

Soft CPI Offers Leadership Rotation Preview

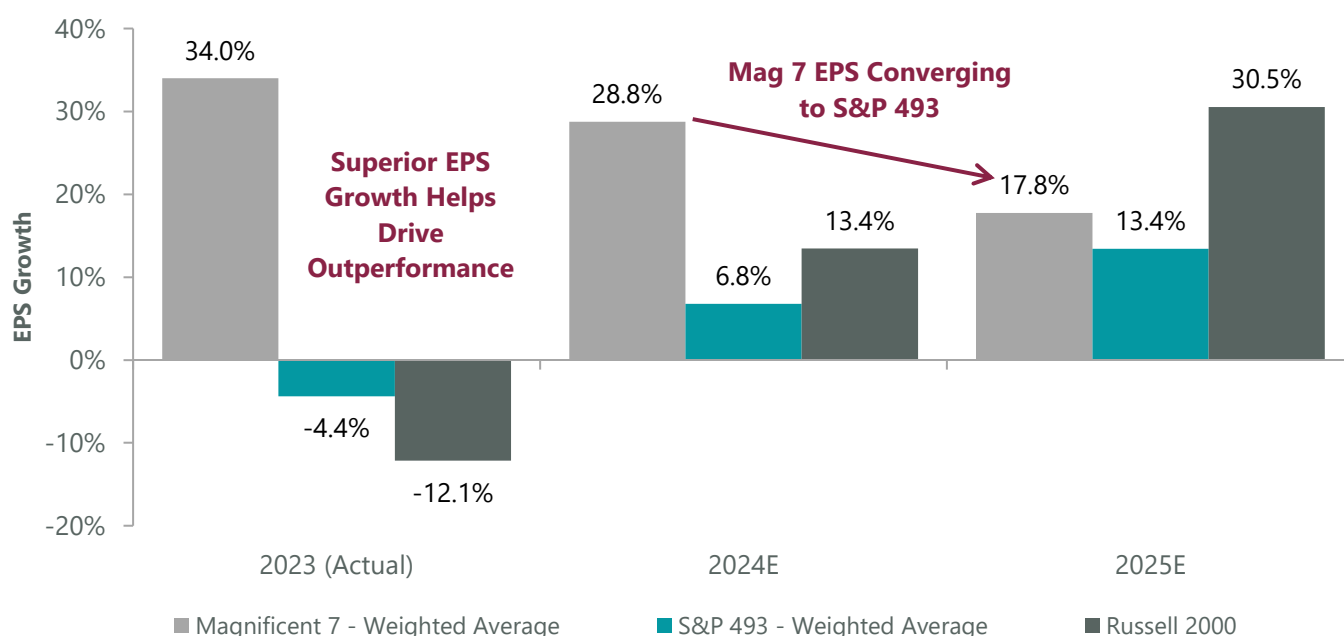
AOR Insights

With rate cuts, value & small cap trade could be durable into 2025.

Last week saw a second consecutive downside surprise for the Consumer Price Index (CPI), spurring bond investors to fully price an interest rate cut at the September FOMC meeting. Equities saw the most substantial one-day leadership rotations since January 2021, with value (Russell 1000 Value Index) outpacing growth (Russell 1000 Growth) by 3.2% and small caps (Russell 2000) outperforming large (Russell 1000) by 4.2%.

While this leadership rotation was sparked by optimism regarding the start of the Fed's cutting cycle, we see durability to this trade over the intermediate term. Over the past 18 months, the Magnificent Seven have had a significant earnings advantage over the S&P 493 and Russell 2000, but this lead is expected to narrow in 2024 and evaporate in 2025. Last week's rotation could be a sign of things to come with value and small cap stocks seeing a more durable period of outperformance later this year or in 2025 on an improving relative fundamental outlook and reaccelerating economy.

Magnificent Seven Advantage Dissipating



Magnificent 7 data refers to the following set of stocks: Microsoft (MSFT), Amazon (AMZN), Meta (META), Apple (AAPL), Google parent Alphabet (GOOGL), Nvidia (NVDA), and Tesla (TSLA). Data as of June 30, 2024. Sources: FactSet, Russell, S&P.

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