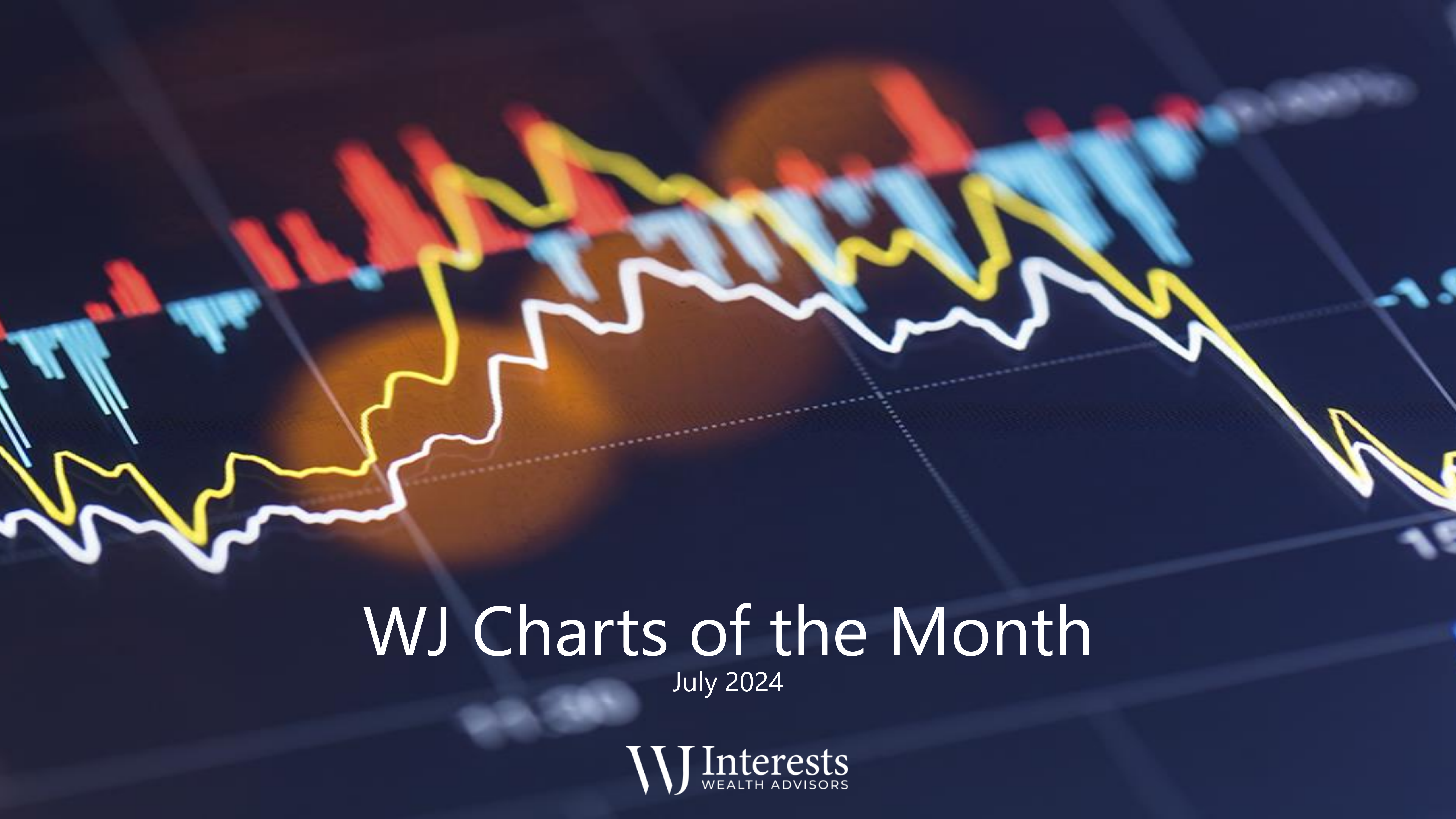

WJ Charts of the Month

July 2024

WJ Interests
WEALTH ADVISORS

WJ Charts of the Month Intro

"WJ Charts of the Month" is a comprehensive monthly slide deck designed to showcase recent significant financial events and data. The presentation is organized into four sections, beginning with a "Highlights" slide that sets the stage for the subsequent content.

1. What Happened Last Month: This section features a curated collection of charts and images from various publications, offering a visual summary of the previous month's key events.

2. WJ State of the Economy: Our team at WJ has created an array of charts to emphasize crucial economic factors and trends.

3. WJ State of the Markets: Similarly, this section comprises a series of charts crafted by WJ to provide an overview of the core markets we monitor.

We strive to maintain consistency across the charts to facilitate easy comparison month-over-month. However, we may adjust or emphasize specific charts if their relevance shifts over time.

Our objective with this publication is to establish a "One-Stop Shop" for the most vital financial information, presented in a concise and easily digestible format. **We value your feedback to help us achieve this goal.** If you have suggestions regarding the format, or if there's particular information you'd like to see in future editions, please don't hesitate to let us know.

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Highlights

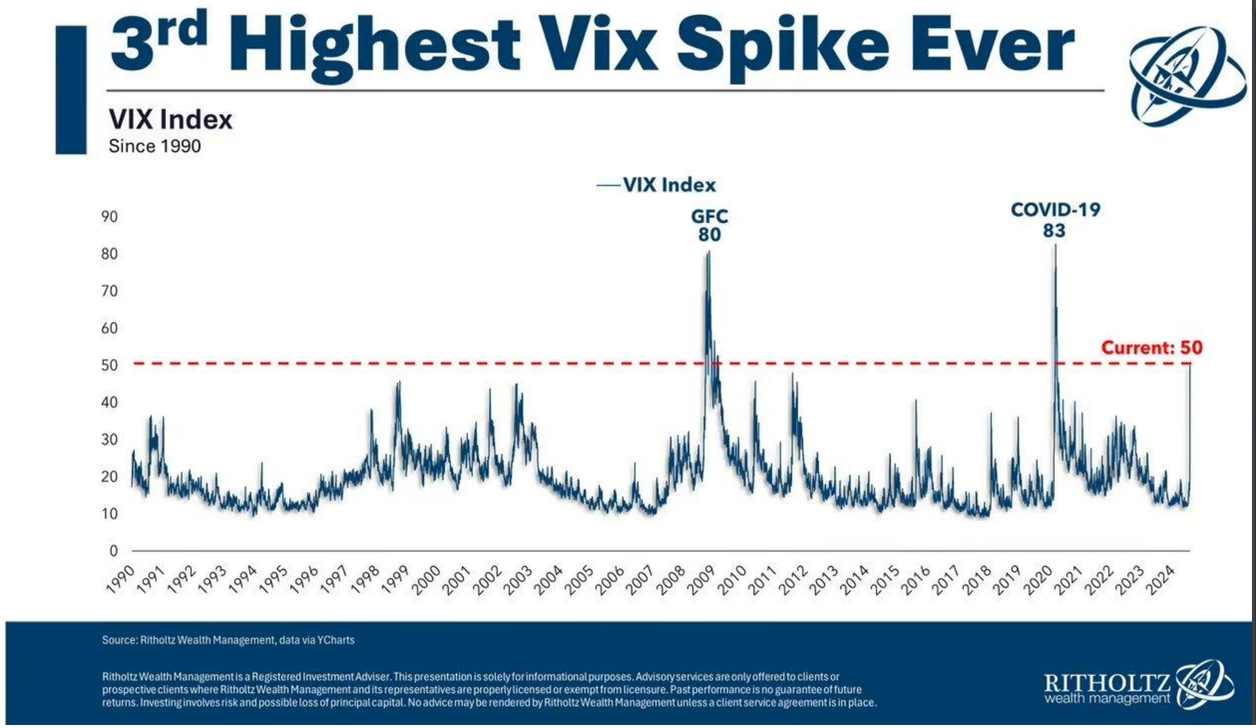
- [Monday Market Panic]
- [The Fed is Poised to Cut Rates]
- [An Unusually Calm Market]
- [The Housing Market May Have Bottomed]
- [GDP Up, Unemployment Up, Inflation Down]
- [Interest Rates Starting to Fall]
- [Energy Prices Falling]

What Happened

Market Panic to Start Off August

I'm cheating a little bit, as this occurred August 5th rather than in July, but it seemed too significant to let wait a month. For a variety of reasons the next slides will describe, the market had quite a scare on Monday. All stock indices were down 2-4% on the day. Bond Yields fell significantly at market open, although they mostly recovered throughout the day. Oil prices fell significantly. Bitcoin fell about 15% and many crypto traders were completely liquidated. Even gold fell.

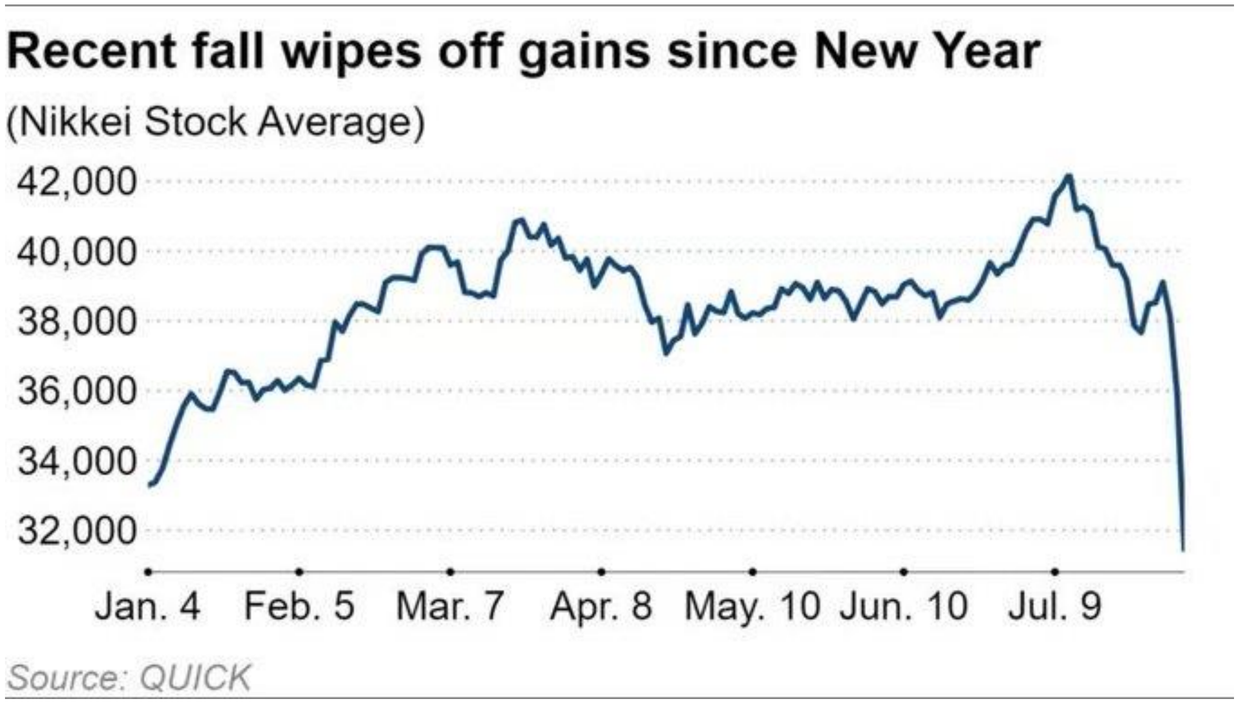
The selling was broad based, but particularly concentrated in some of the best performing assets of this year, like Nvidia. One of the most significant moves was in the VIX, known as the fear index. The VIX is a gauge of expected volatility in the market, and you can see it spiked to the 3rd highest reading behind the 2008 Great Recession and the 2020 Covid Crash. There are technical reasons for this, but it shows that yesterday was not your run of the mill 2% down day.



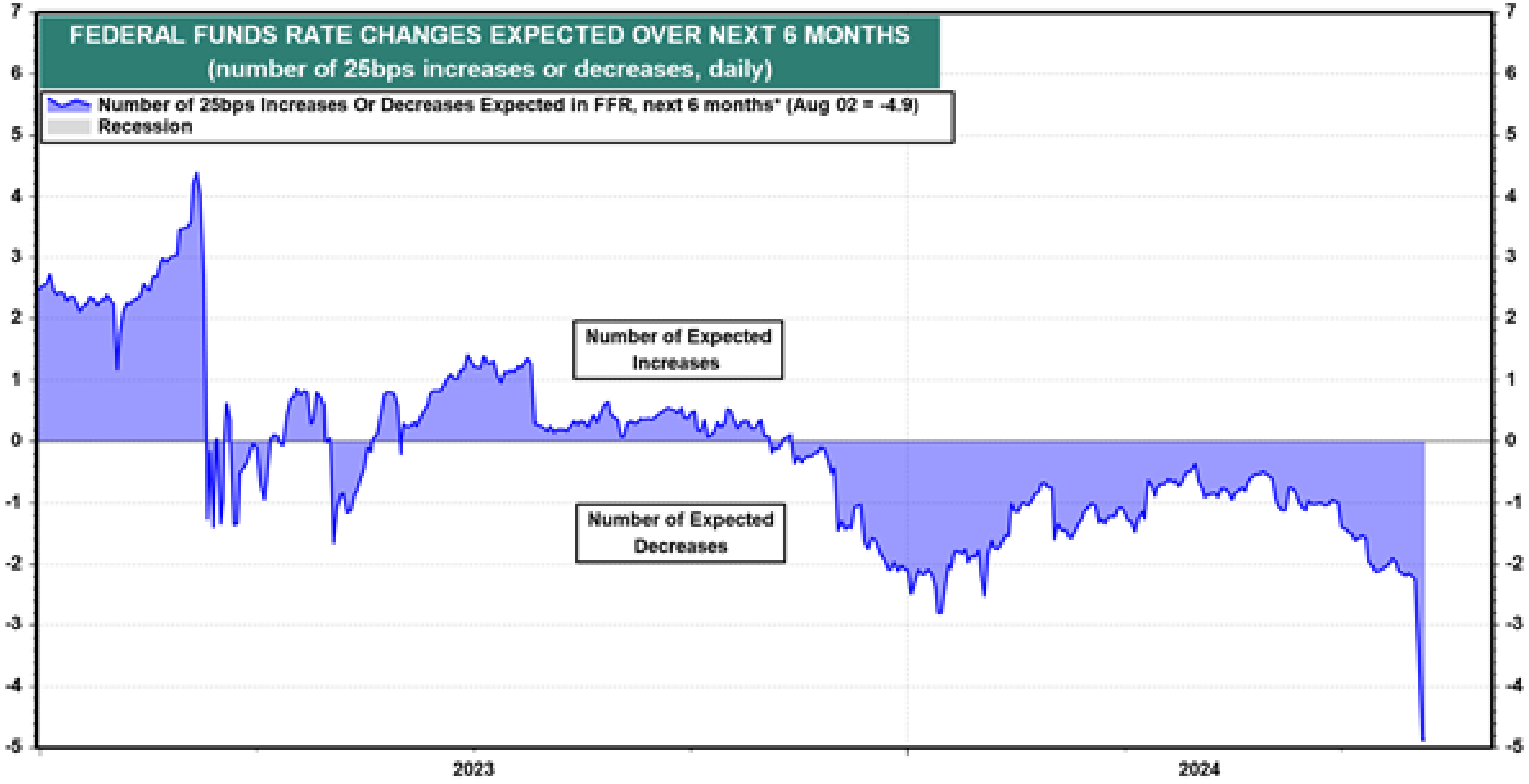
A Historic Move in Japanese Markets

One of the most significant catalysts to the sell off was the Japanese stock market, known as the Nikkei. The Nikkei plunged a record 12.4% (below). This came after Japan's central bank (BoJ) decided to raise interest rates at a time when the US is expected to lower interest rates. This caused a dramatic strengthening of the Yen relative to the USD (left chart).

