At Passage Wealth, it is important that you are well informed about what is happening in the markets. Here are a few of the key topics of conversation that deserve the most attention this month. If you have any questions or would like to continue the conversation, please reach out.

Stocks surged in the first half of the year driven by mega cap technology, or technology-adjacent, stocks. These top stocks have been dubbed the "Magnificent 7" by the media and include Apple, Amazon, Alphabet, Meta, Microsoft, NVIDIA, and Tesla. Together, those firms contributed nearly three-fourths of the S&P 500's gains[1]. While headlines are telling the story of artificial intelligence fueling the surge of tech stocks, there are two additional storylines to consider.

First, most of the "Magnificent 7" had a rough 2022. As fears of rapidly rising interest rates have subsided, technology companies have begun recovering in 2023. This gives the appearance of very strong performance when only looking at this year's data.

Second, the collapse of Silicon Valley Bank and the related banking turmoil has weighed on multiple sectors and slowed their growth rates, which has made the Technology sector look even better. Collectively, the Technology rally has been welcoming for investors – but it's not just about AI.

In economic data, continued job gains show the labor market continues to be tight. The last time the US economy lost jobs was over two and a half years ago in December 2020. However, the pace of job growth cooled in June with payrolls increasing 209,000, versus 306,000 in May[2]. Adding to this problem, we saw downward revisions to both April's and May's reports, which reduced job growth by a combined 110,000. Despite this, a high number of job openings[3] has enabled workers to push for higher wages[2], creating continued optimism that consumers can continue to support the economy despite persistent inflation.

Inflation improved substantially in June, with yearly prices rising 3.0% versus 4.0% in May and 4.9% in April[4]. Last month, the Federal Reserve took a more aggressive posture, at least in terms of tone and language, in their fight against inflation. While the latest improvement in inflation is welcome, it is not likely to deter a further rate hike following the Federal Reserve's next meeting in late July. Given the recent pace of improvement, July's anticipated hike may be the last one in the Federal Reserve's rate hiking cycle…but we'll have to wait and see.

The bottom line: Job growth, which had been accelerating, may have prompted the Federal Reserve's more aggressive tone last month. However, signs of a cooling job market and a substantially better June inflation report bolster the story that the Federal Reserve won't need to keep its aggressive stance and tone for much longer. These recent developments may help keep equity markets strong and builds the case that a “soft landing” for the economy is possible.

Sources:

1. Bloomberg attribution report for SPY, from 12/31/22 to 6/30/23
2. Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.nr0.htm
3. Bureau of Labor Statistics, https://www.bls.gov/news.release/jolts.nr0.htm
4. Bureau of Labor Statistics, https://www.bls.gov/news.release/cpi.nr0.htm

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