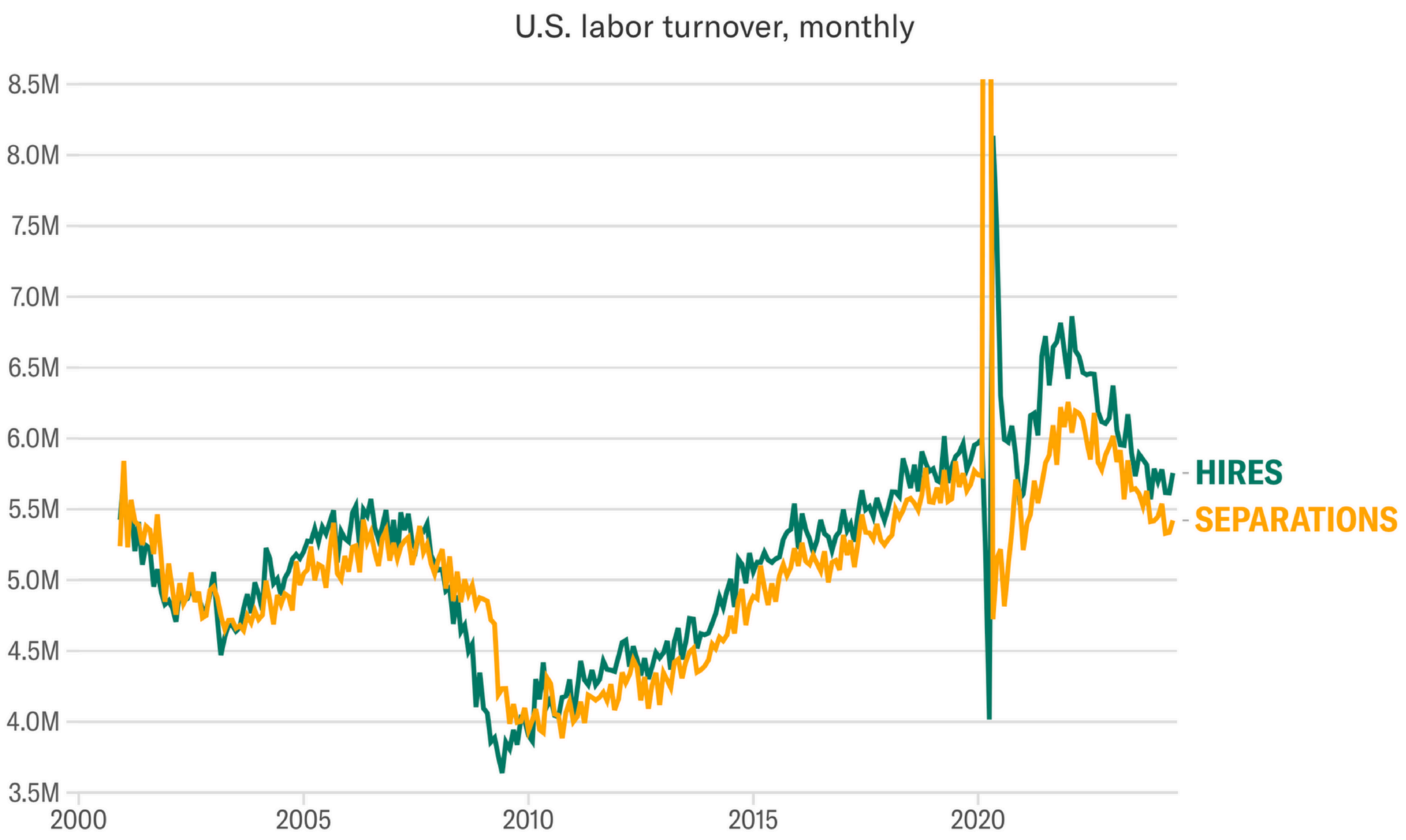
"We think the labor market is normalizing from the pandemic shock and do not see a recession materializing on the horizon.

While the Sahm Rule approaches its recession trigger … we believe the flood of illegal immigration and the growing labor force are behind the rise in unemployment."

ED YARDENI, ERIC WALLERSTEIN

YARDENI RESEARCH

THE 'BIG STAY' COULD BOOST PRODUCTIVITY



SOURCE: BUREAU OF LABOR STATISTICS; NBER; JEFFERIES VIA THOMAS SIMONS

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THE HEALTH OF THE U.S. ECONOMY

EXPERT COMMENTARY

“Recent JOLTS data shows that turnover is slowing. The 'Great Resignation' has transitioned to 'The Big Stay.' ...

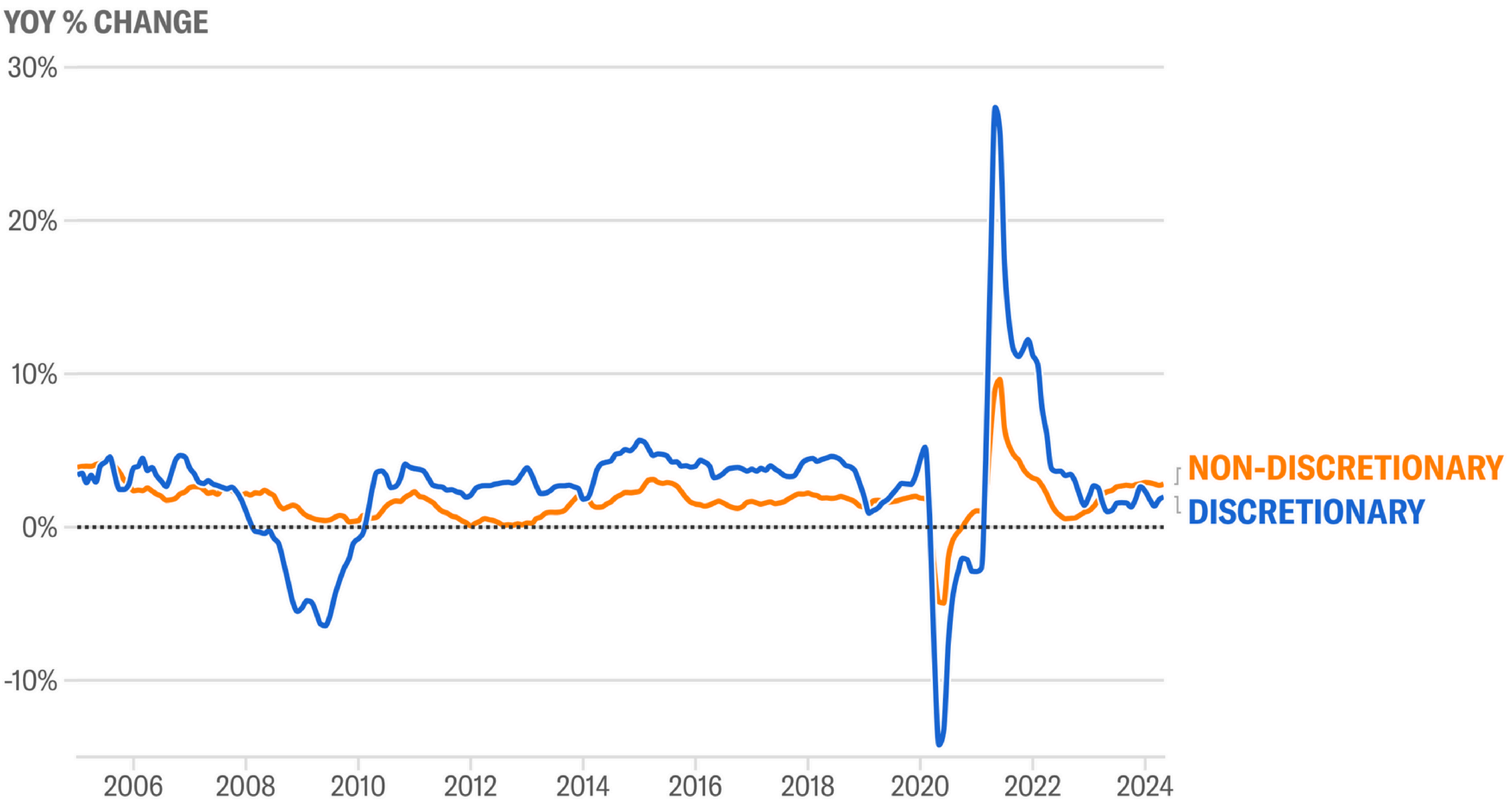
As productivity improves, businesses will have less pressure to pass on higher wage costs to customers through higher prices, allowing inflation to cool further.”