This is a complicated topic, but the reason this is significant is a lot of large investors borrow Yen at low interest rates and invest that money in dollar denominated investments, known as a "carry trade". The Yen carry trade is probably the most popular, and a stronger Yen makes that trade less attractive and can cause a lot of investors to sell what they were holding to pay back that Yen. That indiscriminate selling is some of what you saw on Monday.



Rising Unemployment May Force the Fed to Cut Rates

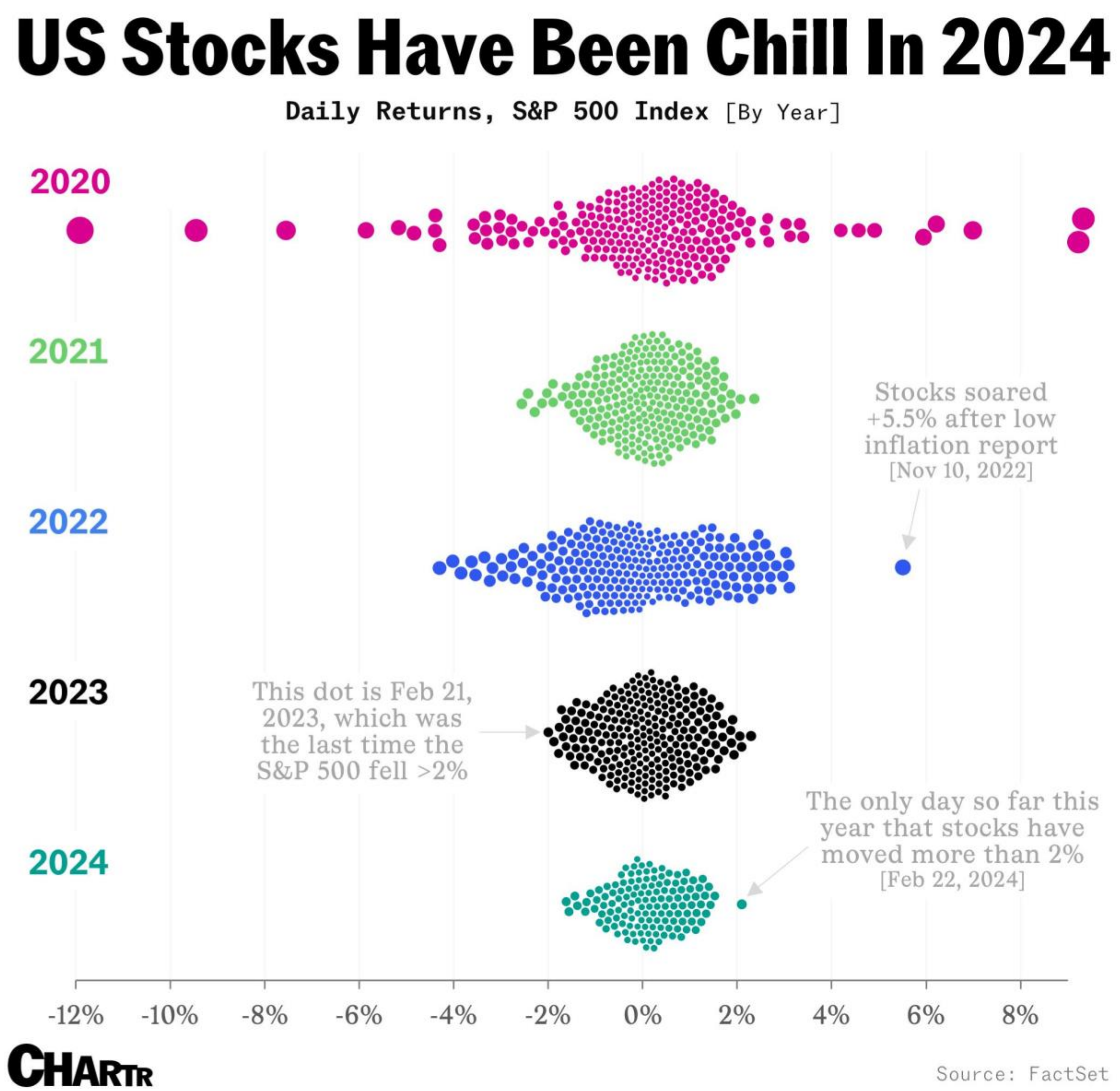


Source: LSEG Datastream and © Yardeni Research, and Federal Reserve and Chicago Board of Trade.
*6-month futures FFR minus FFR all divided by 25.

Another major factor was the employment data we received on Friday. The unemployment rate went from 4.1% to 4.3% (Chart). Though this is still historically low, the unemployment rate has risen for 4 months straight, and the pace has accelerated, which tends to occur before recessions. The Fed has two mandates, price stability (low inflation) and full employment.

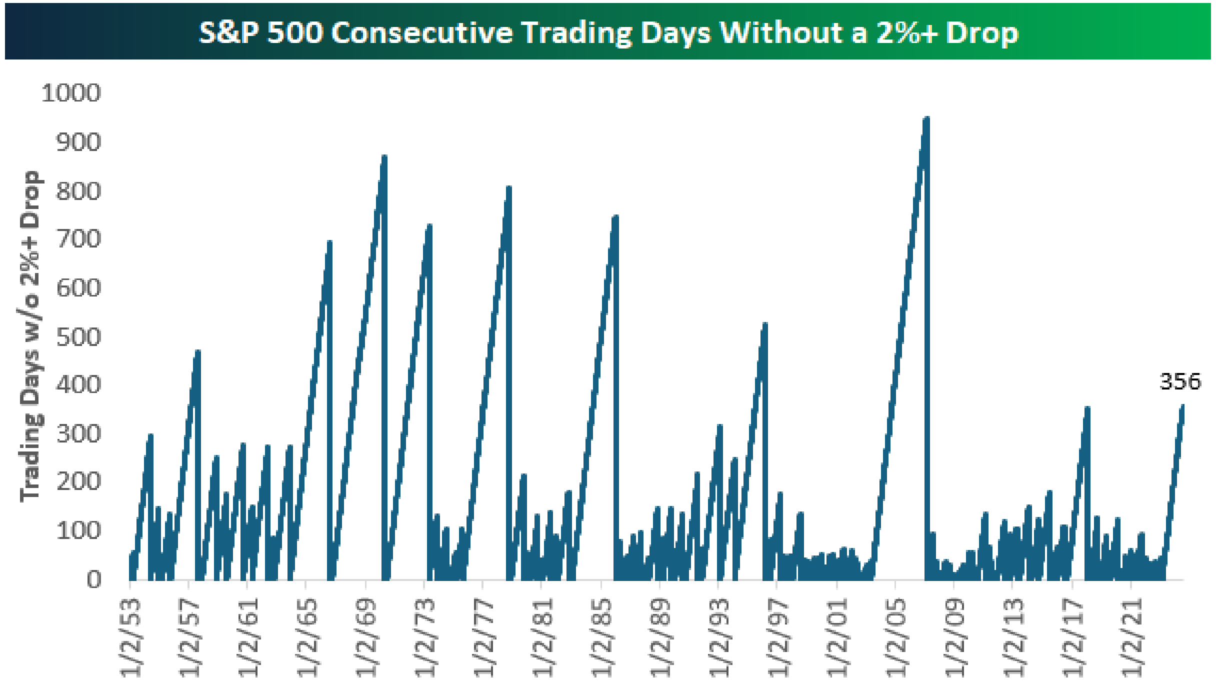
Given that the inflation data has been trending lower, the focus has now turned to the employment mandate. The Fed chose not to cut interest rates on July 31st, but signaled they may do so in September. After Monday's selloff, the market is overwhelmingly predicting they follow through with a cut in September (the next meeting) and are pricing in 6 cuts (totaling 1.5%) by the end of the year (left).

Before Monday, it's Been an Unusually Calm Market



Perhaps the most compelling reason for Monday's crash, however, is that stability breeds instability. Up until the last several days, we've had a remarkably calm market. The chart on the left shows a dot for each days S&P 500 return. You'll notice the dots are close together in recent years, meaning there hasn't been much fluctuation in daily returns.

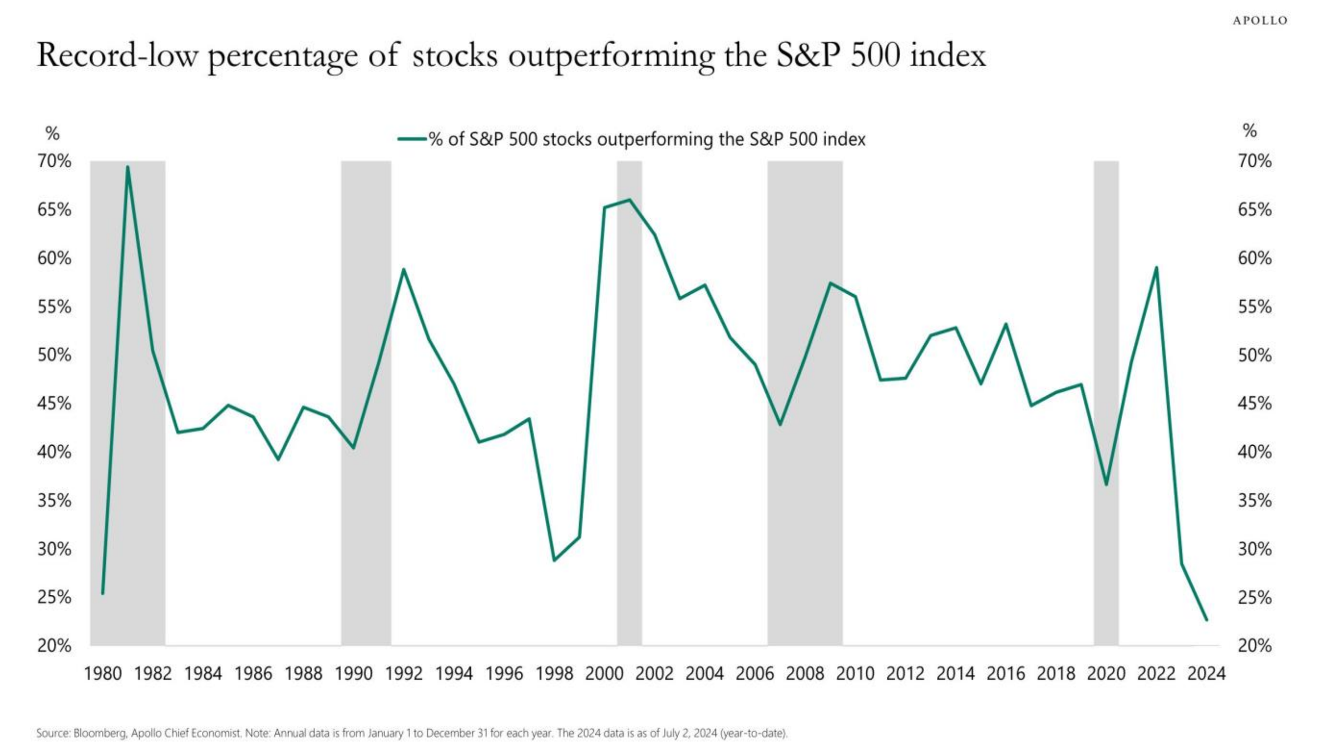
The chart below shows this a different way. The height of a triangle represents how many days since the last 2% drop for the S&P 500. The current streak was broken at 356 trading days, going back to 2/21/2023. When prices are that stable, investors get complacent and start to build leverage in their trades. So when it finally unwinds, the results are often dramatic.

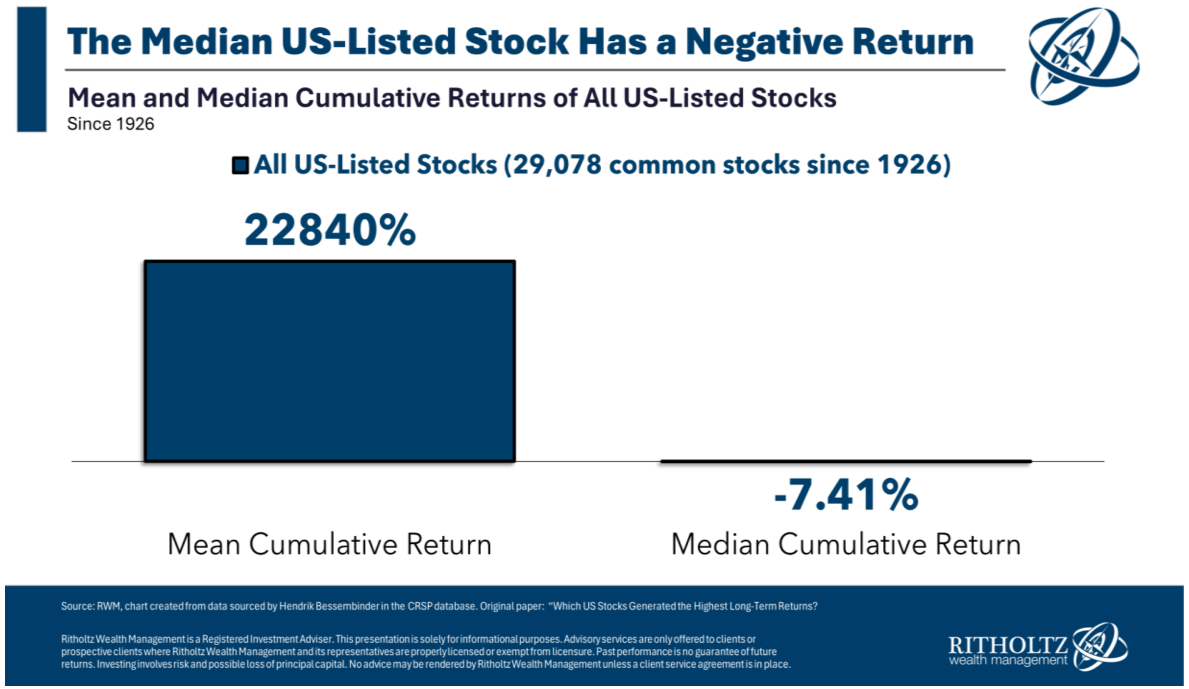


Stocks are Dominated by a Few Winners

In addition to the market being unusually calm over the last year and a half, they are also unusually concentrated. The chart on the left shows that less than 25% of all the companies in the S&P 500 are beating the index, the lowest amount in the series. It's no wonder why its so hard to beat the index.

