



### ***Ropes Wealth Sees How Some Like It Hot***

It is hot. In fact, around 134 million people in the U.S. are under alerts as an “extremely dangerous and record-breaking” heat wave broils much of the country, according to the National Weather Service. This haze has parallels to the stock market and the prolonged heat wave that the Magnificent Seven stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) have caused the S&P 500 to experience over the last year. While there have been some pockets of cooling for certain of those names (Apple, Tesla), those periods did not last long and their prices have continued to soar. Which begs the question: if or when will their hot and humid run finally break?

Market action this week provided a fleeting glimpse of what might drive some cooling. In the wake of a good but not steamy jobs report last Friday (206,000 jobs added in June, though net of adjustments to prior months data, payroll growth was really only 96,000), an unemployment rate edging up slightly to 4.1%, and a Consumer Price Index (CPI) update showing inflation now down to a 3% annualized rate, markets took a modest breather. Tech-dominated mega caps like the Magnificent Seven repriced in the wake of this news, and momentarily pulled the markets lower as investors shifted their funds into other much-cheaper sectors like real estate, homebuilders, healthcare, and utilities. Small-cap stocks that have been left out in the cold during the market’s tech-dominated hot streak have also benefitted from a resurgence in this week’s trading.

Why was there some cooling interest in the Mag Seven? Price exhaustion is one factor, but also the market’s insistence that the Fed will cut interest rates before the end of the year and that this action might put some wind back in the sails of more interest rate sensitive sectors and segments of the economy. Powell’s Congressional testimony this week opened the door for investors to speculate that these recent economic data points on employment and inflation seal the deal for a September rate cut. If you listened to the testimony carefully, Powell walked a delicate line, reiterating a fear that lowering interest rates too late or too little could put the economy and the labor market at risk, while recognizing that cutting rates too soon or too much could equally stall or reverse the disinflationary progress already achieved. But he did emphasize that the Fed was ready and willing to respond if it witnesses unexpected weakening. *“We’ve seen that the labor market has cooled really significantly across so many measures...It’s not a source of broad inflationary pressures for the economy now,”* Powell said.

Cooling numbers in inflation, employment, and even consumer confidence, which was out this morning and reflected the lowest levels since 2022, may still not be enough to moderate technology’s dominance and investor enthusiasm for the possibilities that artificial intelligence could yield for our future. We should all be rooting for the continued success of these companies, though no question we would like to see investment returns have more depth and breadth than they have in recent months. To that point, there was one moment on Thursday when 400 of the 500 S&P 500 stocks were in the green despite the S&P 500 Index trading lower. Generally, a market where the soldiers are marching ahead, not lingering behind the generals, tends to be healthier.

JPMorgan Chase, Citigroup, and Wells Fargo were the trio of big banks out with earnings early Friday, officially kicking off earnings season with mixed results as JPM beat expectations while Wells did not. For what it is worth, JPM CEO Jamie Dimon called out geopolitics as a big risk that investors are ignoring against what he called a “rather benign economic outlook.” He may be right, but there is no easy way to plan or handicap those risks in the messy and fragmented geopolitical scene in which we live today.

So even though the weather is hot and humid and we all wouldn't mind a reprieve, it would be nice if the markets kept up their scorching results and even compounded them with some broadening to other market sectors and segments. And that may very well be what is in store, as an economy that is not too hot and not too cold, and with interest rates on a lower path, often offers a very warm reception for investors. With that, we believe now may be a very good time to review portfolios for underlying over weights that may need to be trimmed and lean into some diversification in the event market broadening does take hold and other segments and sectors catch some fire. As we do this, we are also considering what may be needed for a rainy day, if one does ever come.

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