THOMAS SIMONS
JEFFERIES

GO TO ARTICLE
FOR FULL COMMENTARY

CONSUMERS PULL BACK ON SPENDING

Consumer spending, year-over-year % change of 3-month moving average



SOURCE: U.S. DEPARTMENT OF COMMERCE; WELLS FARGO ECONOMICS VIA JAY BRYSON

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THE HEALTH OF THE U.S. ECONOMY

EXPERT COMMENTARY

"In more than 60 years, there has never been a recession without real discretionary spending falling on a year-over-year basis.

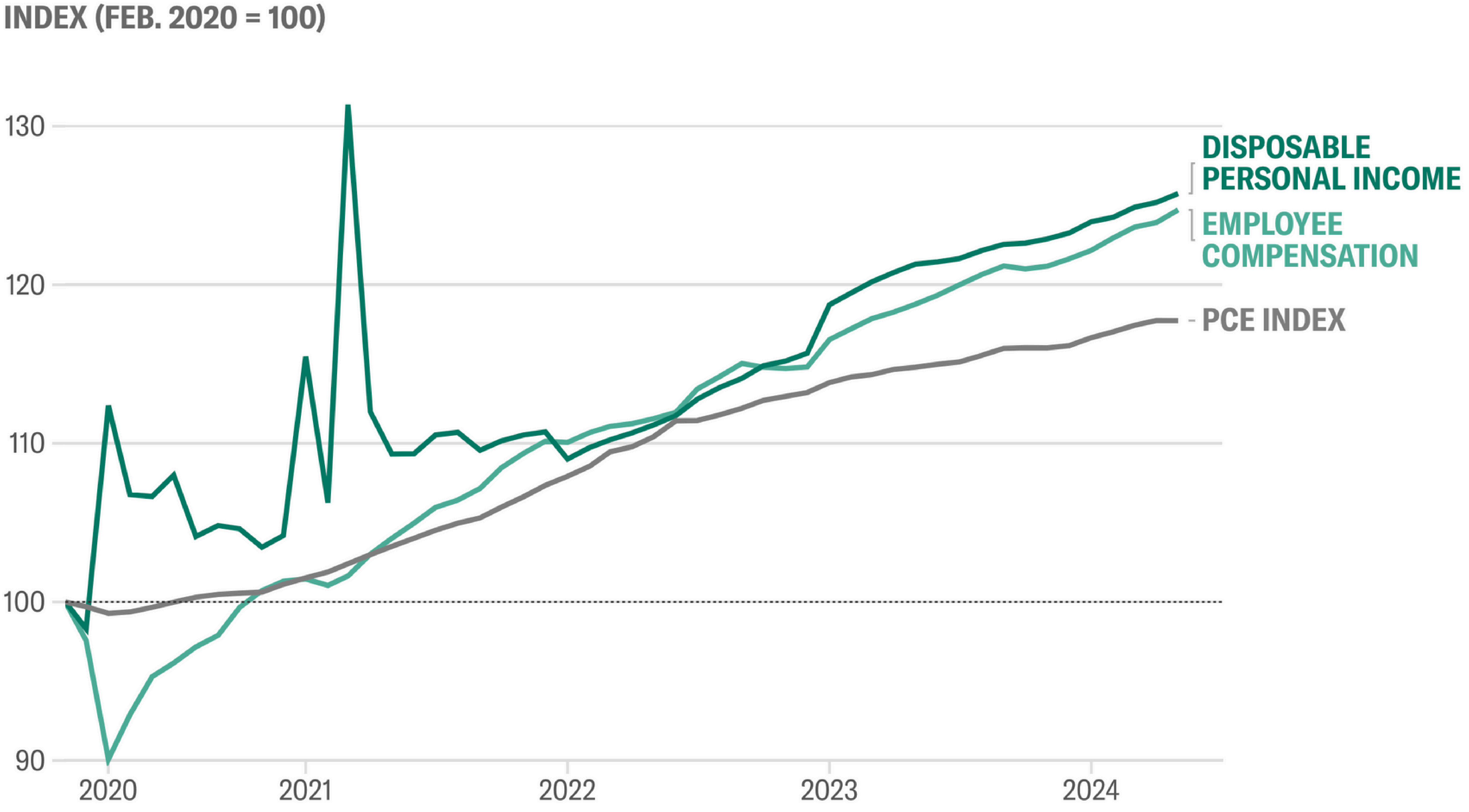
What about false positives? Turns out, they are rare. ...

Household spending habits these days reveal a more choosey consumer as purchasing power fades."