Although today's concentration is extreme, its not unusual for performance to be concentrated in a small number of winners. The bar chart gives historical context since 1926. The **average** cumulative return for a US stock is 22,840% vs the **median** was -7.41%. Remember the median is the 50th percentile stock, so that means more than half of stocks lose money over time, and the average is being significantly skewed by some big winners. Also, that cumulative return might seem crazy, but its "only" 10.3% per year. Compounding is important.





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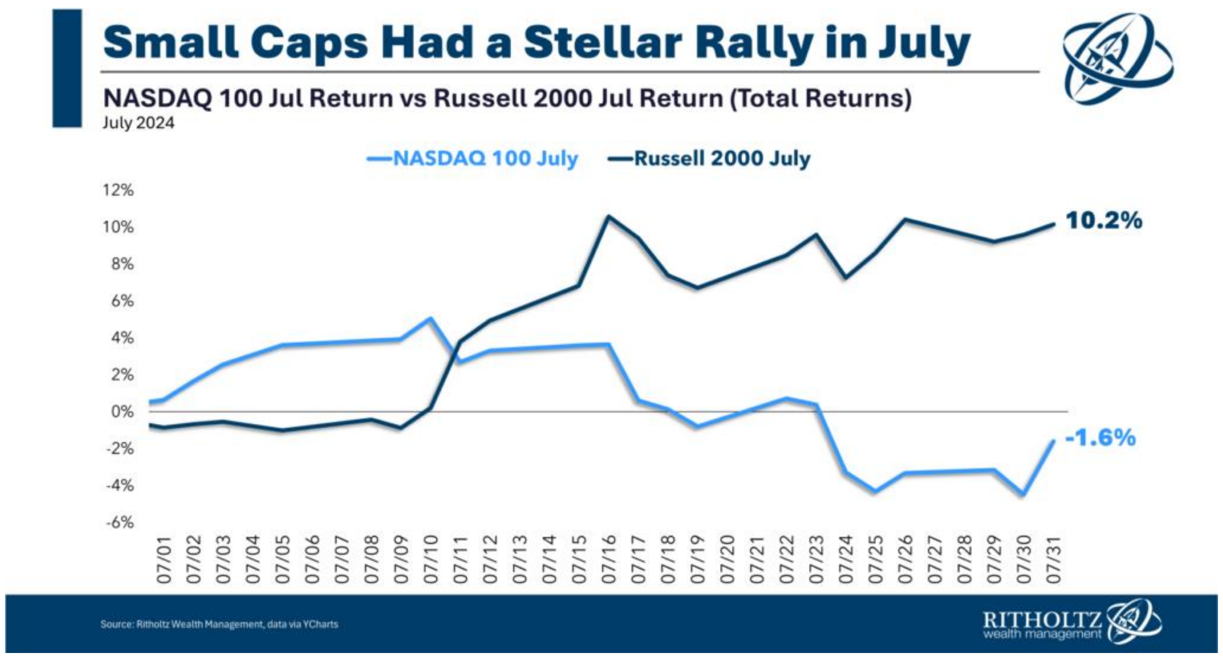
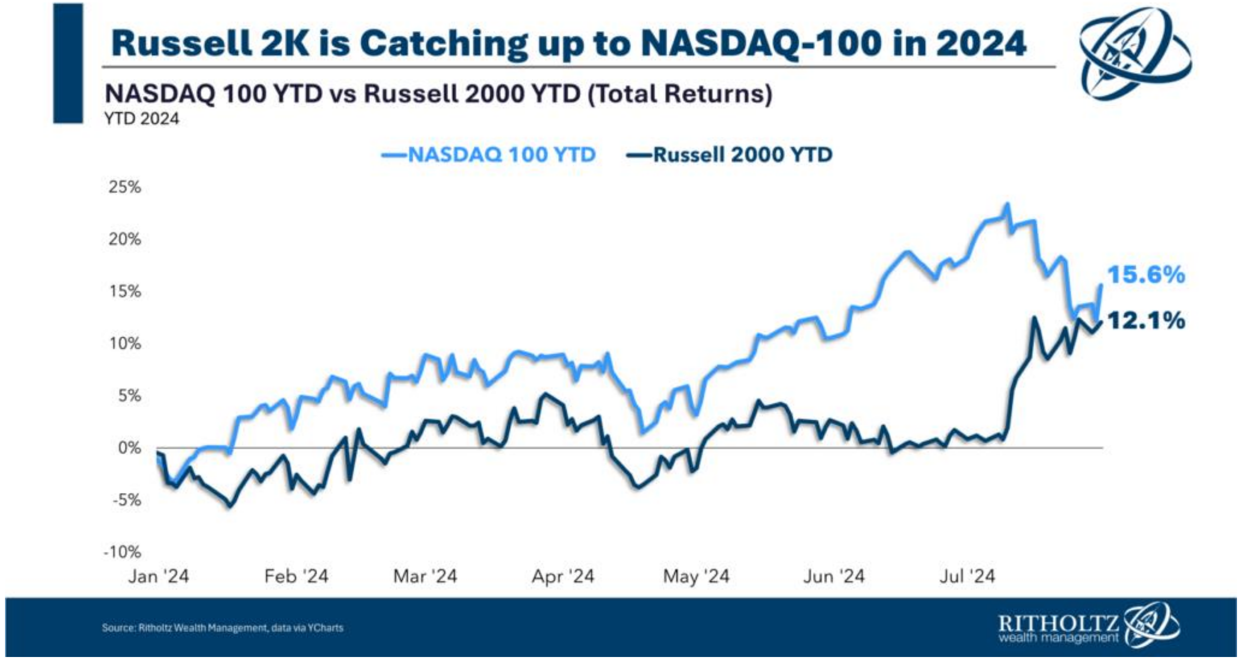
Small Cap/ Value Revive

Just prior to the market selloff, small caps were finally staging a comeback. It has been years since small caps beat large caps for any meaningful length of time. The same can be said for Value investing as well. However, both staged remarkable rallies relative to large growth stocks, represented by the Nasdaq, in July.

The performance has come back a bit during the recent volatility, but it will be interesting to see if this rotation is sustainable going forward.





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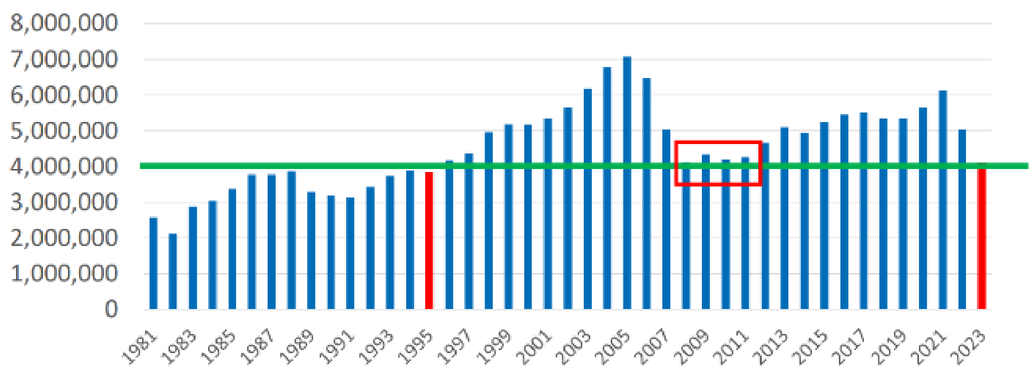
The Housing Market Remains Frozen, for Now…

Annual Existing Home Sales: Worst Year since 1995



Source: NAR

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The housing market remains stalled, as existing home sales are the lowest they've been since 1995 (left). This may be the bottom, however. As said earlier, it's likely the Fed starts to lower interest rates, and that effect is already being seen in mortgage rates below.

Though many would like to wait for rates to go down before buying, life goes on (bottom left). Households are forming, and the largest age cohort in the US are the 32-33 year olds, which tend to be a prime age for homebuyers. Expect demand to pick up.

Delayed Sellers Cannot Wait Longer

What happened over 2 years … lock-in effect to be less strong over time

- 7 million new-born babies
- 3 million marriages
- 1.5 million divorces
- 7 million turn 65 years old
- 4 million deaths
- 6 million net new jobs
- 50 million job switches

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Mortgage News Daily - Rate Index

Frequency: **Daily** | Data Source: Mortgage News Daily

The MND Rate Index is the best way to follow day-to-day movement in mortgage rates. Our index is driven by real-time changes in actual lender rate sheets. This has two **huge advantages**, timeliness and accuracy. Read more below

		Change				52 Week Range	
Average Rates	Current	1 day	1 week	1 month	1 year	Low	High
30 Yr. Fixed	6.34%	-0.06%	-0.47%	-0.69%	-0.69%	6.34%	8.03%
15 Yr. Fixed	5.88%	-0.01%	-0.43%	-0.56%	-0.52%	5.88%	7.35%
30 Yr. FHA	5.75%	-0.35%	-0.50%	-0.75%	-0.93%	5.75%	7.44%
30 Yr. Jumbo	6.61%	-0.07%	-0.39%	-0.63%	-0.51%	6.61%	8.09%
7/6 SOFR ARM	5.95%	-0.30%	-0.52%	-1.10%	-1.10%	5.95%	7.55%
30 Yr. VA	5.79%	-0.33%	-0.49%	-0.73%	-0.89%	5.79%	7.46%

Last Updated: 8/5/24

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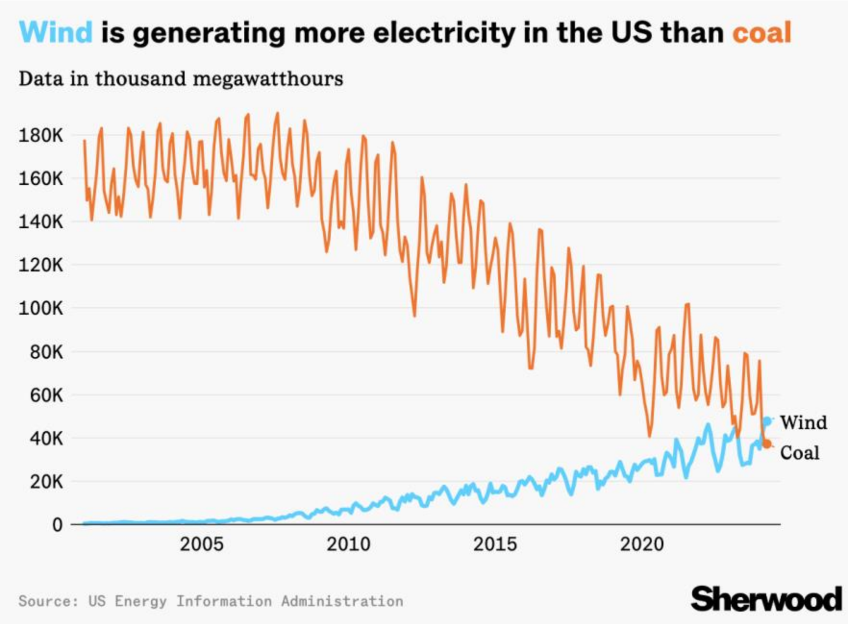
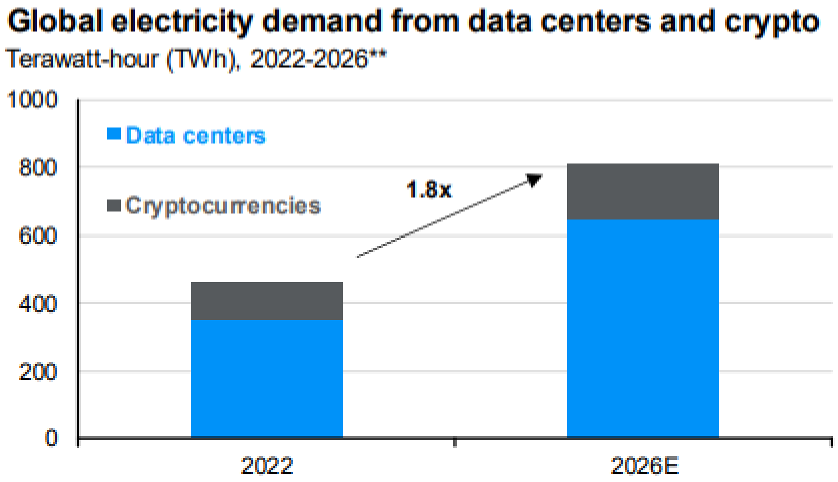
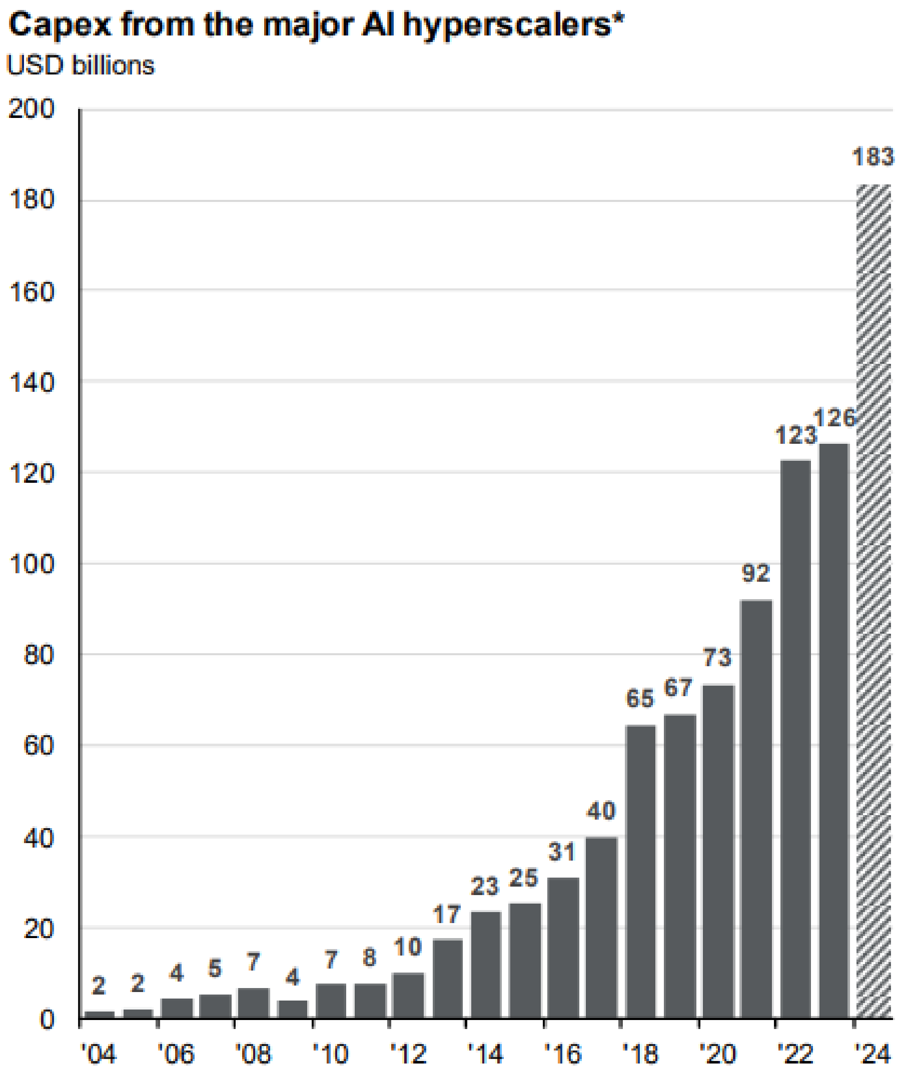
The Energy Grid is Growing, and Changing







With the rush to produce the best Artificial Intelligence models, comes an enormous need for more electric power. AI players have signaled they are going to continue to spend on more compute, and power providers have taken the hint. The amount of electricity needed is likely to double in the next couple years.

