

## Soft CPI offers leadership rotation preview

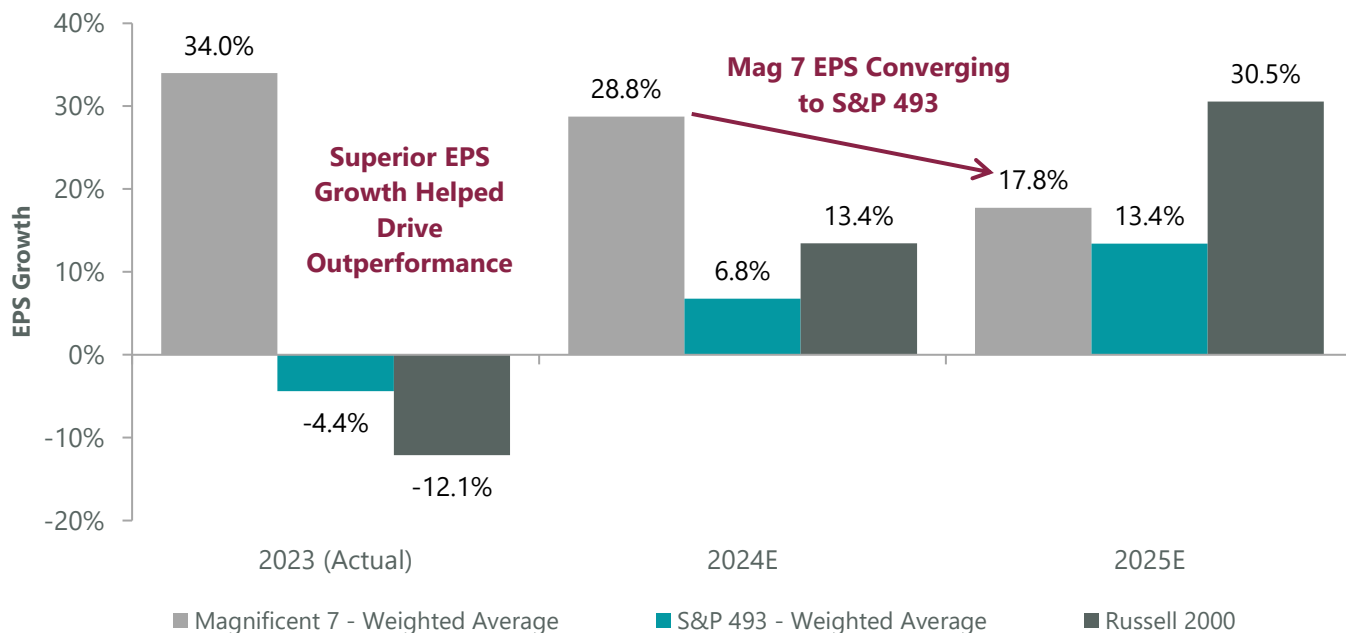
### AOR Insights

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

Early July saw a second consecutive downside surprise for the US Consumer Price Index (CPI), spurring bond investors to fully price an interest rate cut at the September Federal Open Market Committee (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 Index) by 3.2% and small caps (Russell 2000 Index) outperforming large (Russell 1000 Index) by 4.2%.

While this leadership rotation was sparked by optimism regarding the start of the Federal Reserve's (Fed) 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 we believe this lead is expected to narrow in 2024 and evaporate in 2025. The recent rotation could be a sign of things to come, with value and small cap stocks potentially 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. E=estimated. There is no assurance that any estimate, forecast or projection will be realized. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator of future results.**

## Definitions

**S&P 493** is known as the **S&P 500 Index** excluding the seven technology stocks (Magnificent Seven). The **S&P 500 Index** is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the United States.

The **Russell 1000 Index** is an unmanaged, capitalization-weighted index of domestic large-cap stocks. It measures the performance of the 1,000 largest publicly traded US companies in the Russell 3000 Index.

The **Russell 1000 Value Index** is an unmanaged index of those companies in the large-cap Russell 1000 Index chosen for their value orientation.

The **Russell 1000 Growth Index** is an unmanaged index of those companies in the large-cap Russell 1000 Index chosen for their growth orientation.

The **Russell 2000 Index** is an index of domestic small-cap stocks that measures the performance of the 2,000 smallest publicly traded US companies in the Russell 3000 Index.

**Earnings per share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. An index EPS is an aggregation of the EPS of its component companies.

The **Consumer Price Index (CPI)** measures the average change in US consumer prices over time in a fixed market basket of goods and services determined by the US Bureau of Labor Statistics.

The **Federal Open Market Committee (FOMC)** is a policy-making body of the Federal Reserve System responsible for the formulation of a policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

## WHAT ARE THE RISKS?

**All investments involve risks, including possible loss of principal. Past performance is no guarantee of future results.** Please note that an investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

**Equity securities** are subject to price fluctuation and possible loss of principal.

**Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks.

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