JAY BRYSON

WELLS FARGO ECONOMICS

DISPOSABLE INCOME OUTPACING INFLATION SINCE PANDEMIC



SOURCE: FRED; CARSON INVESTMENT RESEARCH VIA RYAN DETRICK

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THE HEALTH OF THE U.S. ECONOMY

EXPERT COMMENTARY

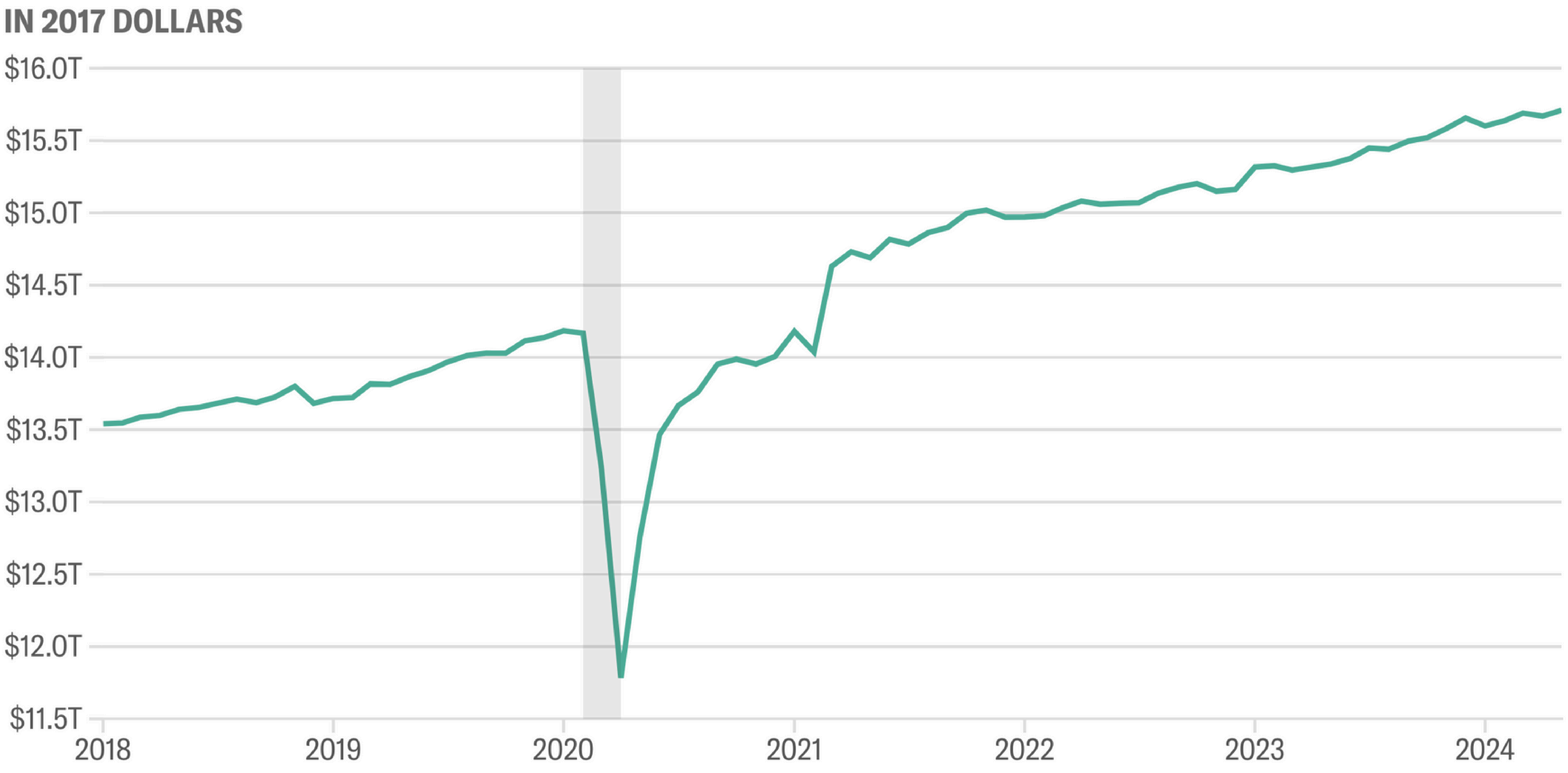
"... It might surprise many that disposable incomes and employee compensation have increased more than overall inflation since the pandemic started. ...

The good news is we expect inflation to improve [in] the second half of this year, so consumers should remain in good shape as incomes and compensation remain healthy."

RYAN DETRICK
CARSON GROUP

CONSUMER SPENDING REMAINS KEY TO AVOIDING RECESSION

Real personal consumption expenditures



SOURCE: BUREAU OF ECONOMIC ANALYSIS; SAHM CONSULTING VIA CLAUDIA SAHM • SHADED AREAS INDICATE U.S. RECESSIONS

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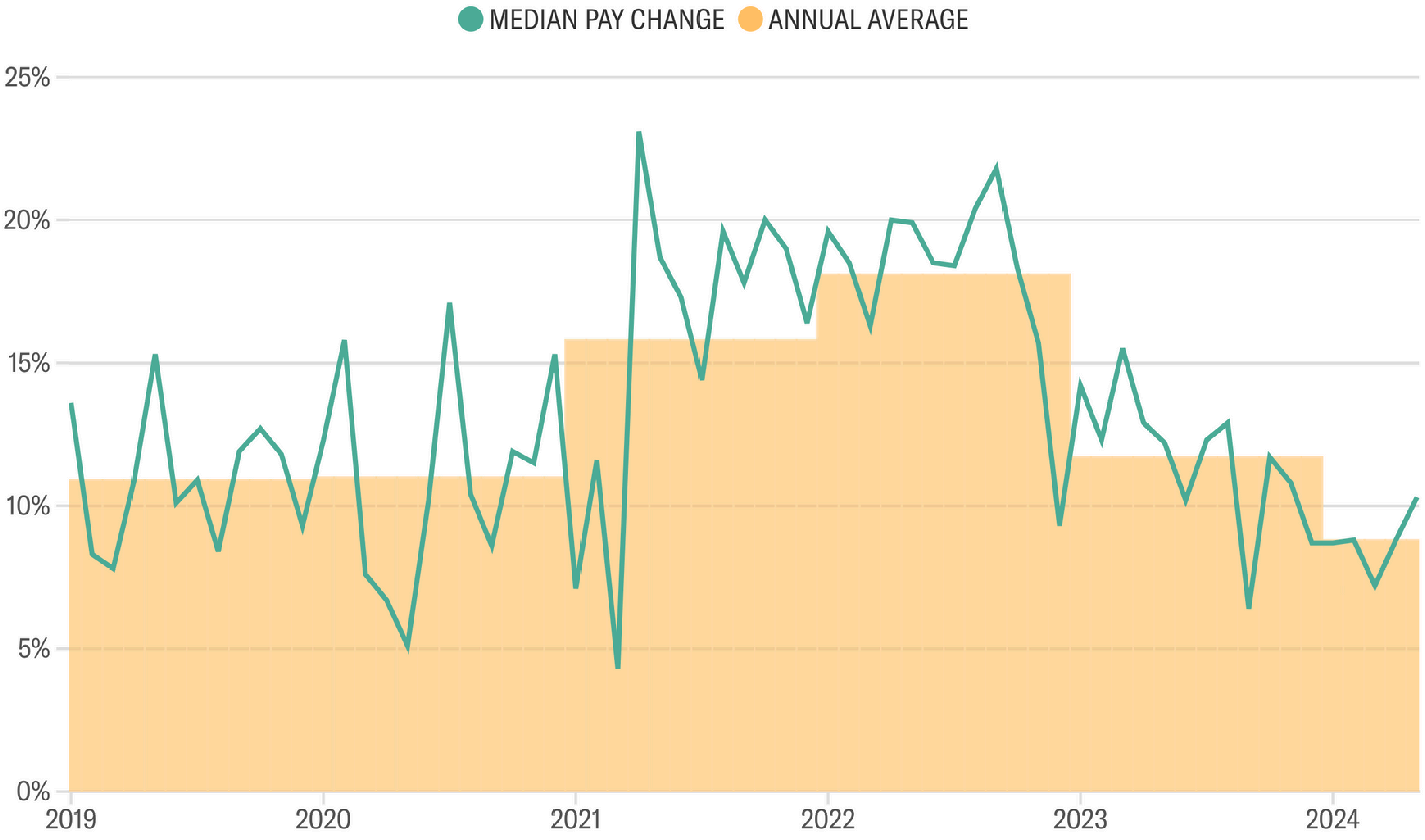
EXPERT COMMENTARY

