

# Markets in July More Volatile as Magnificent 7 Struggle

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During July, the S&P 500 was a bit more volatile than in past months despite ending in nearly the same place it started. The market rose through the first half of the month before reversing course despite most stocks in the index gaining value for the month.

The driver of recent market losses is the poor performance of the Magnificent Seven which collectively shed approximately \$1.5 trillion in market value in the past three weeks, the biggest drop over such a stretch on record. Investors had continued to pour money into anything related to artificial intelligence (AI) this year. During the second quarter, within the S&P 500,

McDonald's (MCD), America's 41st-most-valuable stock.

Recent gains in technology had been based largely on future earnings, and enthusiasm waned a bit recently driving tech stock values down. Tech shares were also hit by the recent good news on inflation due to the rotation trade. Hopes that the Federal Reserve will cut interest rates in September prompted investors to trim their bets on this year's market leaders and rush into shares of smaller companies that are likely to benefit more from lower borrowing costs. Cheaper financing is also good for struggling companies, which are usually value stocks.

Despite their recent losses, tech stocks and even the entire market's valuations remain pricey. The so-called Warren Buffet indicator – the ratio between total stock-market value and gross domestic product – was 138% in

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companies related to AI gained 14.7% in market value, whereas the rest lost 1.2%. This year, the value of Nvidia (NVDA) had increased more than \$2 trillion before its recent pullback.

To put these numbers into perspective, the total market value of Germany's stock market is around \$2 trillion dollars. When Nvidia's stock lost \$185 billion on July 11th, it was the equivalent to wiping out the whole of

March 2000, the month of the big bull market's high. It's now much higher at 196%.

While many analysts continue to sing “don't worry, be happy”, with inflation appearing to be slain and the Fed expected to lower rates in September, investors may not like the reason for the rate cuts. Earnings disasters from Delta (DAL), Walgreens (WBA), Lululemon (Lulu), Wells Fargo (WFC), Nike (NKE) and disappointing results from Google (GOOG) could signal a slowing economy. Bull

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\*Alphabet Inc. (GOOG), Amazon.com Inc. (AMZN), Apple Inc. (AAPL), Meta Platforms Inc. (META) - Formerly Facebook (FB), Microsoft Corp. (MSFT), Nvidia Corp. (NVDA), Tesla Motors Inc. (TSLA).

markets generally last longer than people expect, but not forever.

Mark Spitznagel, a man famous for earning \$1 billion in a single day, believes a major selloff is approaching with stocks potentially losing more than half of their value. While Spitznagel manages a fund specializing in tail risk and obviously benefits from the fear of institutional investors, he makes various points saying that we could be set up for an even worse meltdown than a quarter-century ago. He argues the excesses are more extreme with high public indebtedness, high valuations, past government actions and other hidden risks creating the “greatest bubble in human history”.

Still, despite his severe warnings about a potential doomsday scenario, he advises regular investors to prepare by “probably doing nothing.” He continues by adding “Cassandras make terrible investors” and comments further that staying invested in stocks is the best long-term strategy.

Whether or not his predictions come true fully or partially, we feel that investors always need to be prepared for a market correction. Stocks have proven to do well in the long-term, but not necessarily the short-

term. Signals to support both a bull and bear market exist, so anything is possible.

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