

DANIELS+TANSEY

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Market Review

Markets Heat Up in July

July 2023

Favorable economic data fuels risk assets as markets post solid gains during July.

Key Observations

- *Markets posted favorable returns in July as investors found renewed optimism in economic data being reported, even in the face of year-over-year earnings declines.*
- *The Federal Reserve raised rates in July, now targeting 5.25-5.5% for the Fed funds rate. Markets have all but priced in a pause at this level for the remainder of the year.*

Market Recap

Financial markets were hot in July, starting the second half of the year off with a bang. There was a clear appetite for riskier segments of the market as equities generally outperformed fixed income. Even in the face of negative year-over-year earnings growth so far for the second quarter, favorable economic data helped bolster returns. The U.S. economy grew by 2.4% in the second quarter according to the advance estimate from the BEA¹ and inflation continued to moderate as well, with year-over-year CPI touching 3% in June.² U.S. equities performed well, posting mid-single digit returns. Small capitalization stocks (Russell 2000 Index) outpaced large cap companies (S&P 500 Index) during the month, driven in large part by strong smaller regional bank performance relative to large money center banks. Non-U.S. markets also posted favorable returns, with both developed and emerging markets in positive territory. Emerging regions (MSCI Emerging Markets Index) fared better than developed (MSCI EAFE Index) on the back of strong performance from China, Columbia and South Africa. Europe, however, lagged as the region continues to grapple with sluggish economic activity and higher inflation.

Financial Market Performance		
Index	July	YTD
S&P 500	3.2%	20.6%
Russell 2000	6.1%	14.7%
MSCI EAFE	3.2%	15.3%
MSCI EM	6.2%	11.4%
Bloomberg U.S. Agg Bond	-0.1%	2.0%
Bloomberg U.S. HY Corp Bond	1.4%	6.8%
FTSE NAREIT Equity REITS	2.9%	8.4%
Bloomberg Commodity	6.3%	-2.0%

Source: Morningstar Direct. As of July 31, 2023.

Fixed income was mixed as interest rate volatility remained. Ultimately, the U.S. 10-year Treasury yield ended the month at 3.97 %, 16 basis points higher than it began. The seemingly favorable economic backdrop and appetite

¹ U.S. Bureau of Economic Analysis. As of July 27, 2023.

² U.S. Bureau of Labor Statistics. As of July 12, 2023.

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for risk helped propel longer yields higher, while the Federal Reserve increased the federal funds rate another 0.25 percentage points (now targeting 5.25-5.50%), pushing short-term rates up.³ The propensity for risk played out in the bond market as well, as corporate high yield posted a positive return, supported by stronger than anticipated economic data. Diversifying areas of the market, such as REITs and commodities, were positive as well. In a notable shift this year, the office sub-sector saw a double-digit gain during the month on the back of growing leasing volume and positive sentiment stemming from a notable transaction from one of New York City's largest office landlords.

Outlook

Year-to-date, there have been a plethora of market shaking events – a banking crisis, a debt ceiling impasse, tightening financial conditions, negative earnings growth – but July was a welcomed reprieve from the noise and markets by and large have held their ground. However, even with reasonably strong economic data being reported, there are signs of elevated potential for a slowing business cycle. As highlighted in our [2023 Annual Outlook](#), we believe thoughtful asset allocation will be as important as ever in this environment of higher interest rates, tighter financial conditions and moderating inflation.

³ <https://www.federalreserve.gov/monetarypolicy/openmarket.htm>. As of July 26, 2023.

Use of indices and Benchmark Return Indices cannot be invested in directly. Index performance is reported gross of fees and expenses and assumes the reinvest dividends and capital gains. Past performance does not indicate future performance and there is a possibility of a loss. See disclosure page for indices representing each asset class.



Comparisons to any indices referenced herein are for illustrative purposes only and are not meant to imply that actual returns or volatility will be similar to the indices. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect our fees or expenses.

- **The S&P 500** is a capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
- **Russell 2000** consists of the 2,000 smallest U.S. companies in the Russell 3000 index.
- **MSCI EAFE** is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country.
- **MSCI Emerging Markets** captures large and mid-cap representation across Emerging Markets countries. The index covers approximately 85% of the free-float adjusted market capitalization in each country.
- **Bloomberg U.S. Aggregate Index** covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.
- **Bloomberg U.S. Corporate High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.
- **FTSE NAREIT Equity REITs Index** contains all Equity REITs not designed as Timber REITs or Infrastructure REITs.
- **Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification.

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