“Even after adjusting for higher prices, consumer spending has risen solidly in recent years and is near its pre-COVID trend. That's remarkable...

In the first half of 2024, the growth in real consumer spending slowed. ... So far, that appears to be nothing unusual, but as two-thirds of the US economy, consumers will be at the center of any watch over recession risks.”

CLAUDIA SAHM
SAHM CONSULTING

PAY BUMPS FOR JOB HOPPERS DECLINE



SOURCE: BANK OF AMERICA INSTITUTE VIA LIZ EVERETT KRISBERG

EXPERT COMMENTARY

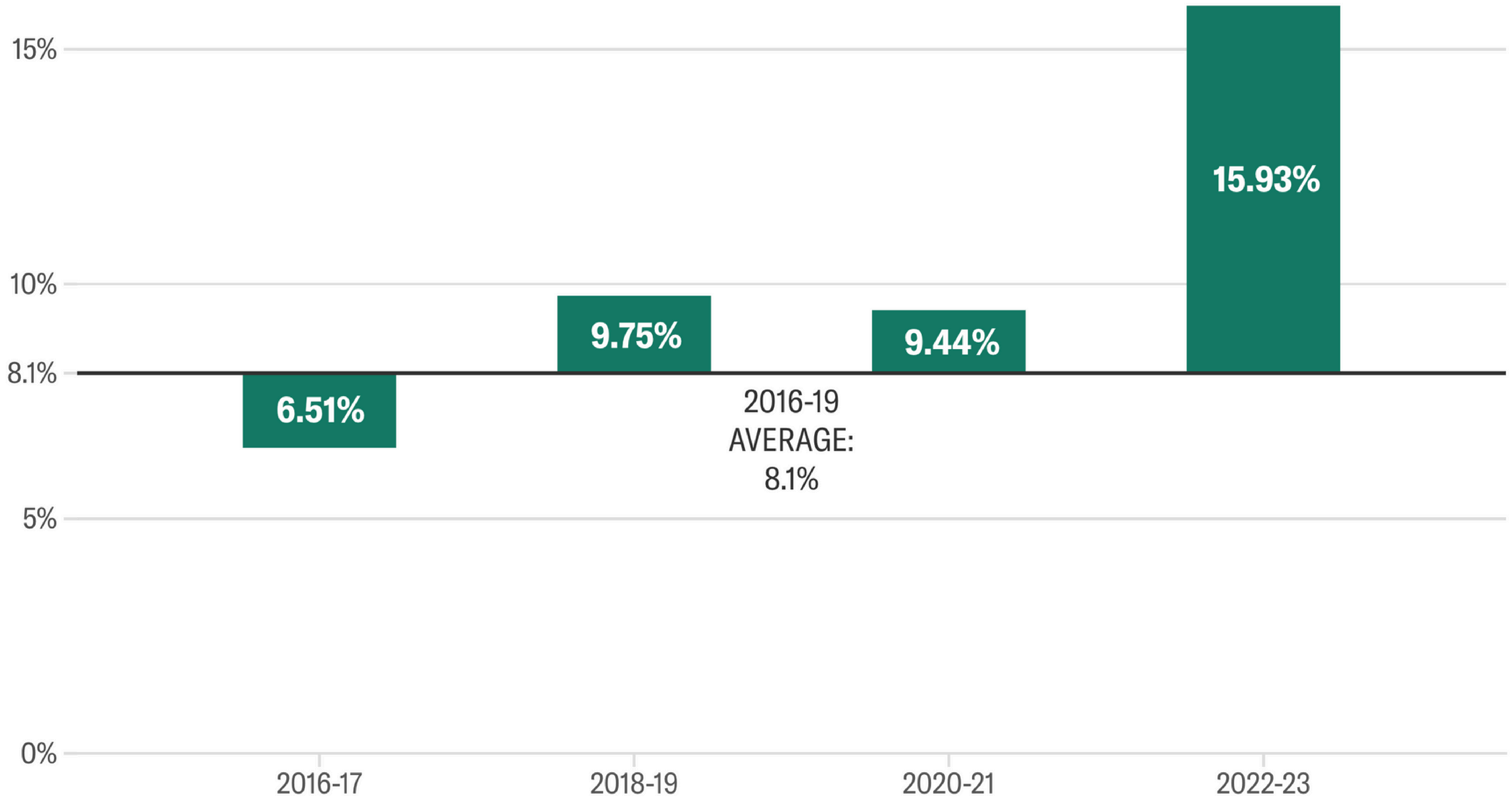
"Is changing jobs worth what it used to be?

In addition to finding that the rate of workers changing jobs … has declined relative to 2023, job hoppers are getting a smaller bump in pay from their new employers."

LIZ EVERETT KRISBERG
BANK OF AMERICA INSTITUTE

REMOTE JOB SWITCHERS COME OUT AHEAD

Job switchers into long-distance work had bigger pay gains than those who started new positions locally.



SOURCE: ADP PAYROLL AND HR DATA VIA DR. ISSI ROMEM

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EXPERT COMMENTARY

"Thicker job markets ... allow people and employers to better match with each other...

When the pandemic normalized long-distance work, the result was an explosion in the variety of both jobs and candidates available, or in other words: a thicker market for those embracing long-distance work."