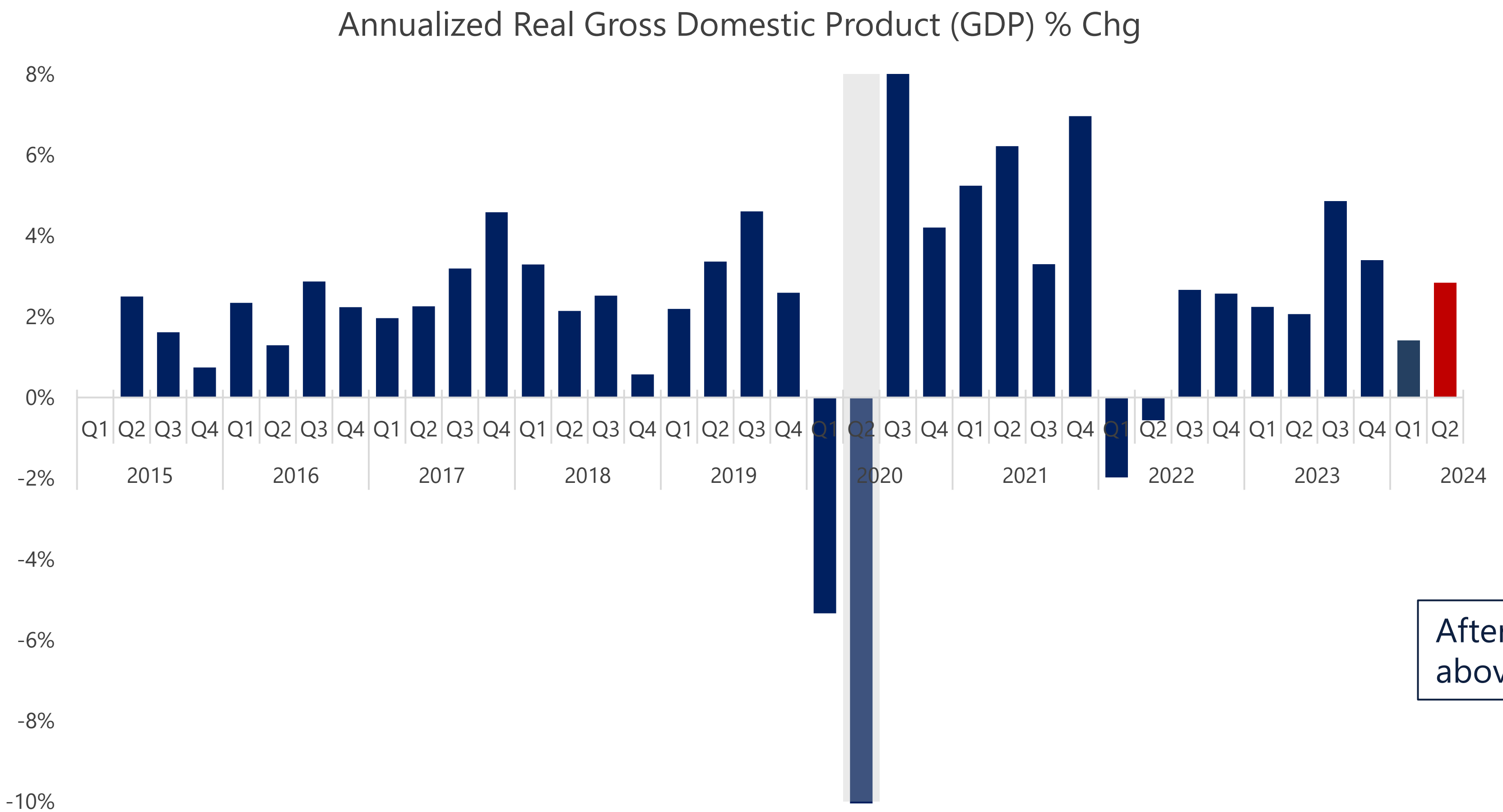
As a result, there is an enormous amount of investment on growing our grid from both renewable and non-renewable sources.

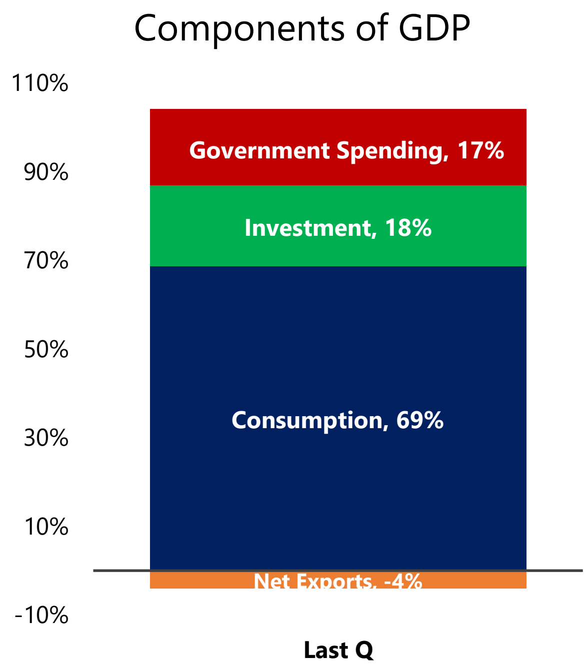
Though its not the largest source of power for our grid, I did find it interesting that wind power has recently overtaken coal power generation.

Interests WEALTH ADVISORS

WJ State of the Economy

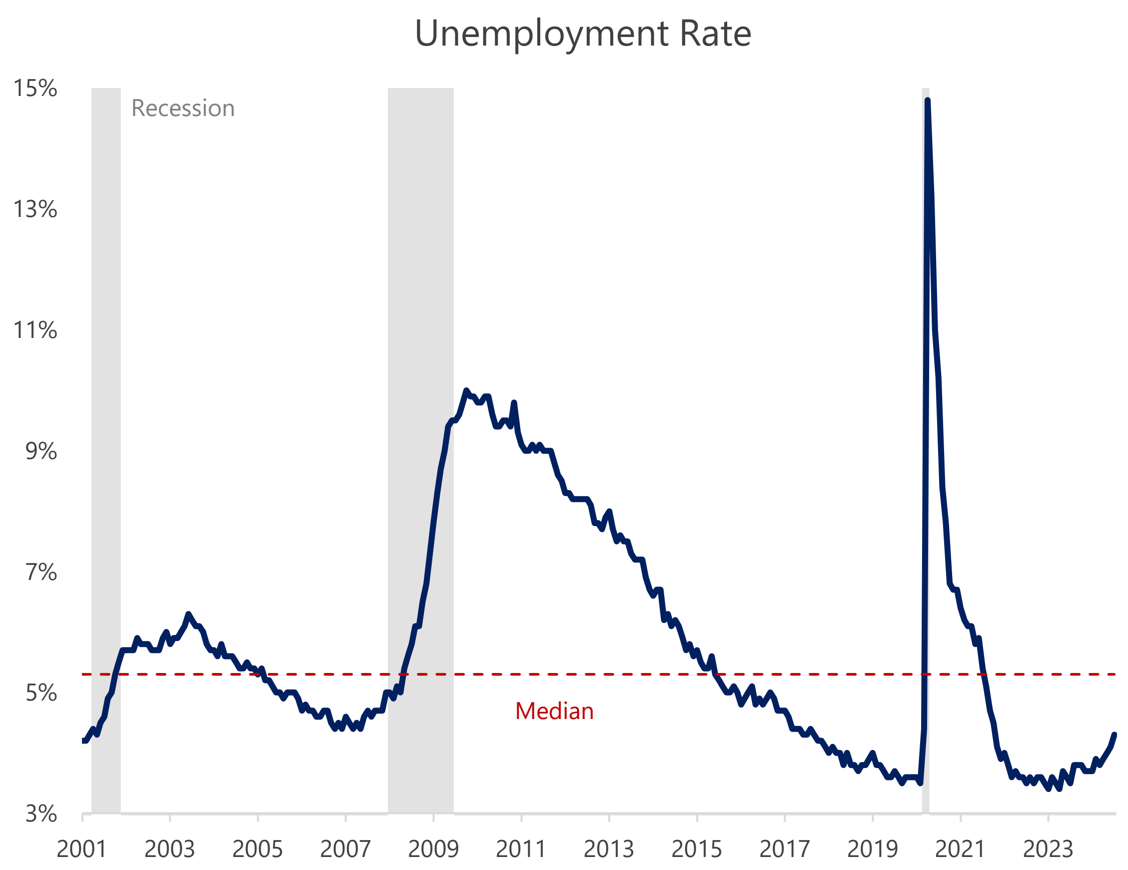
Solid Q2 GDP Report at 2.8%

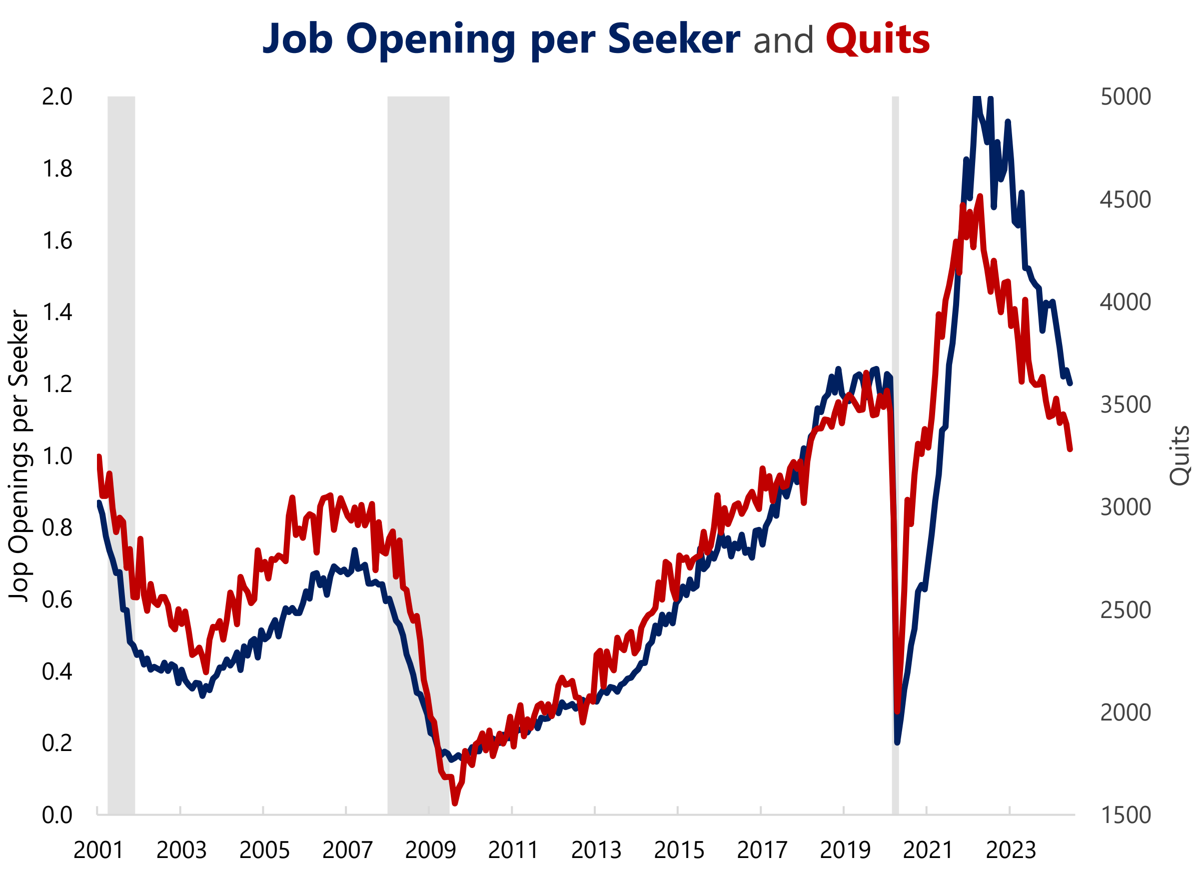




After a slower Q1 GDP of 1.4%, Q2 came in above estimates at 2.8%.

