Monthly Investment Report

August 2024

Simmons Bank
WEALTH MANAGEMENT

In July, U.S. stock indices delivered mixed performance: the S&P 500 rose by +1.2%, the Dow Jones advanced +4.5%, while the tech-heavy Nasdaq Composite fell by -0.7%. Small-cap value stocks outperformed all other market capitalizations, whereas large-cap growth stocks lagged. Most sectors saw gains, led by Utilities and Real Estate, while Communication Services and Information Technology saw declines. Internationally, Japan's MSCI achieved the highest gain, whereas China's markets declined. Bonds performed well, with the Bloomberg US Aggregate Index rising +2.3% and yields falling. Most Commodities experienced a downturn, except for Gold. The Bloomberg US Dollar Index fell by -1.2%. In the US economy, business activity remained robust, though employment growth slowed, and home sales fell. The Fed is expected to lower rates at their September 18th meeting as signs of a slowing economy emerge. However, inflation remains higher than preferred. U.S. corporations generally reported better-than-expected quarterly earnings, but some expressed caution about future results. This, along with significant shifts in "carry trade" positioning, have led to increased market volatility, which may persist as the U.S. approaches its presidential election.

Markets

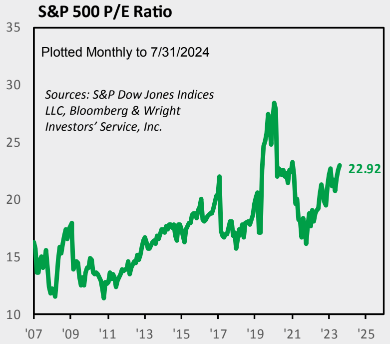
In July, the S&P 500 rose by +1.2%, the Dow Jones Industrial Average increased by +4.5%, and the Nasdaq Composite declined by -0.7%. Gains were observed across all market capitalizations, except for large-cap growth. The highest gains were seen in small-cap value, which surged +11.7%. Most market sectors experienced gains, except for Communication Services, which fell by -4.0%, and Information Technology, which declined -2.1%. Utilities led the sector gains with a +6.8% increase, followed closely by Real Estate at +6.7%, Financials at +6.5%, and Industrials at +4.9%. Nearly 48% of the S&P 500 healthcare stocks have reported their Q2 earnings. Of these, 77% reported positive earnings growth, with average earnings rising by +29.6% for the sector. Although the Materials sector stocks gained +4.4%, they had the most significant negative earnings growth, at -10.8%. Notably, only 35% of the Materials sector companies that have reported Q2 results had negative earnings growth. All sectors have reported positive earnings surprises.

Among major international markets, the MSCI Japan had the highest gain, rising by +5.8%. In contrast, the MSCI China experienced a decline of -1.3%. The MSCI UK posted a gain of +4.2%, followed by the MSCI-Developed World ex-US Index with a gain of +3.1%. The MSCI Pacific ex-Japan increased by +1.6%, the MSCI Europe ex-UK rose by +1.5%, and the MSCI Emerging Markets saw a modest gain of +0.3%.

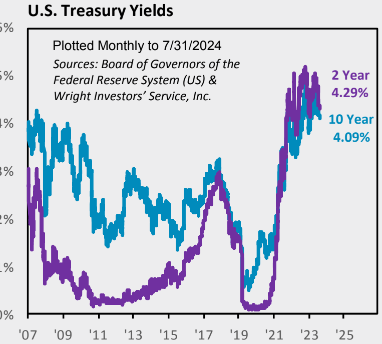
In July, the Bloomberg US Aggregate Index, which tracks taxable investment-grade, dollar-denominated bonds, rose by +2.3%, matching the performance of the Bloomberg US Credit Index. This outperformed the Bloomberg US High Yield Bond Index, which increased +1.9% for the month. Non-US Dollar bonds, represented by the Bloomberg Global Aggregate ex-US Index, saw a +3.2% increase. Treasury yields decreased across most maturities, except for 1- and 2-month maturities, leading to a downward shift in the yield curve. The 10-year Treasury yield fell from 4.40% at the end of June to 4.03% at the end of July, while the 2-year yield decreased from 4.75% to 4.26%. This decline in yields contributed to positive returns in the bond market for the month. Over the month, Treasury yields decreased more significantly than those on TIPS, reflecting falling inflation expectations.

Commodities underperformed compared to equities and bonds in July. The Bloomberg Commodities Index, a widely recognized benchmark for commodity performance, fell -4.0%. Most commodities experienced declines, except Gold, which increased +3.7%. Natural Gas prices saw the steepest drop at -21.7%, followed by Copper at -4.9%, Wheat at -4.7%, Crude Oil at -4.5%, Heating Oil at -4.0%, Corn at -3.7%, and Unleaded Gasoline at -1.9%. The MSCI US REIT Index gained +6.2% for the month. The US dollar Index fell -1.2%overall with the dollar depreciating against most major currencies. Its most significant decline was against the Yen, dropping -6.8%.