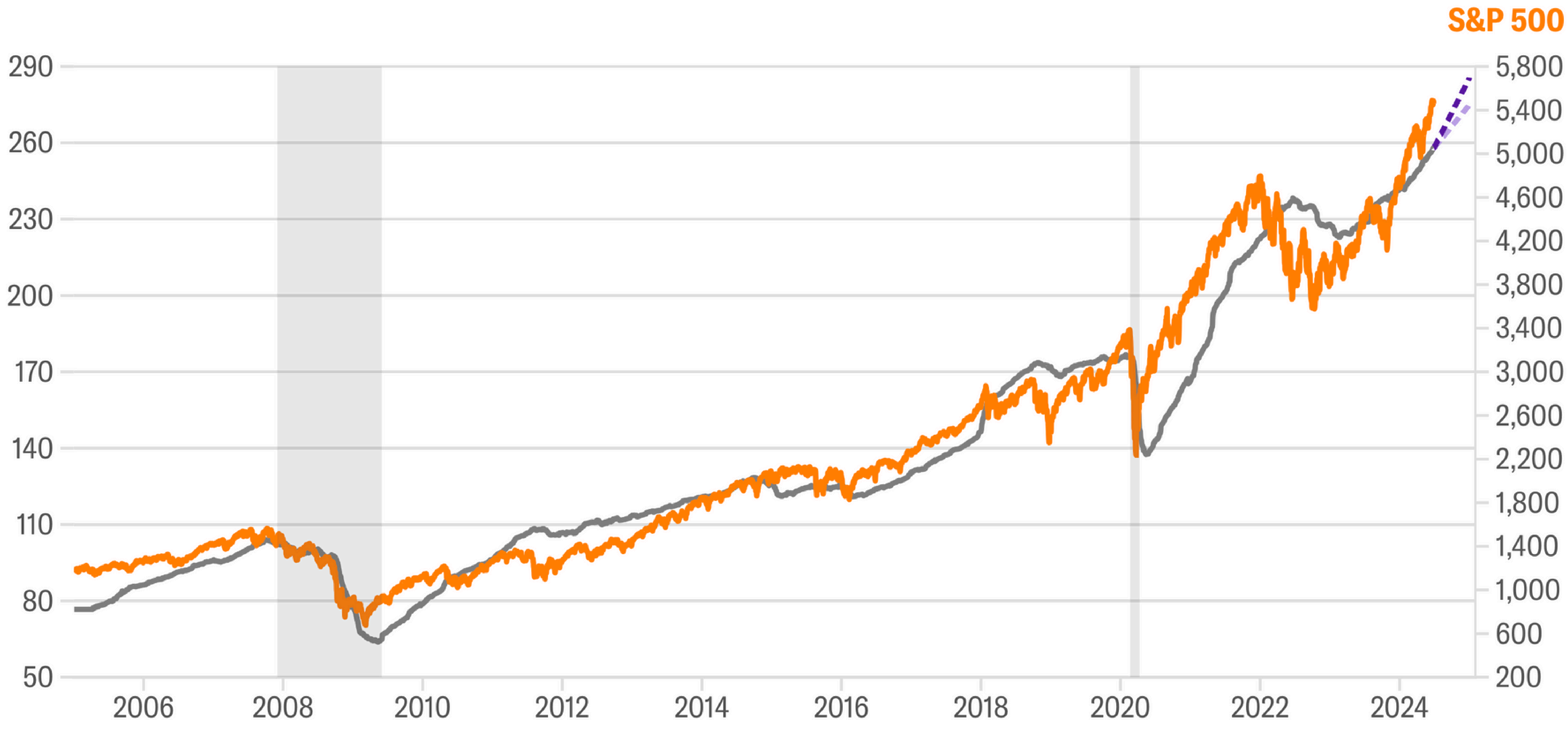
DR. ISSI ROMEM
ADP RESEARCH

BACK TO TOP

EXPECTED EARNINGS GROWTH REMAINS STRONG

Bottom-up analyst consensus and DB forecasts both see continued solid earnings growth and further upside by the end of 2024.

LEFT AXIS ● S&P 500 NTM EPS ● CONSENSUS ● DB FORECAST



SOURCE: BLOOMBERG; DEUTSCHE BANK ASSET ALLOCATION VIA BINKY CHADHA

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THE MARKET'S NEXT MOVE

EXPERT COMMENTARY

“Earnings are the anchor for equity prices. The bottom-up analyst consensus and our earnings forecasts both see continued solid earnings growth and further upside for equities by year-end.

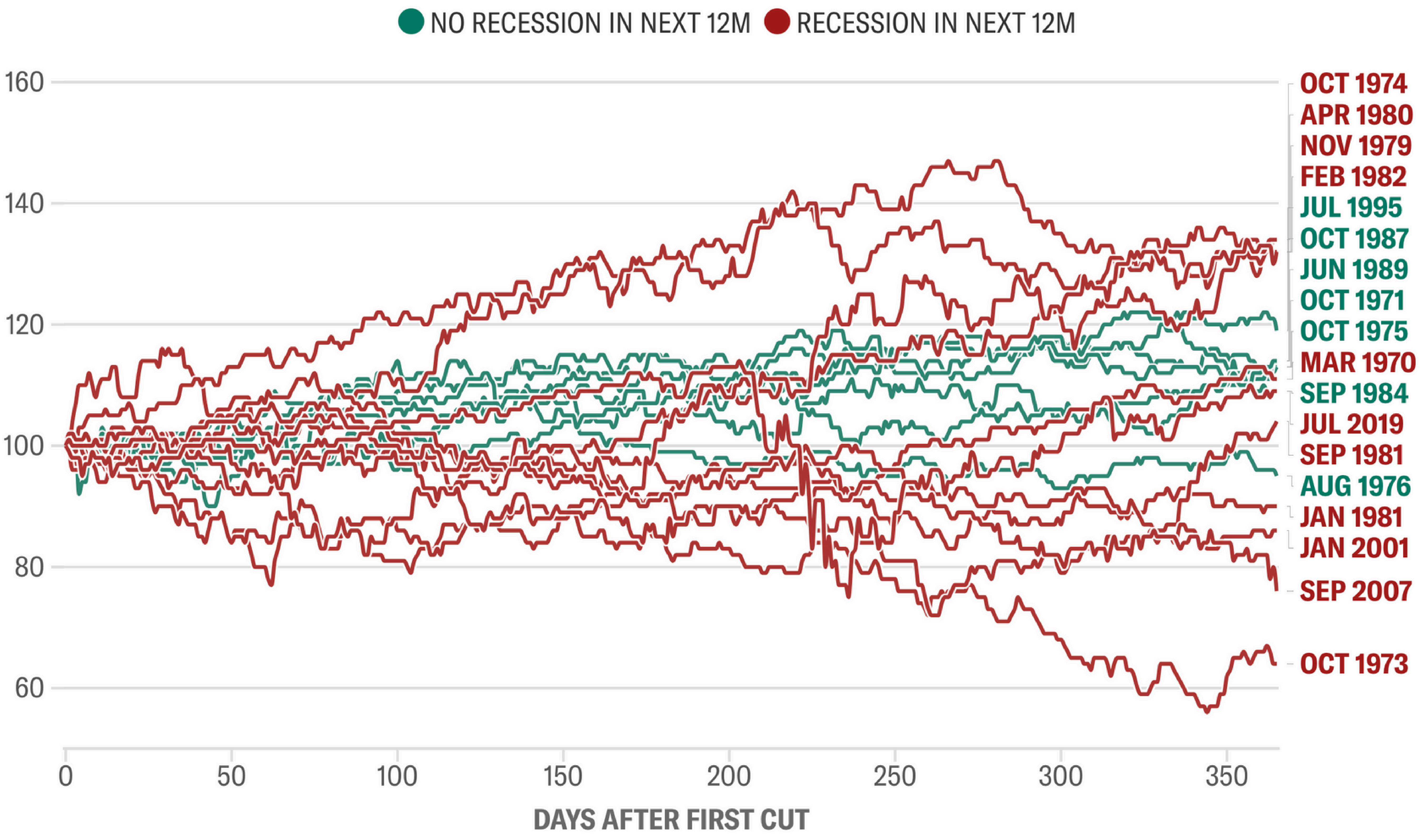
How much? The forward consensus for S&P 500 EPS looks to be pointing to 5,500 and our earnings forecasts to 5,800 by year-end...”

