Aspen Wealth Management, Inc.
9300 W. 110th Street, Suite 680
Overland Park, KS 66210
913.491.0500
www.aspenwealth.com

Market Update

(all values as of 06.28.2024)

Stock Indices:

Dow Jones	39,118
S&P 500	5,460
Nasdaq	17,732

Bond Sector Yields:

2 Yr Treasury	4.71%
10 Yr Treasury	4.36%
10 Yr Municipal	2.86%
High Yield	7.58%

YTD Market Returns:

Dow Jones	3.79%
S&P 500	14.48%
Nasdaq	18.13%
MSCI-EAFE	3.51%
MSCI-Europe	3.72%
MSCI-Pacific	3.05%
MSCI-Emg Mkt	6.11%
US Agg Bond	-0.71%
US Corp Bond	-0.49%
US Gov't Bond	-0.68%

Commodity Prices:

Gold	2,336
Silver	29.43
Oil (WTI)	81.46

Currencies:

Dollar / Euro	1.06
Dollar / Pound	1.26
Yen / Dollar	160.56
Canadian /Dollar	0.73

Macro Overview

The economy is slowing! The eleven interest rate increases totaling 5.25% was designed to lower inflation and slow the economy. GDP is down from 4.9% in 3Q2023 to 1.6% in 1Q2024, unemployment claims and the unemployment rate are rising, credit card and auto loan delinquencies are up, inflation is down from 9% to +/- 2%, US bankruptcy filings year-to-date of 346 are the highest since 2010, yet the Federal Reserve hasn't lower interest rates.

Will the Federal Reserve holds interest too high for too long? History says they will. The Federal Reserve was slow to act when inflation quickly rose in 2021-2. They were slow to act in 2007 before the great recession. They are overly cautious of inflation. The most recent employment report showed the unemployment rate rose to 4.1%. Companies have been slowing their rate of hiring as well as increasing layoffs across various industries. Economists view these dynamics as indicative of decelerating economic activity. Some analysts expect the Fed to initiate rate reductions as early as September should economic data continue to substantiate slowing growth trends. Again, the Federal Reserve will likely wait for the economy to slow too much before lower interest rates. They can't seem to find a happy medium or a sense of gradual changes.

Equity indices ended the second quarter mixed as the S&P 500 Index and the Nasdaq Composite Index outperformed the Dow Jones Industrial Average and the Rusell 2000 Index. Technology related companies advanced during the quarter while energy and industrial companies lagged.

Big banks underwent a stress test, which is imposed by the Federal Reserve to determine financial viability as well as the ability for banks to withstand severe economic and financial shocks. All 31 banks tested remained above their minimum capital requirements during the hypothetical severe recession scenario and are considered well-positioned to weather a severe recession and continue lending.

Financing costs for new autos remained relatively high in June, even though auto prices have been dropping. The typical monthly payment for a new auto loan set a record high of $740 this quarter, thus reducing consumer demand even as the average price on autos continue to drop due to easing supply chains and ample inventory.

Technology is advancing as companies are reconfiguring their computing infrastructure from information retrieval to an A.I. approach. The changes and advancement are anticipated to take years and are expected to affect nearly every sector and industry.

A model used by the Federal Reserve in valuing residential home values found that homes are now 25% overvalued, just below the 28% peak in 2007. Using the Labor Department's measure of rent, home prices are 19% overvalued using private measures of market rents. The Fed also follows the S&P CoreLogic Case-Shiller U.S. national home price index, which is up 51% since the end of 2019.

(Sources: U.S. Treasury, Federal Reserve, S&P, Eurostat, Labor Dept., ECB, Dow Jones, Nasdaq, Case-Schiller)

Stock Indices Not In Sync – Domestic Equity Overview

The second quarter saw varying performance across the sectors within the S&P 500 Index, as certain sectors were up while others were down. Technology, utilities and communication services saw the largest gains for the quarter, while materials, industrials and energy experienced pullbacks. The S&P 500 Index was up 4.28% for the second quarter, while the Dow Jones Industrial Average posted a -1.73% decrease, and the Nasdaq Composite Index was up 8.5% for the quarter.

There is a growing disparity among the major equity indices, indicating a market with narrow performance in just a few sectors, rather than broad advance among all sectors. A healthy stock market is one where all sectors advance simultaneously.

Sources: S&P, Dow Jones, Nasdaq, Bloomberg

Rates Start To Stabilize – Fixed Income Update

Recent economic data reveals a slowing economy in the second quarter. Interest rates have begun to stabilize pointing to a downward trend over the next few months. The yield on the benchmark 10-year Treasury bond is down from 4.75% in April to 4.36% on June 28th.