Unemployment Surprises to 4.3%. Job Openings and Quits Confirm Weakness





Source: Federal Reserve Economic Database (FRED). Unemployment Rate (left) and Job Openings: Total Nonfarm divided by Unemployment Level as well as Quits: Total Nonfarm (right).
Recessions from NBER based Recession Indicators for the United States from the Period following the Peak through the Trough

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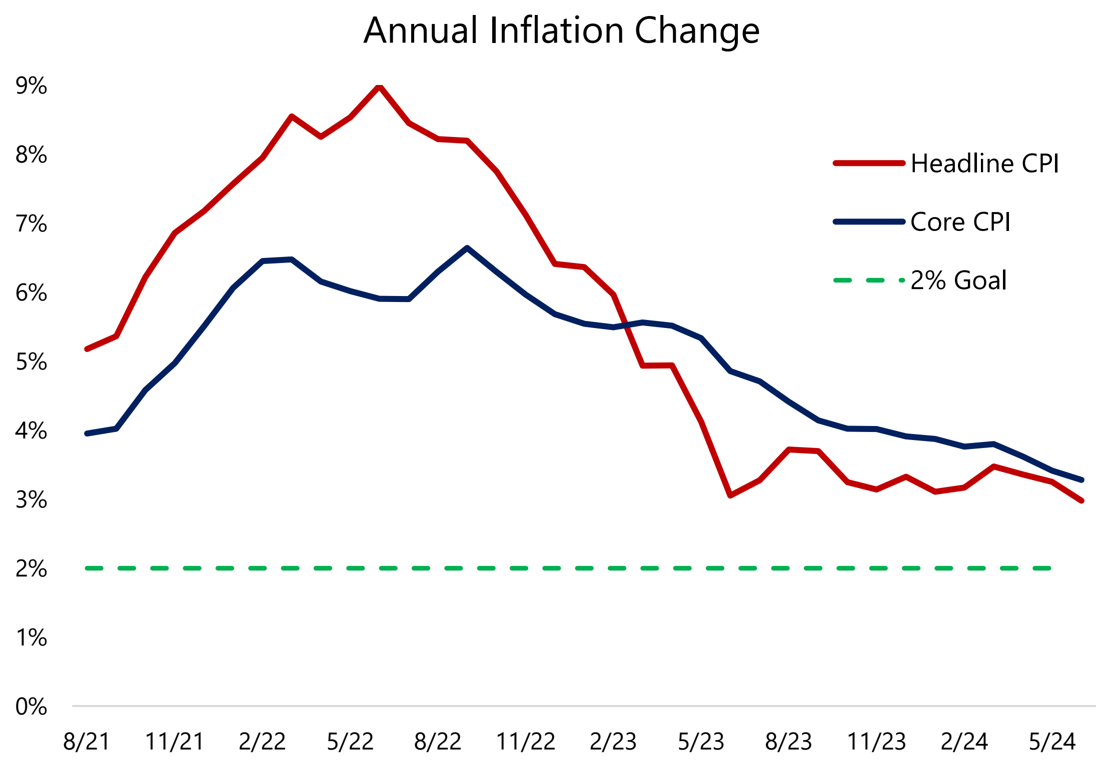
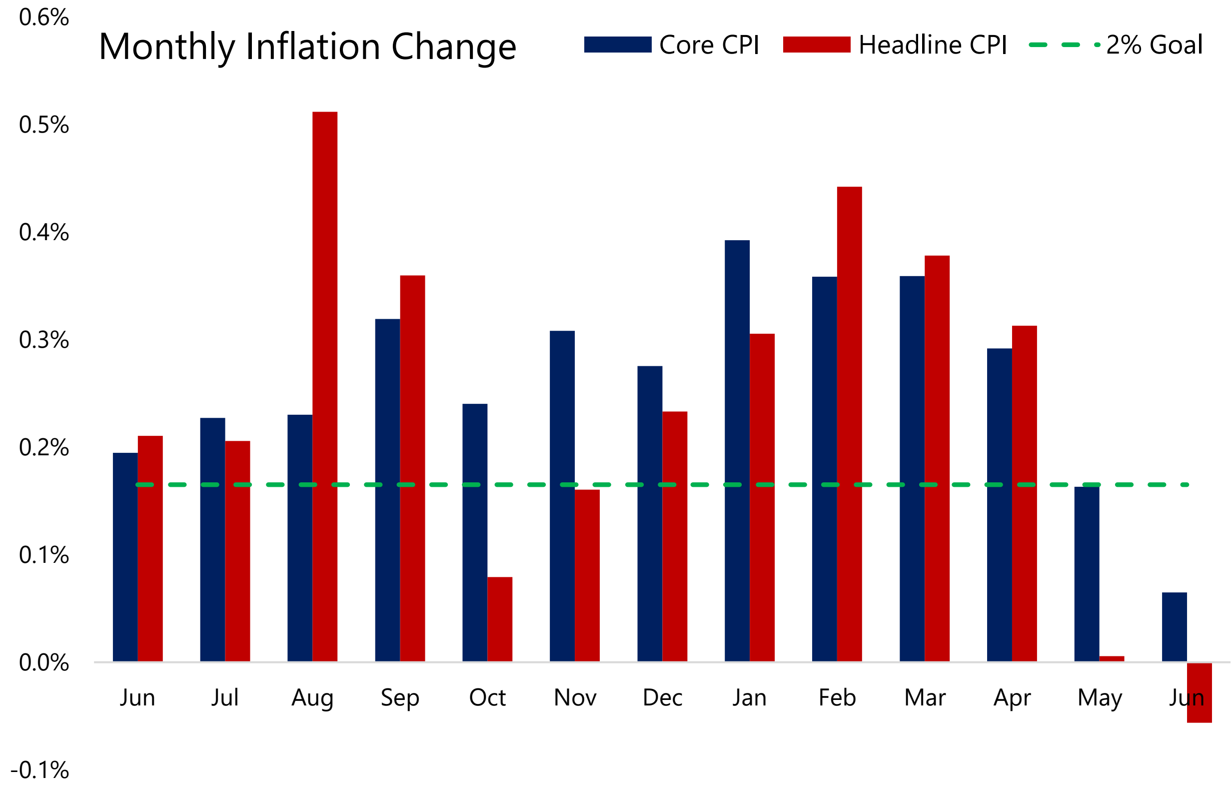
Prices Fall in June





For the first time in a while, prices were negative month over month in June. The all-important Shelter component, which makes up half of Core CPI, also slowed considerably, which many including us have been calling for. The good inflation reports combined with weakening jobs market make it very likely the Fed will cut rates in September.

Source: Federal Reserve Economic Database (FRED). Consumer Price Index. Annual CPI Forecasts are made by WJ using past month over month CPI data and extrapolating forward with different growth rates.

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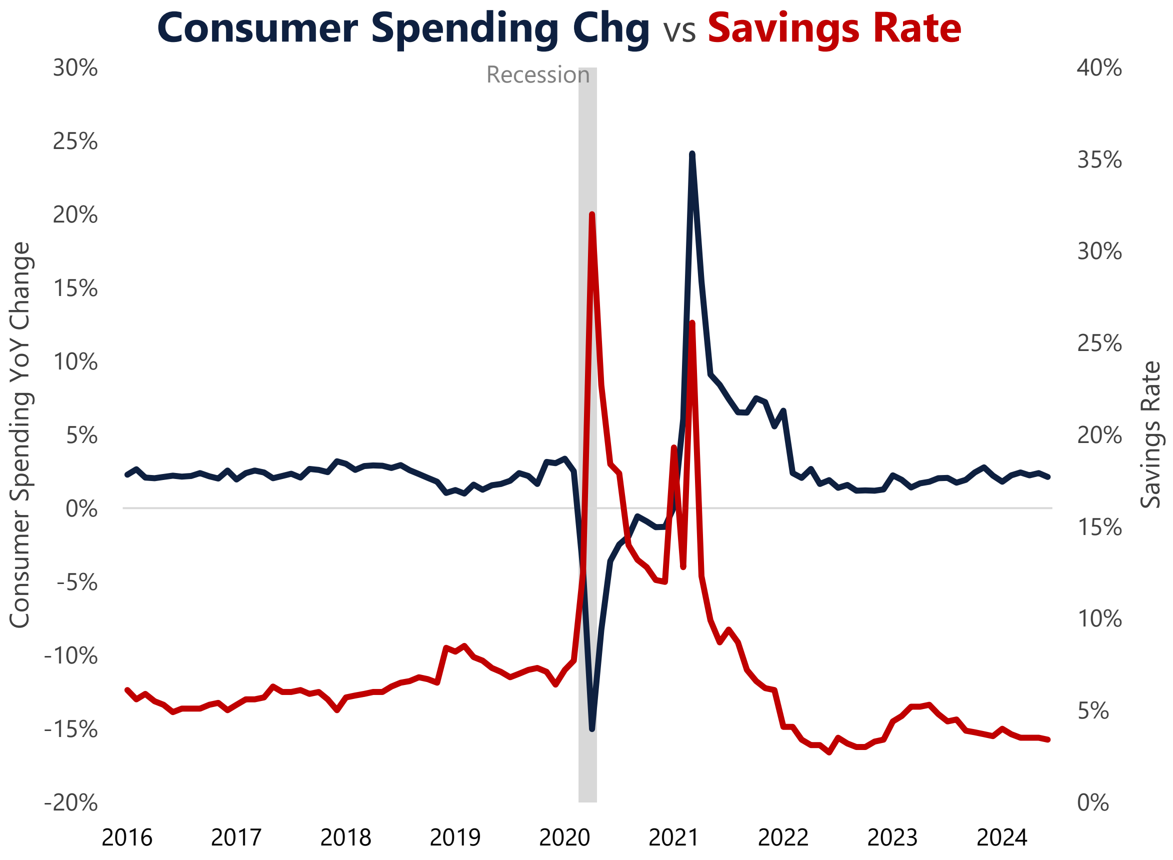
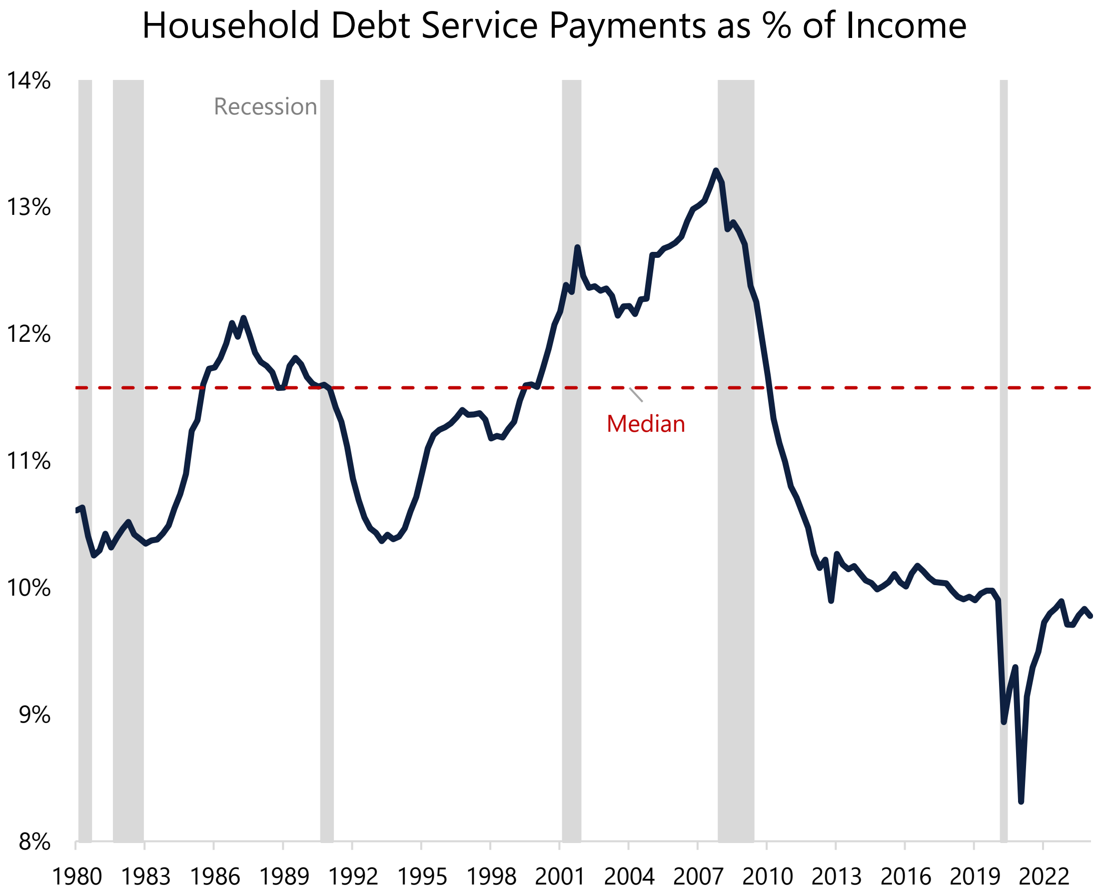
Household Spending is Still Strong





Source: Federal Reserve Economic Database (FRED). Personal Saving Rate plus Real Personal Consumption Expenditures (left) and Household Debt Service Payments as a Percent of Disposable Personal Income (right). Recessions from NBER based Recession Indicators for the United States from the Period following the Peak through the Trough

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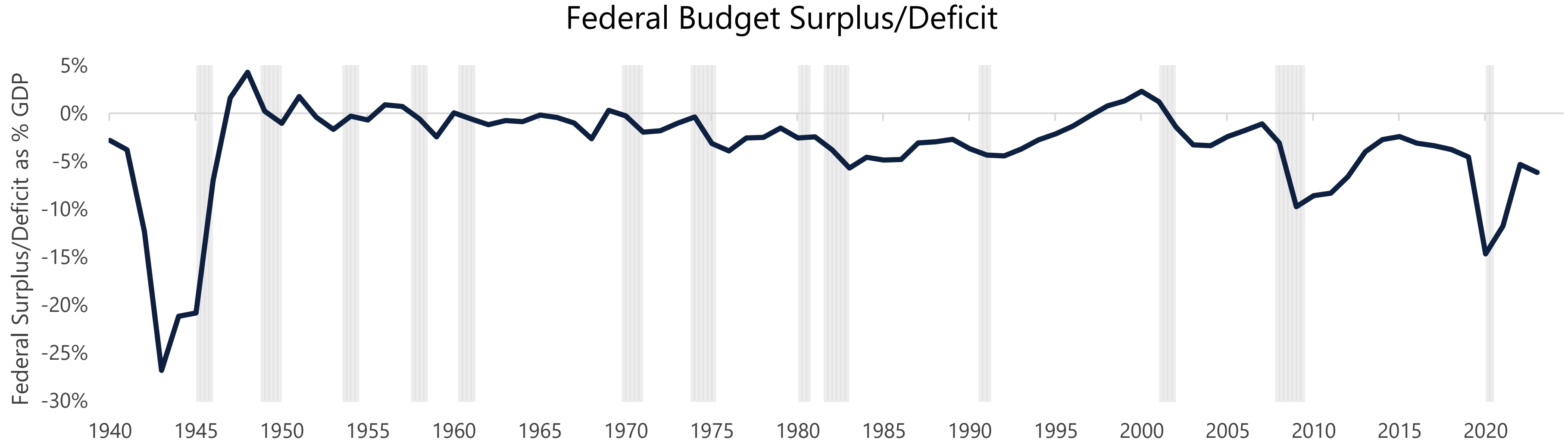
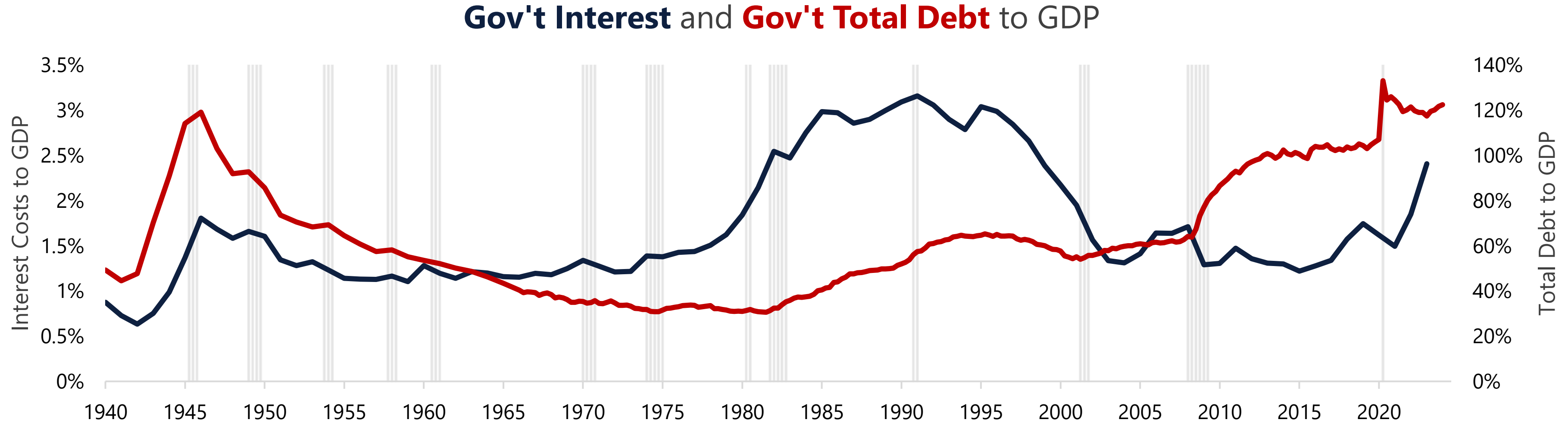
Government Budget Deficit Increased





