

FORTITUDE FOCUS

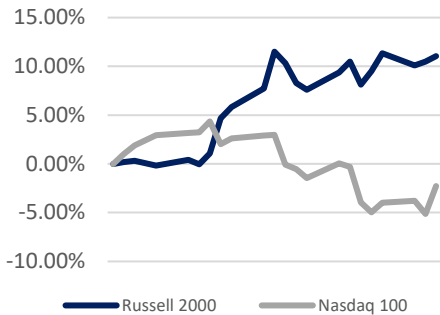


Investment Department

Fortitude Family Office | fortitudefo.com

THE STORY

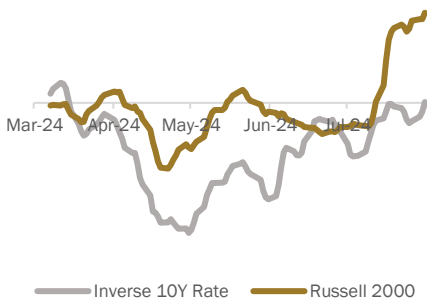
July Performance Divergence¹



1 In ~17 Year Probability²



Rate Sensitivity Of Small Caps³



SMALL'S BIG MOMENT: WHEN THE RUBBER BAND SNAPS BACK:

Small caps took center stage in July as the Russell 2000 index surged over 10%, contrasting with sharp declines in large caps that dragged the Nasdaq down by as much as 5% at one point.

The magnitude of this sudden reversal in large cap's outperformance was striking. Statistical estimates suggest that the month's nearly 4 standard deviation gap would only be expected to happen once every ~17 years.

Market observers pointed to various potential drivers of this shift, including a possible technical rebalancing into the second half as well as unexpected regulatory risks related to Trump's VP pick JD Vance. However, chief among them was a story about interest rates.

In 2021, large corporations were able to capitalize on ultra low rates to term out substantial amounts of debt while many smaller firms remained heavily leveraged with floating rates.

This key disparity has contributed to small caps underperformance in recent years as elevated interest costs imposed a considerable burden on operating profits.

This is supported by market pricing as the Russell's returns have closely mirrored changes in interest rates over recent months (see left). Thus, if the economy holds up, we expect that any further rate declines will continue to bolster this segment.

This abrupt and rapid market shift aptly illustrates the need for patient, well-balanced strategy. For though we may be able to identify value, we never know when the rubber band will snap back to equilibrium.



UPCOMING EVENTS

- PMI Report – 8/5
- CPI Report – 8/14
- FOMC Minutes – 8/21

**“Though We Be
But Little, We
Are Fierce”**

- William Shakespeare

¹Performance from Morningstar Direct for July 2024

²Estimated using historical standard deviation assuming a Gaussian distribution

³Computed internally from Morningstar Direct data



WHAT HAPPENED?

Samsung Workers In South Korea Launched An Indefinite Strike: A union representing ~30k Samsung workers, called for an indefinite strike amidst its campaign for better pay and benefits. It followed a 3-day strike which failed to bring management to the table ([BBC](#)).

Saks Fifth Avenue Completes Merger With Neiman Marcus: Saks Fifth Avenue is buying Neiman Marcus for \$2.65 billion. Amazon will hold a minority stake, contributing its technology and logistics expertise ([NPR](#)).

EU To Impose Tariffs On Chinese Electric Vehicles: China has urged the European Union to take trade talks seriously as tariffs on their EVs are set to take effect soon. The tariffs are part of the EU's effort to protect its automotive industry from what it perceives as unfair competition ([Reuters](#)).

Hurricane Beryl Leaves Millions Of Texans Without Power: Beryl knocked out power to nearly 3M properties and its effects have resulted in at least 36 deaths amid extreme heat in Houston ([AP](#)).



EQUITIES VARIED

US equity markets rose in July with the Russell 2000 leaping **10.8%**. Global ex-US equity markets also rallied with the MSCI World ex-US Index ending the month up **3.5%**.

	MONTH*	YTD*
US Large	1.2%	16.7%
US Mid	5.8%	12.3%
US Small	10.8%	10.0%
Global ex-US	3.5%	8.0%
Int'l Dev	2.9%	8.4%
Emerging	0.3%	7.8%



FIXED INCOME BOUNCED

Fixed income markets rallied in July as the market priced in a widely expected Fed rate cut for September helping to push the Bloomberg Agg Index up over **2.3%** in the period.

	MONTH*	YTD*
Ultra-Short	0.4%	3.3%
Short	1.2%	2.4%
Core	2.3%	1.6%
Long	3.6%	-2.1%
High Yield	1.9%	4.6%
US TIPS	1.8%	2.8%
Intl Bonds	2.8%	-0.5%
EM Bonds	1.8%	3.5%



ALTERNATIVES GAINED

Alternatives in aggregate once again delivered modest gains in July as they competed with the rise in other asset classes.

	MONTH*	YTD*
Gold	4.1%	17.3%
Merger Arbitrage	2.0%	2.7%
Infrastructure	5.2%	10.8%
Direct Lending	0.9%	7.7%
Hedge Funds*	-0.1%	5.4%
Managed Futures	-1.0%	-0.1%

Due to reporting lags, some data represents the latest return as of the month prior to this period.

*Sources: Each asset class is represented by a corresponding index or fund as of each report's month-end date. The associated indexes can be found below. This has been provided for informational purposes only, and reflects the current opinion of the author, which is subject to change without notice, as are statements of financial trends, which are based on current conditions.



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Reference Above	Benchmark Index	Reference Above	Benchmark Index
US Large	S&P 500 Index	Hedge Funds	Eurekahedge Hedge Fund NR Index
US Mid	S&P 400 Index	Managed Futures	Credit Suisse Mgd Futures Liquid TR
US Small	S&P 600 Index	Ultra-Short	Bloomberg US Treasury Flt Rate Index
Global ex-USA	MSCI World ex-USA All Cap NR Index	Short	ICE US Treasury 1-3Y Bond Index
Intl Dev	MSCI EAFE NR USD Index	Core	Bloomberg Aggregate Bond Index
Emerging	MSCI EM NR US Index	Long-Term	ICE US Treasury +20Y Bond Index
Gold	S&P GSCI Gold TR	High Yield	Bloomberg US Corporate HY Index
Merger Arbitrage	IQ Hedge Merger Arb TR USD Index	US TIPS	ICE US Treasury Inflation Linked Index
Infrastr (Infrastructure)	MSCI ACWI Infrastructure NR Index	Intl Bonds	Bloomberg Global Agg ex-USD Index
Direct Lending	Cliffwater Corporate Lending I	EM Bonds	Morningstar EM BD GR Index