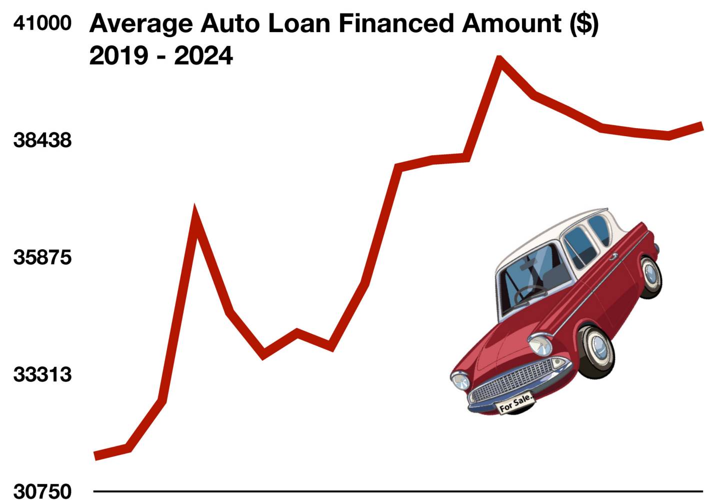
Growing consumer debt levels are becoming a concern especially with higher consumer interest rates resulting from the Federal Reserve raising interest rates. Consumer personal interest expense has increased from $250B per month in January 2022 to $529B in May 2024. This is $3.348 trillion of additional annual interest expense burden on the consumer. Higher interest rates have become a primary factor causing rising delinquencies in auto loans and credit cards. The longer the Federal Reserve maintains interest rates at these levels, the more damage will be done to the economy. Around the world, Switzerland has cut interest rates twice, Sweden once, Canada once and the Euro zone once in 2024.

Source: U.S. Treasury, Bureau of Economic Analysis

Average Auto Loan Amounts Head Lower – Consumer Finance

As auto sales have decreased over the past few months, so have the prices paid for automobiles and light trucks. Recent data compiled by the Federal Reserve Bank of St. Louis show that the average amount financed for a new car loan has fallen to $38,739, down from $40,155 in September 2022.

Automobile dealerships nationwide have been accumulating larger inventories of cars and trucks, which they haven't been able to sell as quickly as before. The disruption of supply chains and availability of auto components during the pandemic elevated prices for new and used cars.



Now with supply chains restored and product supply back on track, demand has weakened, leaving large inventories and falling prices. Even though prices have fallen, consumers are still seeing larger than average auto payments due to high interest rates. Unless rates drop, consumers may continue to hesitate buying automobiles while dealers continue to amass inventories of unsold cars.

Source: Federal Reserve Bank of St. Louis

Some Question Traditional Stock Market Indicator – Equity Analysis

The Dow Theory has been an indicator of the stock market for over 100 years, with a specific attention to transportation. It originated with a simple notion, that the Dow Transportation Index follows the Dow Jones Industrial Index. This is so because whatever the underlying 30 companies in the Dow Jones Index manufacture and produce, is ultimately shipped and transported to consumers and stores nationwide.

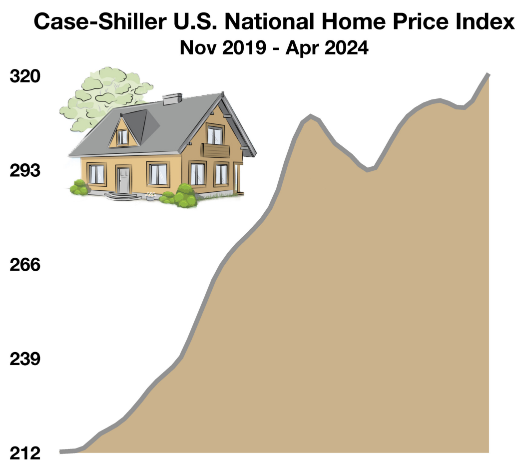
Market analysts have closely followed any disparities between the two indices for decades, trying to identify any lag or disconnect. Such a disparity has appeared recently, which may be an indicator of things to come. The divergence between the DJTA and the DJIA can be significant for market analysts and investors. According to the Dow Theory, the performance of the transportation sector (DJTA) should confirm the trends seen in the industrial sector (DJIA). If the two indices diverge, it may signal potential economic issues. For instance, if the DJIA is rising while the DJTA is falling, it could indicate that goods are being produced but not transported at the same rate, suggesting a potential slowdown in economic activity.

As of June 30, 2024, the DJTA was at 15,415.23, down by 483.62 points or 3% year-to-date and a 1-year change of -114 points or -1%. The DJIA, in contrast, had a year-to-date change of 3.8% and a 1-year change of 13.7%. Historically, this disparity confirms the economy is not robust.