Source: Federal Reserve Economic Database (FRED) Federal Surplus or Deficit [-] as Percent of Gross Domestic Product (top) and Federal Debt: Total Public Debt as Percent of Gross Domestic Product plus Federal Outlays: Interest as Percent of Gross Domestic Product (bottom). Recessions from NBER based Recession Indicators for the United States from the Period following the Peak through the Trough

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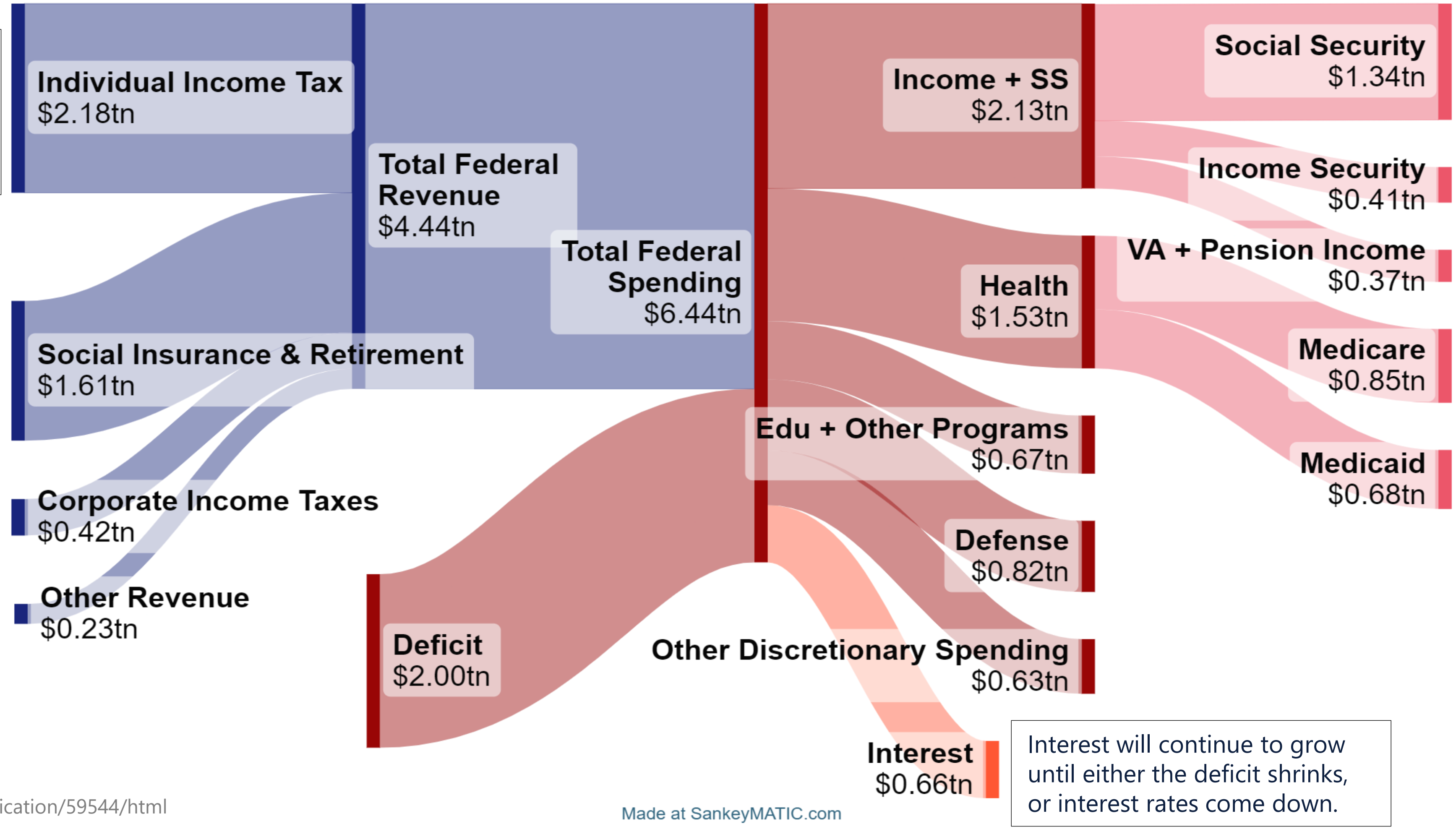
Government Expenditures 2023

This is an in depth look at how the US makes and spends money. On the spending side, the top 3 categories are known as "mandatory spending" and are unable to change without major reform. That leaves "Defense" and "Other Discretionary Spending" as the two categories congress can change on any year.

Income taxes receipts were lower than budgeted, partly due to a bad 2022 that produced low capital gains taxes.



Social Security and Medicare are forecasted to grow rapidly as baby boomers enter retirement. Other programs will fall as a percent of spending.

A major part of "other revenue" the last decade has been Federal Reserve Remittances, Where the Fed pays the Treasury any interest it makes over what it pays. With the Fed Funds Rate high, this income has gone away, but could return if rates went down.

Interest will continue to grow until either the deficit shrinks, or interest rates come down.

Source: https://www.cbo.gov/publication/59544/html

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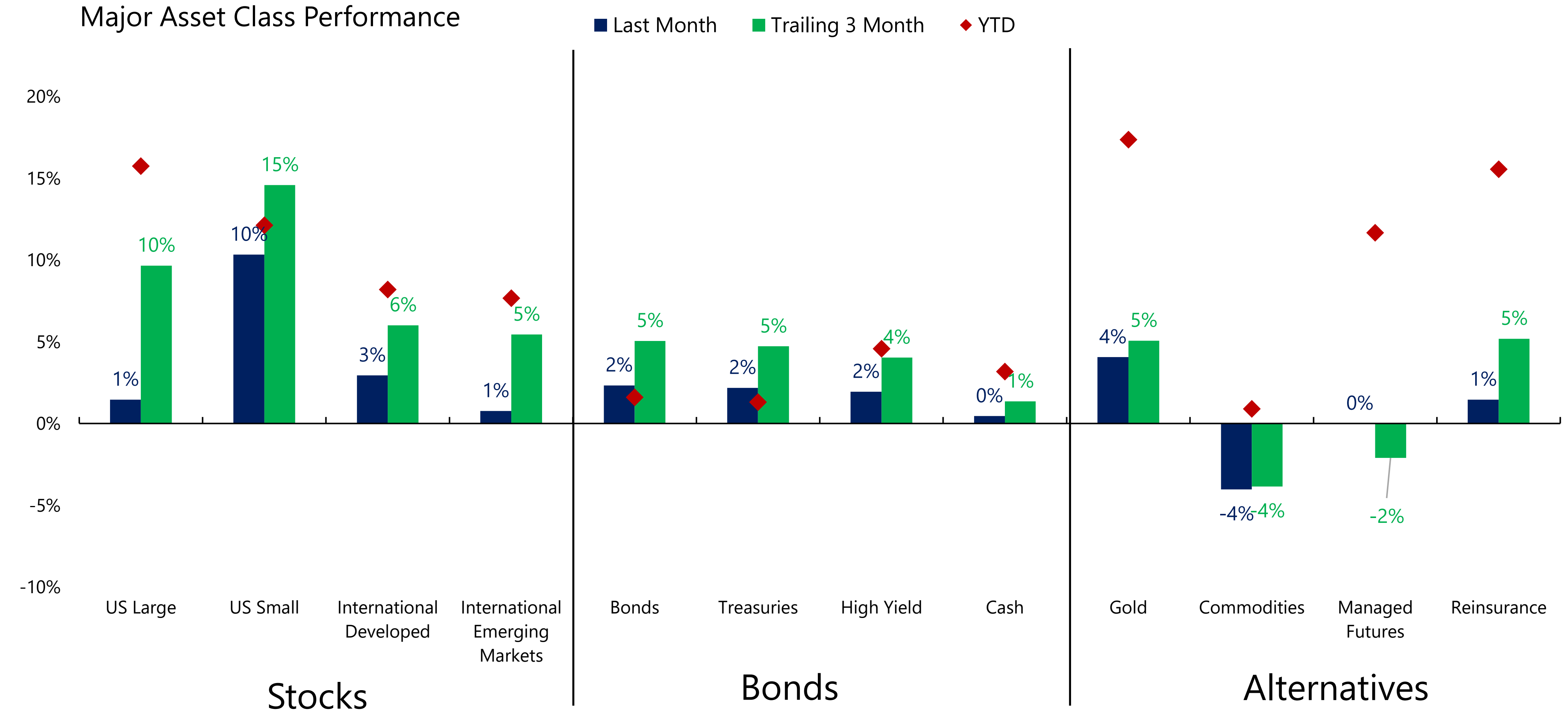
WJ State of the Markets

July was a Good Month For Everything



Source: Morningstar Direct. Categories in table are represented by (left to right) iShares Russell 1000 (IWB), iShares Russell 2000 (IWM), iShares Core MSCI EAFE (IEFA), iShares Core MSCI EM (IEMG), Bloomberg US Agg Bond TR, Bloomberg US Treasury TR USD, Bloomberg US Corporate High Yield TR USD, IA SBBI US 30 Day TBill TR USD, SPDR Gold Shares, Bloomberg Commodity TR USD, CISDM CTA EW USD, Stone Ridge Reinsurance Fund

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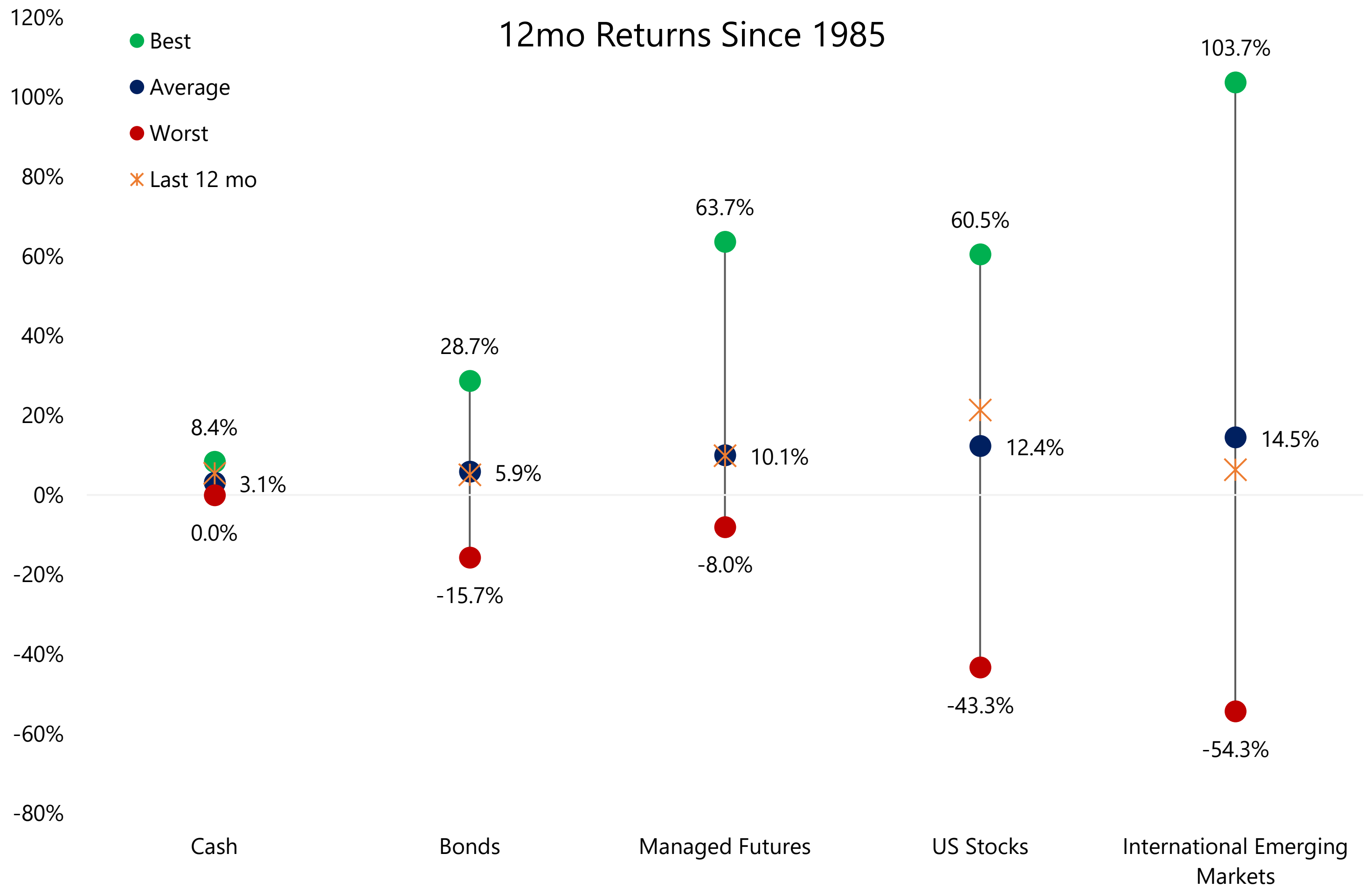
Historical Asset Class Return Range



This chart shows the range of 12 month returns historically, by asset class. As you'd expect, the riskier investment leads to a greater potential gain, as well as loss.

The X on the line represents the last 12 months.