BINKY CHADHA
DEUTSCHE BANK

GO TO ARTICLE FOR FULL COMMENTARY

RATE CUTS DON'T ALWAYS UPEND THE STOCK MARKET

S&P 500 performance one year after first Fed rate cut



SOURCE: RITHOLTZ WEALTH MANAGEMENT VIA CALLIE COX • DATA SINCE 1970

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THE MARKET'S NEXT MOVE

EXPERT COMMENTARY

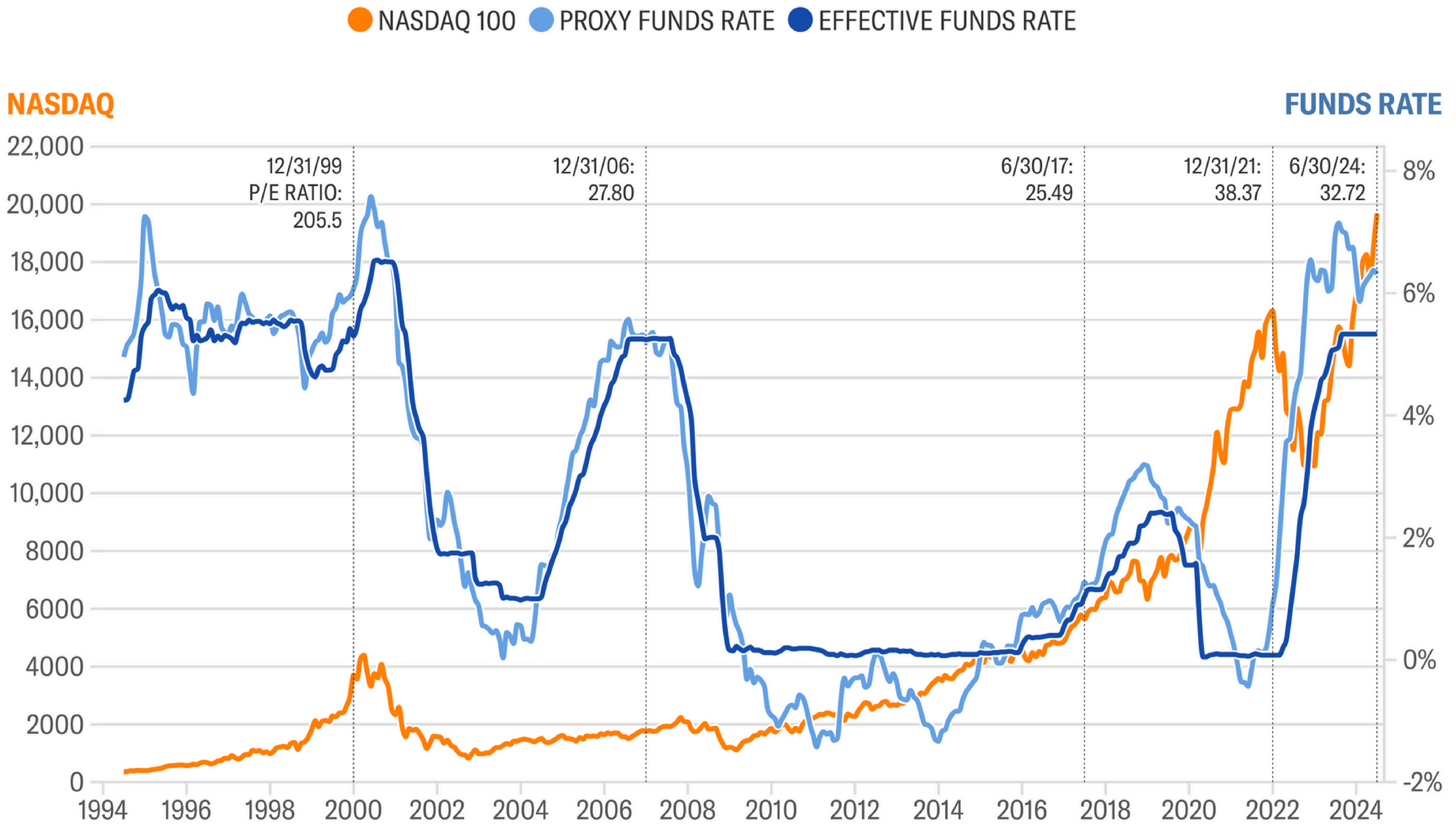
"Rate cuts are probably coming soon. And yes, they tend to happen when the economy is in trouble.

But you don't need to freak out just yet. ... This particular rate cut looks to be a celebratory rate cut — one that happens because the Fed believes they finally have inflation under control."