Various factors may create or alter the performance of the Transportation Index, such as elevated fuel costs, weather, or logistical issues. Another factor has evolved more recently, whereas the belief is the U.S. economy has transformed into a more service-oriented economy with non-tangible products such as software platforms, not needing physical transportation or delivery. Incidentally, the objective results of any disparities have become much more subjective as analysts deduce varying reasons for disparities. (Sources: Dow Jones, Bloomberg)

Federal Reserve Says Homes Are 25% Overvalued – Housing Market Review

In addition to tracking inflationary pressures and wage growth, the Federal Reserve also tracks asset valuations to try to identify excessive increases. The Fed's Financial Stability Report assesses the stability of the US financial system by also analyzing asset valuations, borrowings by businesses and households, leverage and funding risks.

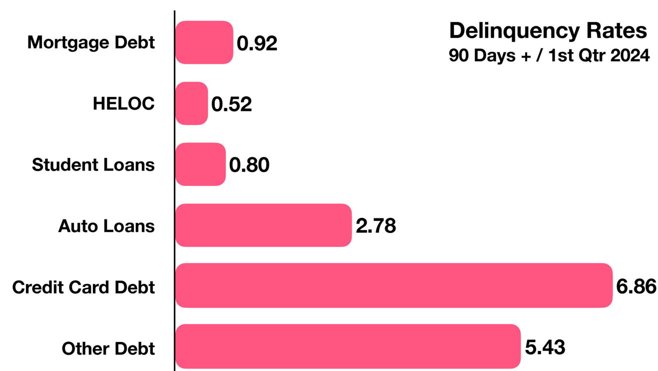


A model used in valuing residential home values found that homes are now 25% overvalued, just below the 28% peak in 2007. Using the Labor Department's measure of rent, home prices are 19% overvalued using private measures of market rents. The Fed also follows the S&P CoreLogic Case-Shiller U.S. national home price index, which tracks U.S. home prices nationwide. The index is up 51% since the end of 2019, an extraordinary rise relative to historical data. Another factor that is closely followed is the cost to rent versus owning. According to the Labor Department, the owner-equivalent rent is up 24% since 2019, meaning that the cost to purchase a home has risen more than the cost to rent since 2019. (Source: Federal Reserve Board of Governors)

Delinquency Rates Increasing Among Consumer Loans – Consumer Debt

Consumer loan balances are increasing due to a combination of factors, including rising interest rates, inflation, and changes in consumer behavior.

As the Federal Reserve has raised interest rates to combat inflation, higher interest rates have made borrowing more expensive for consumers. This has a direct impact on consumer loan balances, particularly for credit cards and personal loans, which often have variable interest rates. Rising loan rates have placed additional stress on consumers as loan payments have increased, with some leading to delinquencies. Outstanding balances on credit card and auto loans have seen the largest increase in delinquencies as of the first quarter of the year.



Elevated prices on food and everyday goods and products, have enticed consumers to rely more on credit to maintain their consumption levels. This has resulted in higher credit card balances as consumers use credit to cover everyday expenses. The increased cost of living has particularly affected lower-income households, who are more likely to turn to credit cards to manage their budgets.

Lenders have become more selective in approving loans, particularly for consumers with lower credit scores. However, the demand for credit remains high, leading to increased balances among those who can still access credit. The tightening of credit conditions has also led some consumers to seek alternative financing options, such as payday loans, which can further increase their debt burden. (Sources: Federal Reserve Bank of New York, www.newyorkfed.org/newsevents/news/research/2024/20240514)

Banks Get A Stress Test & Pass – Banking Sector Review

The Federal Reserve reported in June that results of its annual bank stress test showed the largest U.S. banks and lenders have sufficient capital to withstand an economic catastrophe, while noting that pockets of risks are growing on some bank balance sheets.

The Fed identified increases with bank credit card balances as well as higher delinquency rates prompting higher projected credit card losses. The report also found that bank corporate credit card portfolios are growing riskier, and a combination of higher expenses and lower fee income are factors behind those losses. The banks tested under the Federal Reserve program included 31 banks, among them the largest U.S. banks to midsize regional banks and lenders. Commercial real estate exposure, which has become a growing concern, is a primary issue among smaller and midsize regional banks throughout the country. This year's hypothetical scenario was broadly comparable to the scenario in 2023, yet also included a severe global recession, a 40% decline in commercial real estate prices, a 36% drop in home values, and the unemployment rate rising to 10%. (Source: Federal Reserve Board of Governors)

Market Returns: All data is indicative of total return which includes capital gain/loss and reinvested dividends for noted period. Index data sources; MSCI, DJ-UBSCI, WTI, IDC, S&P. The information provided is believed to be reliable, but its accuracy or completeness is not warranted. This material is not intended as an offer or solicitation for the purchase or sale of any stock, bond, mutual fund, or any other financial instrument. The views and strategies discussed herein may not be appropriate and/or suitable for all investors. This material is meant solely for informational purposes, and is not intended to suffice as any type of accounting, legal, tax, or estate planning advice. Any and all forecasts mentioned are for illustrative purposes only and should not be interpreted as investment recommendations.