Source: Morningstar Direct. Categories in table are represented by (left to right) IA SBBI US 30 Day TBill TR US, Bloomberg US Agg Bond TR USD, CISDM CTA EW USD, iShares Russell 1000 (IWB), iShares Core MSCI EM (IEMG). Historical data starts at common inception in 1985.

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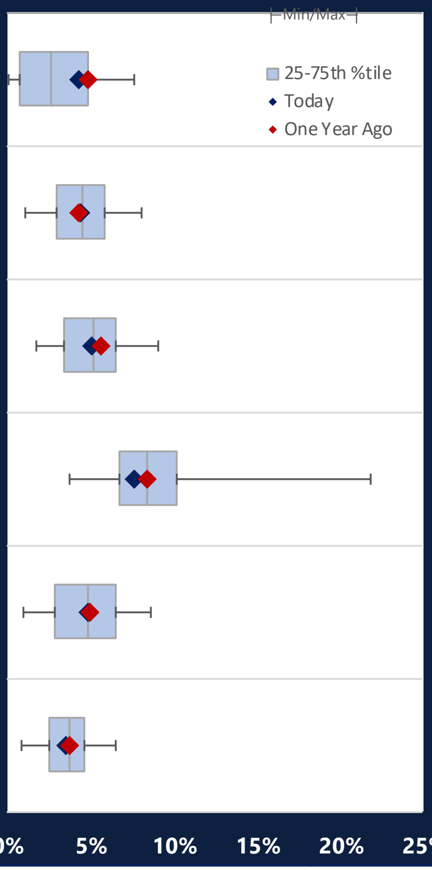
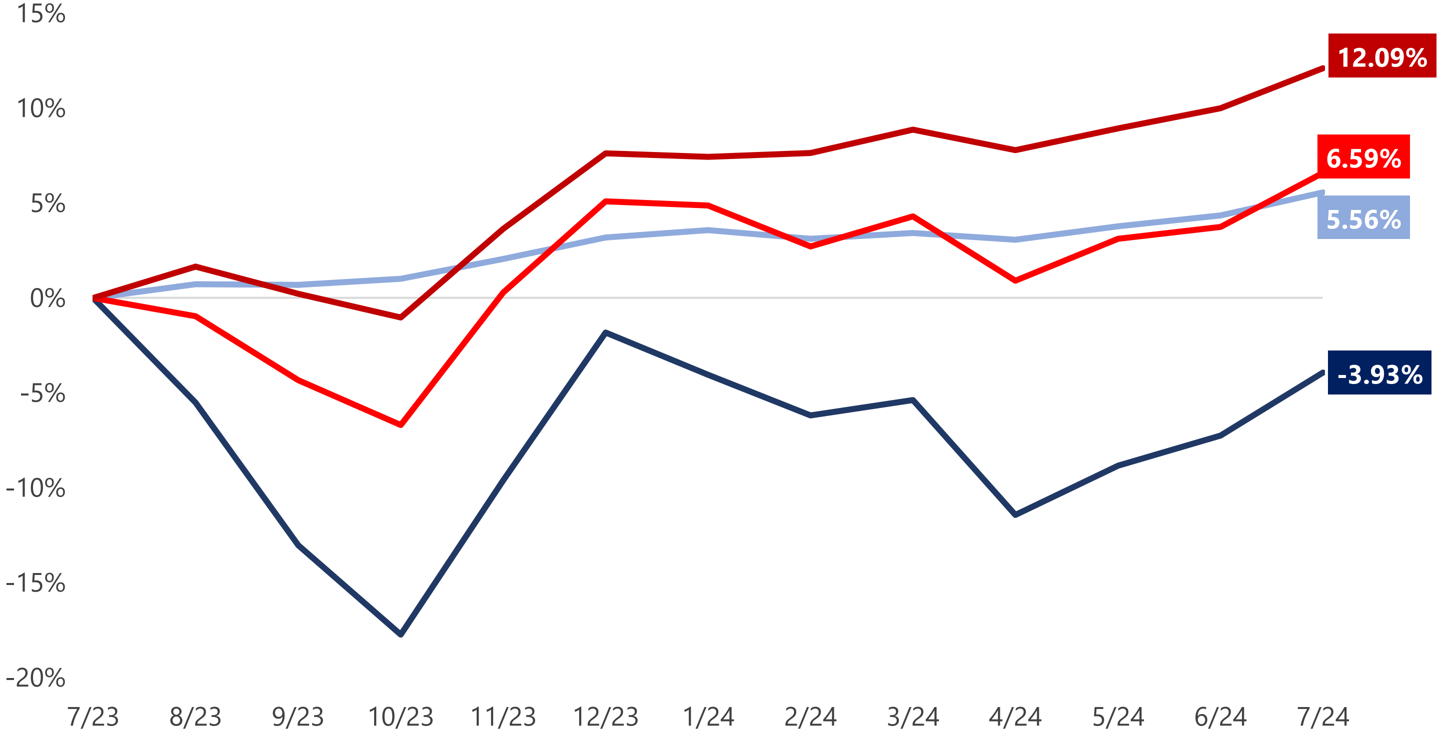
Rates Starting to Fall Quickly, Pushing up Bonds

Bond Type	Yield (%) Last Month	Yield (%) Last Year	Yield (%) Change
ST Treasury	4.33	4.92	**-0.59**
LT Treasury	4.42	4.31	**0.11**
Investment Grade	5.14	5.61	**-0.47**
High-Yield	7.59	8.41	**-0.82**
Mortgage-Backed	4.88	5.02	**-0.14**
Municipal Bonds	3.58	3.79	**-0.21**

Yield History



Short vs **Long** Term Treasuries and **Investment Grade** vs **Junk** Bond Return



Source: Morningstar Direct. Categories in table are represented by (top to bottom) Bloomberg US Treasury 1-3 Yr Yld USD, Bloomberg US 20+Yr Yld USD, Bloomberg US Corp Bond Yld USD, Bloomberg US Corp High Yield Yld USD, Bloomberg US MBS Yld USD, Bloomberg Municipal Yld USD

Interests
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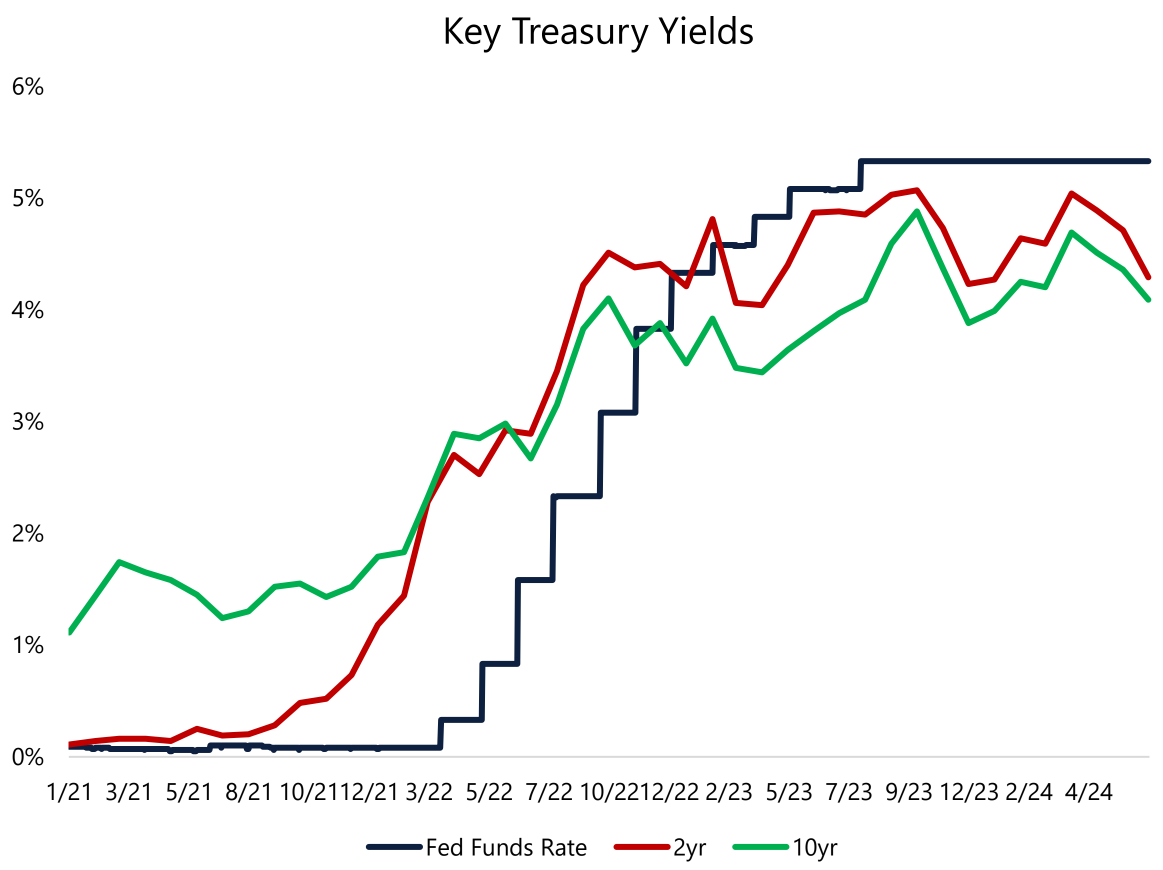
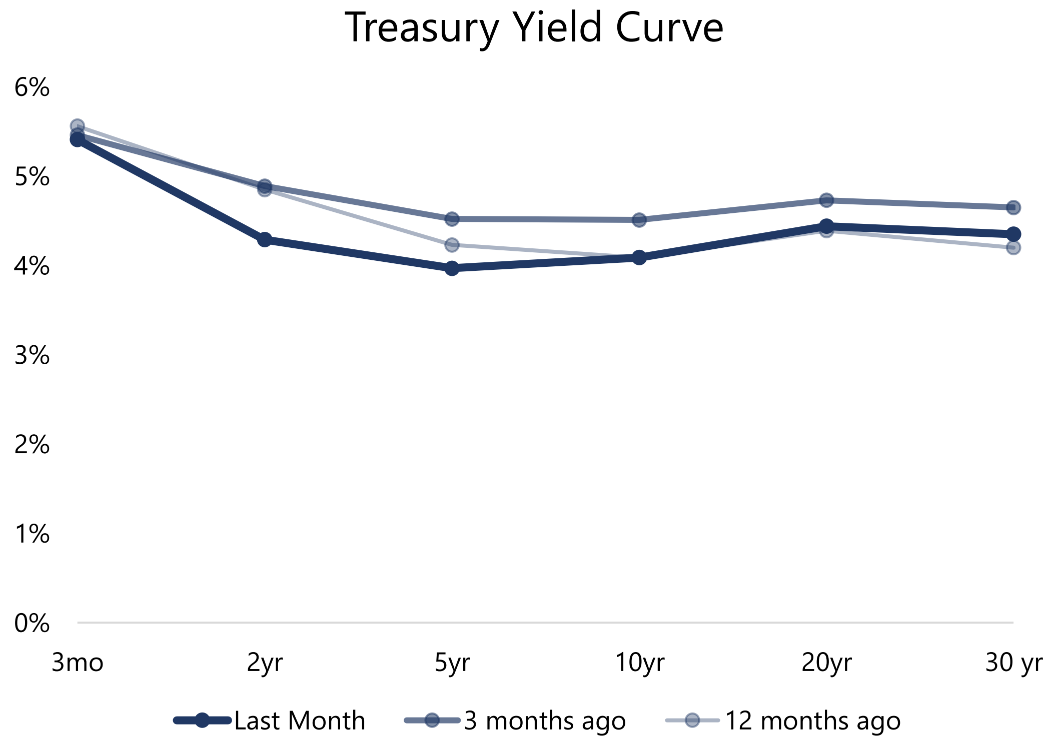
Especially Short-Term Bonds (2 Yr)





	3mo	2yr	5yr	10yr	20yr	30 yr
Last Month	5.4%	4.3%	4.0%	4.1%	4.4%	4.4%
3 months ago	5.5%	4.9%	4.5%	4.5%	4.7%	4.7%
12 months ago	5.6%	4.9%	4.2%	4.1%	4.4%	4.2%

Source: Morningstar Direct. USTREAS T-Bill Cnst Mat Rate 3mo, USTREAS T-Bill Cnst Mat Rate 2 yr, USTREAS T-Bill Cnst Mat Rate 5yr, USTREAS T-Bill Cnst Mat Rate 10 Yr, USTREAS T-Bill Cnst Mat Rate 20 Yr, USTREAS T-Bill Cnst Mat Rate 30 Yr. Effective Fed Funds Rate from FRED Database.