CALLIE COX

RITHOLTZ WEALTH MANAGEMENT

TECH STOCKS HAVE BEEN LESS SENSITIVE TO RATES



SOURCE: FEDERAL RESERVE BANK OF SAN FRANCISCO; FRED; INVESCO VIA KRISTINA HOOPER

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THE MARKET'S NEXT MOVE

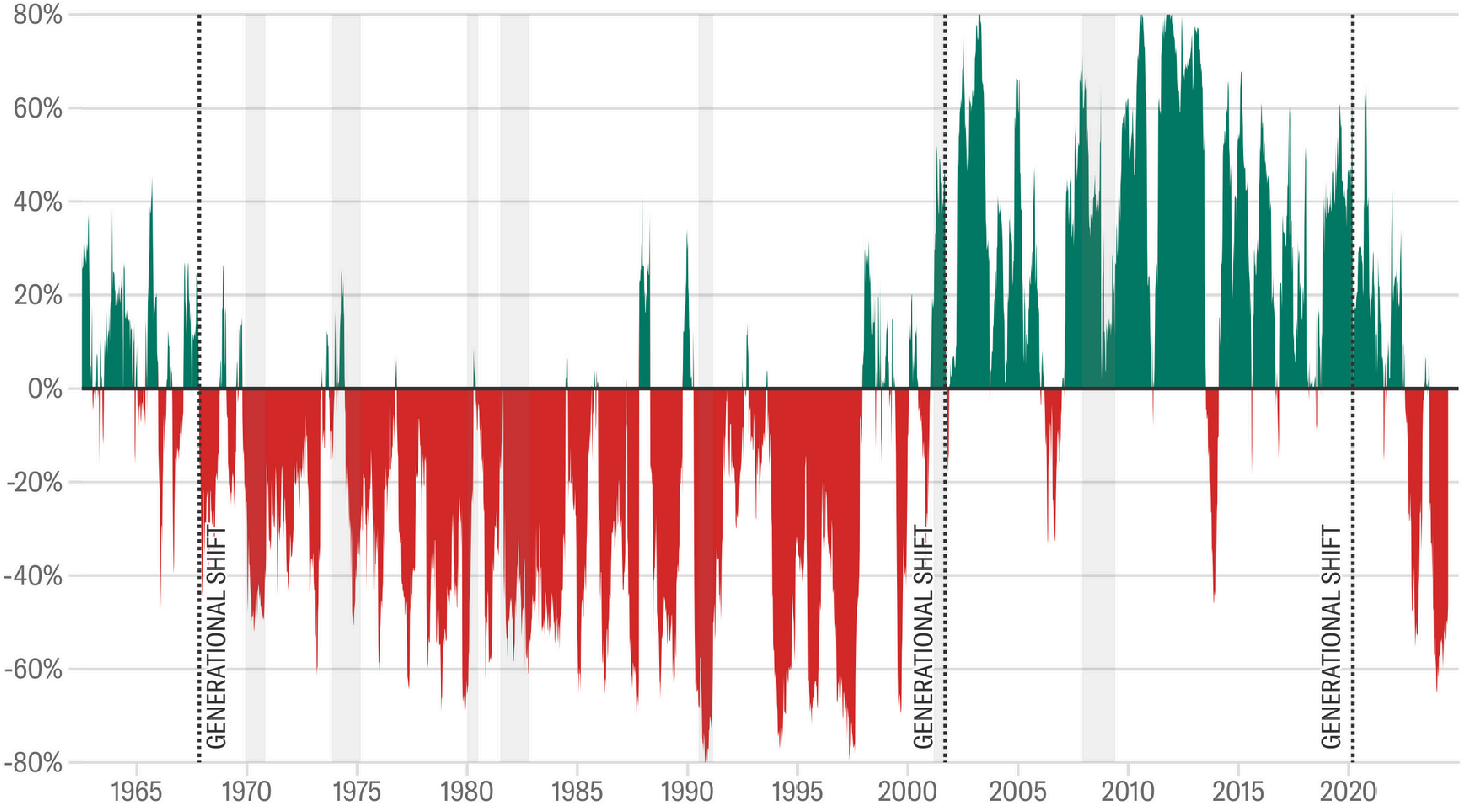
EXPERT COMMENTARY

"Currently, the P/E ratio on the NASDAQ 100 is 32.72, which is higher than the historical average but not at the high end of the historical range of valuations. Therefore, I suspect that tech stocks will not be as sensitive to rate cuts going forward. I expect small caps and cyclical stocks to outperform tech stocks as markets anticipate an economic re-acceleration in coming months — but I still expect tech stocks to react positively to rate cuts."