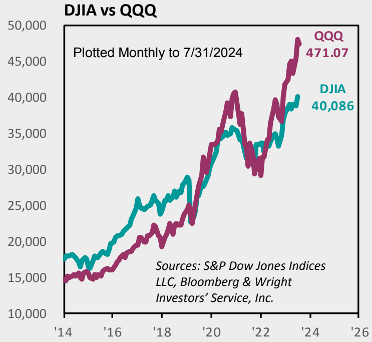
P/Es Have Gotten Richer



2 Year & 10 Year Yields Drop



US Equities Push Higher



Total Investment Returns—07.31.2024

	July	Last 12 Mos.
Dow Jones Industrial Average	4.5%	17.2%
Nasdaq Composite	-0.7%	23.6%
S&P 500 Composite	1.2%	22.1%
S&P MidCap 400	5.8%	15.4%
S&P SmallCap 600	10.8%	14.1%
MSCI World ($)	1.8%	18.3%
MSCI World ex U.S. ($)	3.1%	11.1%
Bloomberg U.S. Aggregate	2.3%	5.1%
90-Day Treasury Bills (Yield)	5.3%	5.4%
CPI ex-Food & Energy SA* (Jun 2024)	0.1%	3.3%

*SA: Seasonally Adjusted
Sources: Bloomberg LP & Wright Investors' Service, Inc.

U.S. Economy

In July, US business activity growth reached its highest point in 27 months, with the S&P Global Flash US PMI Composite Output Index rising to 55.0 from 54.8 in June. The service sector led this growth, experiencing its strongest expansion since March 2022, as the S&P Global US Services PMI rose from 55.3 in June to 56.0 in July. Conversely, the manufacturing sector slipped into decline for the first time since December, with its PMI falling from 51.6 in June to 49.5 in July. New orders showed mixed results: the service sector saw the fastest growth in new business in over a year, while manufacturing faced a renewed fall in new orders. Business optimism dipped to a three-month low, influenced by concerns over the upcoming Presidential Election and persistently high living costs. Price inflation for goods and services rose at one of the slowest rates in nearly four years, despite upward pressure on input prices.

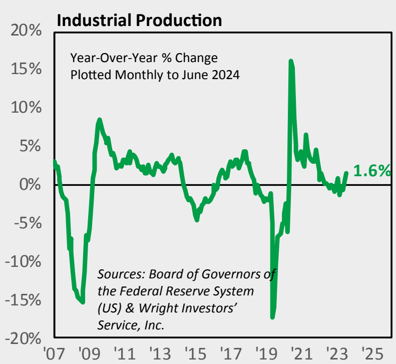
Compared to June, July employment increased at a slower pace, with both the service and manufacturing sectors reporting weaker payroll gains. Total nonfarm payroll employment rose by 114,000, while the unemployment rate ticked up from 4.1% to near a three-year high of 4.3%. The labor force participation rate remained relatively unchanged at 62.7%. Significant job gains were seen in sectors such as healthcare, construction, transportation, and warehousing, while information lost jobs. Sales of existing homes decreased month-over-month by -5.4%, reaching an annual rate of 3.9 million units. Housing starts in June were at a seasonally adjusted annual rate of 1,353K, +3.0% above the revised May estimate of 1,314K. Building permits in June were at a seasonally adjusted annual rate of 1,446K, +3.4% above the revised May estimate of 1,399K.

Core PCE, the Fed's preferred gauge of inflation, remained unchanged at 2.6%. Headline PCE inflation fell slightly to 2.5% from 2.6%. According to CME's FedWatch tool, 97.5% of market participants believe that the Federal Reserve will opt to cut the Fed Funds rate at the upcoming September FOMC meeting. As of July 25, the average rate for a 30-year fixed mortgage stood at 6.8%. Though high compared to historical rates, it is about 1% lower than the high of 7.8% in October 2023.

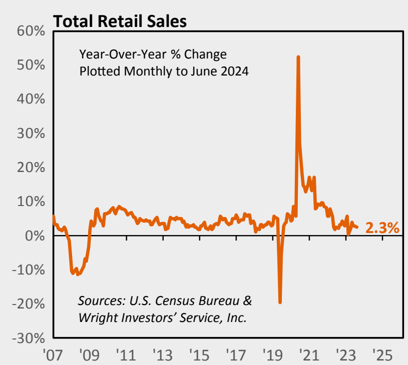
Investment Outlook

The investment outlook for the US economy is cautiously optimistic, with a mix of steady growth prospects, ongoing heightened geopolitical risk, and upcoming elections. The Federal Reserve's anticipated rate cuts, potentially beginning in September 2024 and accelerating into early 2025, will be a significant factor influencing market conditions. Global geopolitical tensions and ongoing supply chain disruptions are likely to continue impacting the economy. While the labor market shows some signs of cooling, with a slight uptick in unemployment and a moderation in wage growth, a soft landing for the economy continues to be a plausible outcome. Investors should remain vigilant and adopt flexible, diversified investment strategies of high-quality companies held for the long term to navigate potential market fluctuations and manage risks more effectively.

Manufacturing: Improving Again



Consumer Spending: Weaker Growth



Core Inflation: Moderating