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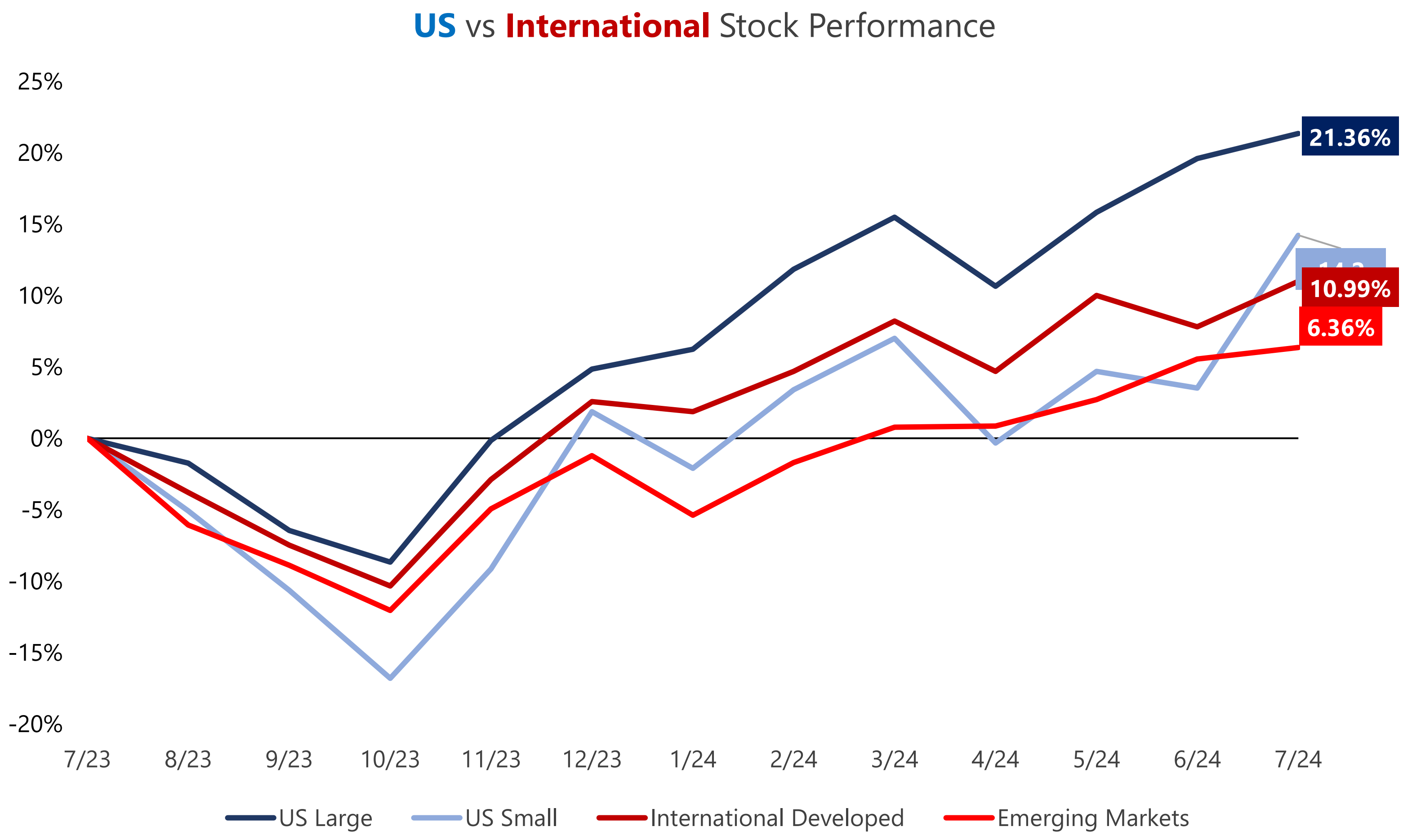
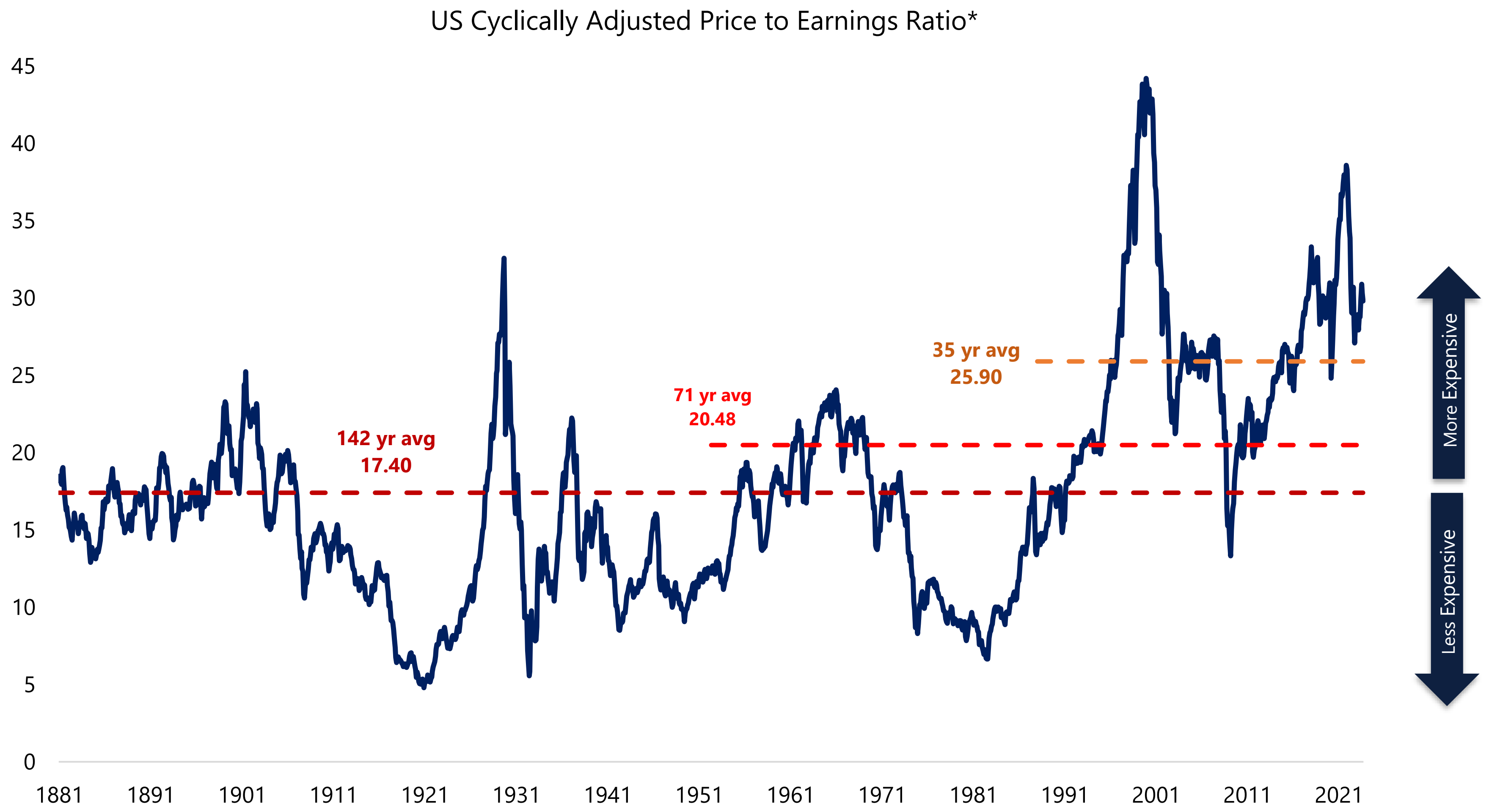
Huge Month For Small Cap Stocks, Value

	Stock Type	Last Month	Last 3 Months	Last 12 Months
Core	US Large	1.5%	9.7%	21.4%
Core	US Small	10.3%	14.6%	14.2%
Core	International Developed	2.9%	6.0%	11.0%
Core	International Emerging	0.8%	5.4%	6.4%
Other	US Value	5.1%	7.4%	14.6%
Other	US Growth	-1.7%	11.2%	26.8%
Other	Nasdaq	-1.6%	11.2%	23.7%



Source: Morningstar Direct. Categories in table are represented by (top to bottom) iShares Russell 1000 (IWB), iShares Russell 2000 (IWM), iShares Core MSCI EAFE (IEFA), iShares Core MSCI Emerging Markets (IEMG), iShares Russell 1000 Value ETF (IWD), Russell 1000 Growth ETF (IWF), Nasdaq 100 ETF (QQQ).

US Stocks Valuation High Historically



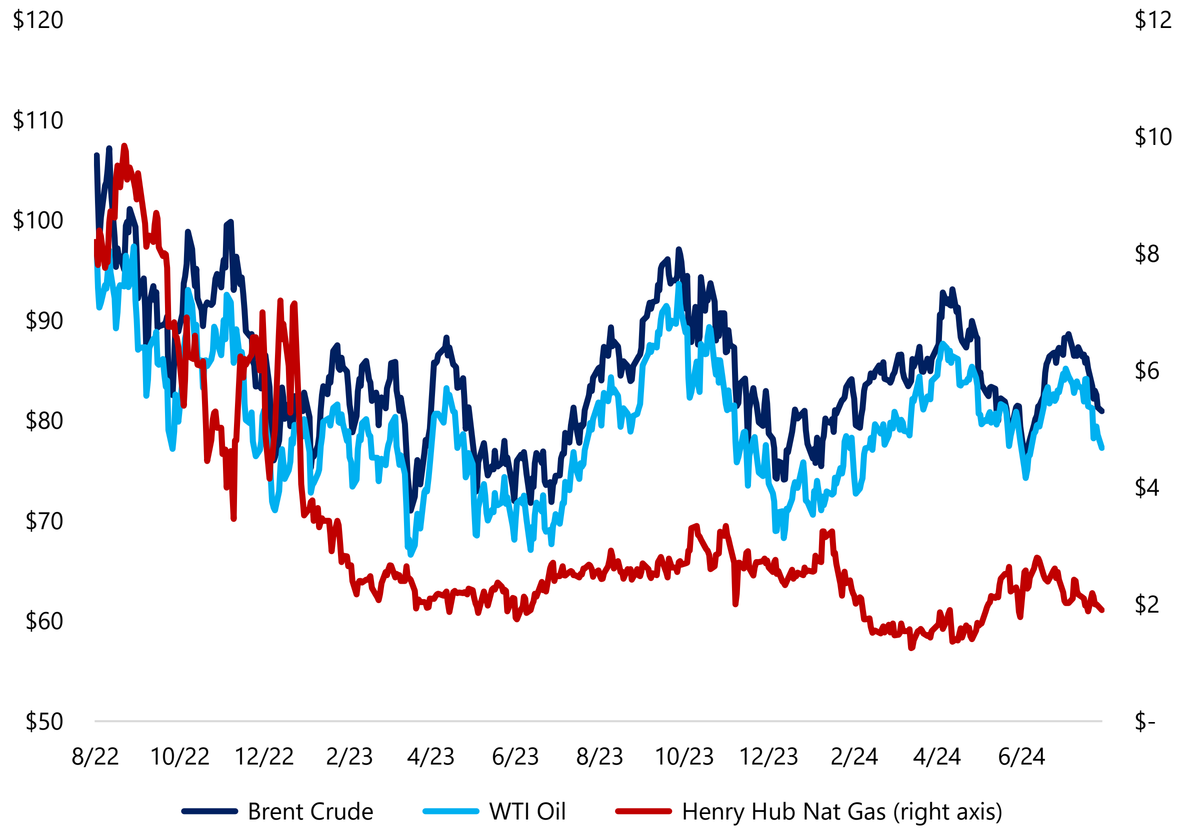
*CAPE or Cyclically Adjusted Price to Earnings Ratio takes the current price and divides it by the last 10 years average earnings for the S&P 500 and adjusts it for inflation. It is thought to be more predictive of future returns than trailing 12 month or Forward PE.
Source: Data and CAPE Ratio were developed by Robert Shiller using various public sources.

WJ Interests WEALTH ADVISORS

Energy Prices Falling Fast

Bloomberg Commodity Index

Energy Prices



Source: Bloomberg Commodity TR USD (left) and Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma, Crude Oil Prices: Brent – Europe, Henry Hub Natural Gas Spot Price from U.S. Energy Information Administration (right)

Periodic Table of Asset Class Returns

											Through Last Month End 7/31/2024	
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD	5 Yr	10 Yr
Trend Following 20%	Reinsurance 8%	US Small Stock 22%	Intl Emerging Stk 37%	Cash 2%	US Large Stock 31%	US Large Stock 21%	US Large Stock 26%	Trend Following 22%	Reinsurance 44%	US Large Stock 16%	US Large Stock 14%	US Large Stock 13%
US Large Stock 13%	Bonds 2%	US Large Stock 12%	Intl Developed Stk 27%	Bonds 0%	US Small Stock 25%	US Small Stock 20%	US Small Stock 15%	Reinsurance 3%	US Large Stock 26%	Reinsurance 16%	Reinsurance 11%	US Small Stock 9%
Reinsurance 11%	US Large Stock 1%	Intl Emerging Stk 10%	US Large Stock 22%	US Large Stock -5%	Intl Developed Stk 23%	Intl Emerging Stk 18%	Intl Developed Stk 12%	Cash 2%	Intl Developed Stk 18%	US Small Stock 12%	US Small Stock 9%	Moderate Blended Port 7%
Bonds 8%	Cash 0%	Moderate Blended Port 6%	TAA 19%	Moderate Blended Port -8%	TAA 20%	Moderate Blended Port 13%	Moderate Blended Port 11%	Bonds -12%	Moderate Blended Port 17%	TAA 10%	Moderate Blended Port 8%	Reinsurance 6%
Moderate Blended Port 8%	Intl Developed Stk 0%	Reinsurance 6%	Moderate Blended Port 17%	Reinsurance -6%	Moderate Blended Port 20%	Intl Developed Stk 8%	TAA 10%	TAA -12%	US Small Stock 17%	Moderate Blended Port 10%	Intl Developed Stk 7%	Intl Developed Stk 5%
US Small Stock 5%	Trend Following 0%	TAA 5%	US Small Stock 15%	TAA -8%	Intl Emerging Stk 18%	Reinsurance 7%	Trend Following 5%	Moderate Blended Port -15%	Intl Emerging Stk 12%	Intl Developed Stk 8%	Trend Following 6%	TAA 5%
TAA 5%	Moderate Blended Port 0%	Intl Developed Stk 2%	Bonds 5%	US Small Stock -11%	Bonds 8%	Bonds 7%	Cash 0%	Intl Developed Stk -15%	TAA 12%	Intl Emerging Stk 8%	TAA 5%	Trend Following 4%
Cash 0%	TAA -4%	Bonds 1%	Trend Following 2%	Trend Following -13%	Trend Following 4%	Trend Following 3%	Bonds -1%	US Large Stock -19%	Bonds 6%	Trend Following 6%	Intl Emerging Stk 4%	Intl Emerging Stk 3%
Intl Emerging Stk -3%	US Small Stock -4%	Cash 0%	Cash 1%	Intl Developed Stk -14%	Cash 2%	Cash 0%	Intl Emerging Stk -1%	Intl Emerging Stk -20%	Cash 5%	Cash 3%	Cash 2%	Bonds 2%
Intl Developed Stk -5%	Intl Emerging Stk -14%	Trend Following -6%	Reinsurance -11%	Intl Emerging Stk -15%	Reinsurance -4%	TAA -2%	Reinsurance -5%	US Small Stock -20%	Trend Following -3%	Bonds 2%	Bonds 0%	Cash 2%

Disclaimer

PAST PERFORMANCE IS NOT A GUARANTEE OF CURRENT OR FUTURE RESULTS. Examples and historical information included in this presentation do not, nor are they intended to, constitute a promise of similar future results. Specific client portfolio allocations, risks and returns can and may deviate from these examples depending on accounts and types of investments available through each account. Future market views by WJ Interests, LLC may vary significantly from the historical examples presented herein and no one receiving this summary should assume that WJ Interests, LLC will be able to replicate successful views in the future.

Moderate Blended Portfolio is for illustrative purposes only. It is calculated by taking a weighted average of the following asset classes and represents a moderate risk portfolio incorporating leverage and the asset classes in the table:

28%	US Large Stock	iShares Russell 1000 (IWB)
6%	US Small Stock	iShares Russell 2000 (IWM)
21%	Intl Developed Stock	iShares Core MSCI EAFE (IEFA)
6%	Intl Emerging Stock	iShares Core MSCI Emerging Markets (IEMG)
41%	Bonds	Vanguard Total Bond Market (BND)
-18%	Cash	Morningstar USD 1M Cash TR USD
4%	Reinsurance	Stone Ridge Reinsurance Fund (SRRIX)
6%	Managed Futures	SG Trend Index, PIMCO Trends (PQTIX), Virtus Alphasimplex (ASFYX), Standpoint (BLNDX)
6%	TAA	GMO Benchmark Free (GBMIX) and Strategy Shares Nwfnd/Rslv Rbt ETF (ROMO)

Assumes annual rebalancing. All data represents total return for stated period.

WJ Interests WEALTH ADVISORS