KRISTINA HOOPER
INVESCO

FALLING RATES ARE THE BULL CASE FOR STOCKS

Correlation between S&P 500 prices and 10-year interest rates



SOURCE: PIPER SANDLER VIA MICHAEL KANTROWITZ • SHADED AREAS INDICATE RECESSIONS

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THE MARKET'S NEXT MOVE

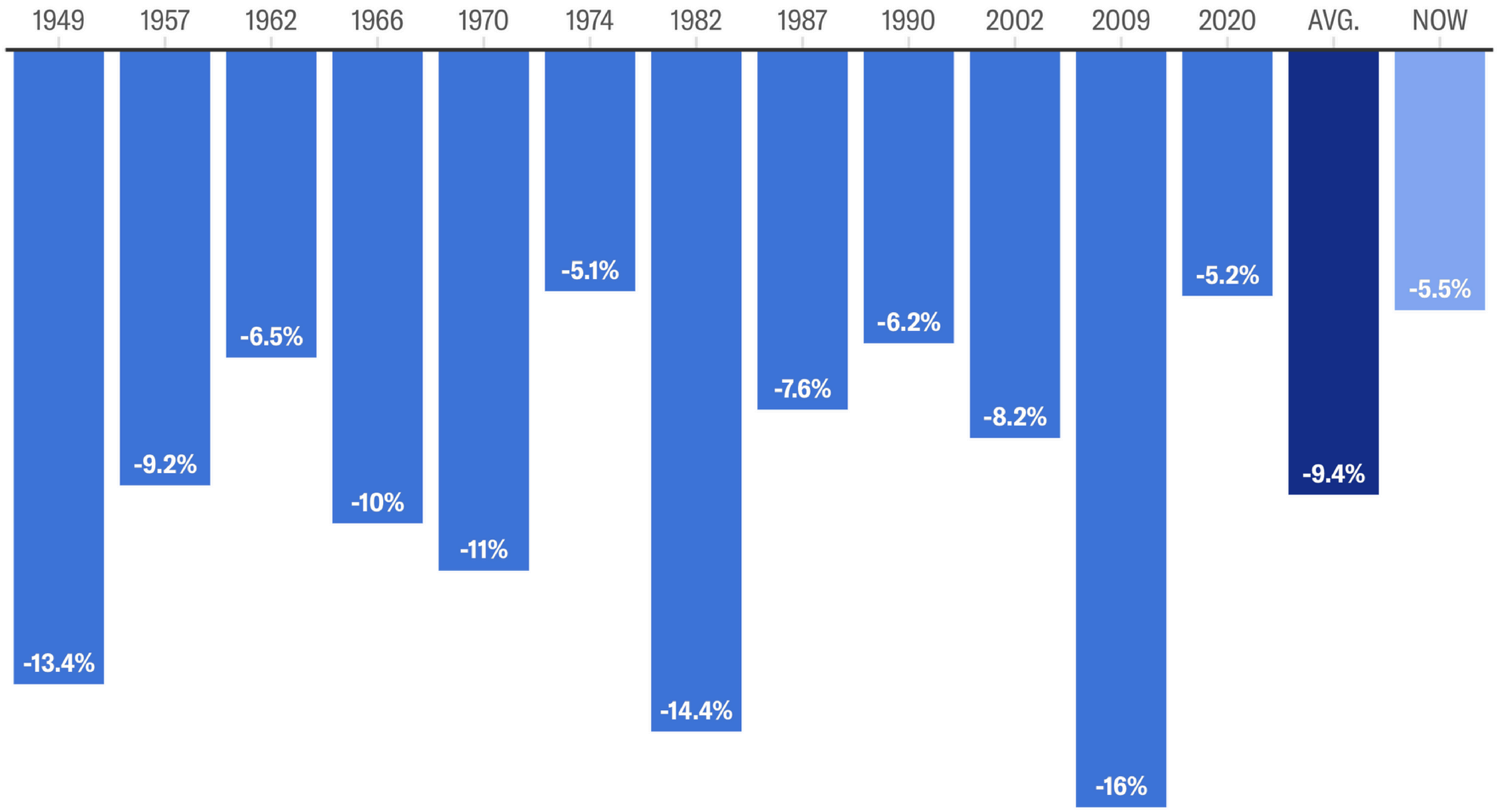
EXPERT COMMENTARY

“We’ve been bullish on equities in 2024, with the view that we’re in a "softilocks" backdrop of softening macro activity and moderating inflation. This helps to bring down interest rates and provide room for the Fed to cut rates, something that will continue to propel the bullish soft landing narrative for stocks and the economy.”

MICHAEL KANTROWITZ
PIPER SANDLER

MAX DRAWDOWN LOW RELATIVE TO HISTORY

S&P 500 max drawdown during second year of bull market



SOURCE: FACTSET; BMO CAPITAL MARKET INVESTMENT STRATEGY GROUP VIA BRIAN BELSKI

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THE MARKET'S NEXT MOVE

EXPERT COMMENTARY

“We are still skeptical that the 5.5% drawdown that occurred during March-April will be the worst for the S&P 500 this year...

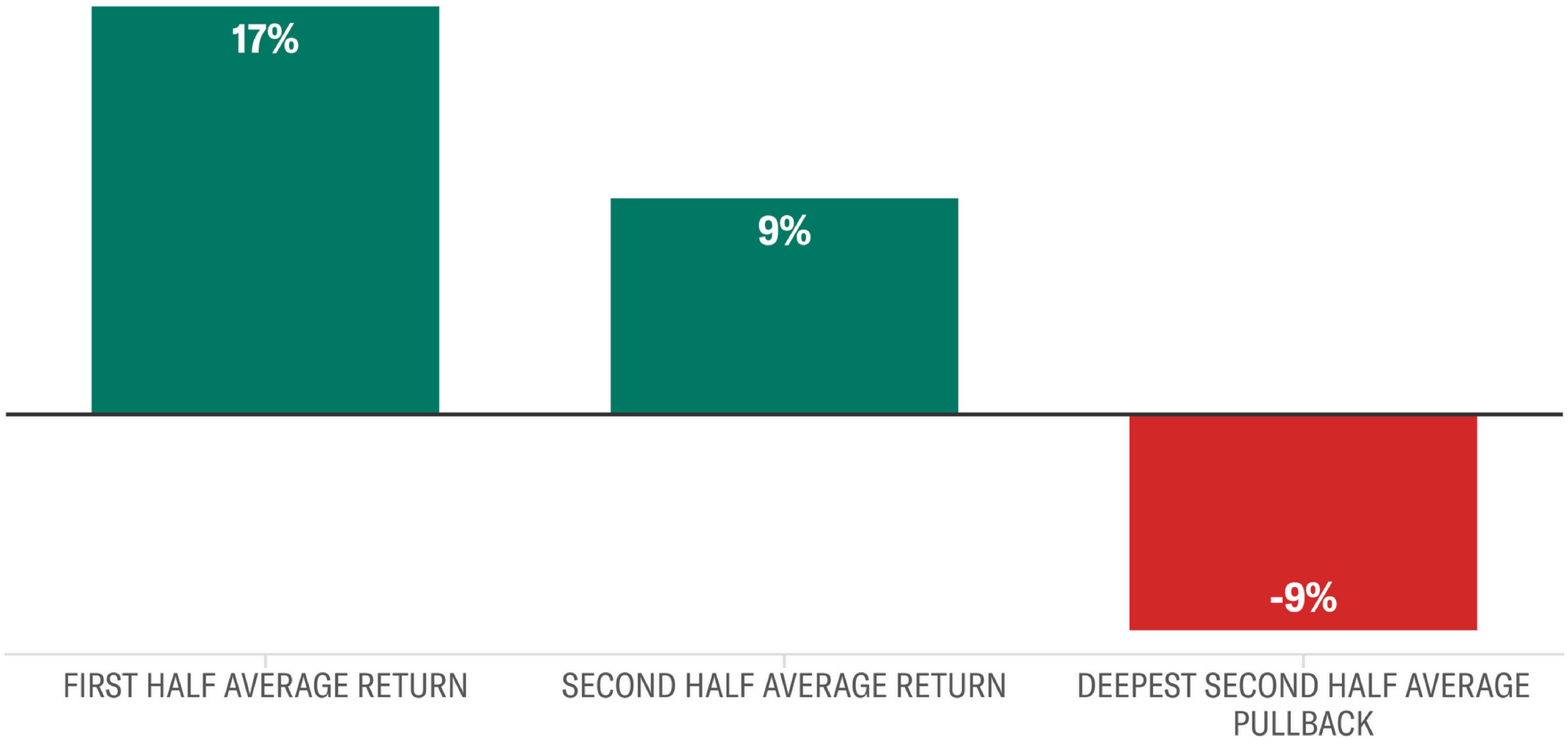
However, we are now convinced that should a more severe pullback happen, ... it will likely occur at higher index levels than we previously anticipated.”

BRIAN BELSKI

BMO CAPITAL MARKETS

STRONG FIRST HALF OFTEN MEANS STRONG SECOND HALF

S&P 500 second half returns & pullbacks after > 10% total return



SOURCE: FACTSET; TRUIST IAG VIA KEITH LERNER • DATA SINCE 1950

THE MARKET'S NEXT MOVE

EXPERT COMMENTARY

“Since 1950, there have been 27 years where the S&P 500 gained more than 10% in the first half on a total return basis, such as what occurred this year.

In the second half following these periods, the S&P 500 has averaged an additional gain of 9%. The index has risen in 24 of 27 such periods, despite seeing an average peak-to-trough pullback of 9% at some point.”

KEITH LERNER
TRUIST

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