

The Market Stages a Comeback

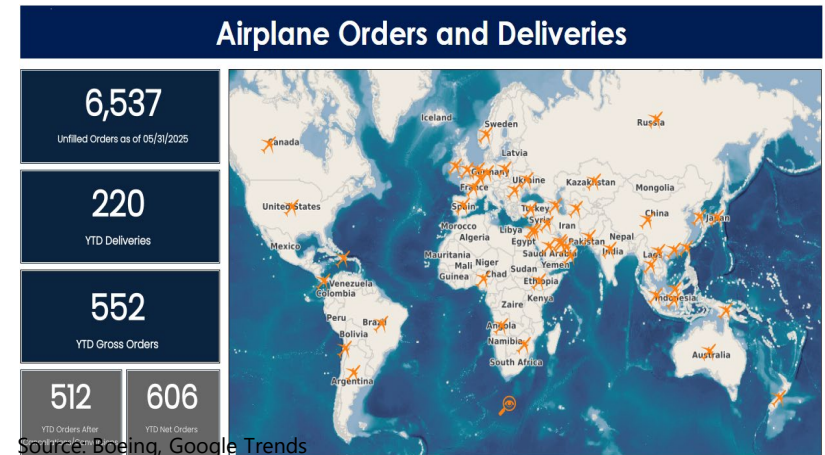
The second quarter was marked by extreme volatility, with the S&P 500 dropping 12% in April before rebounding to post a 10.9% total return—just the third time in history the index has recovered from a double-digit intra-quarter drawdown to finish positive. Despite macro headwinds including rising tariffs, conflict in the Middle East, and softening consumer sentiment, investor enthusiasm around AI drove a sharp recovery. Tech led the way, surging +22.54%, followed by Communication Services (+17.30%) and Industrials (+12.28%). On the downside, Energy (-9.10%) and Healthcare (-5.53%) lagged.

Rise of the Agents

Salesforce (CRM) and ServiceNow (NOW) are emerging leaders in the real-world deployment of AI agents—autonomous software platforms that use AI to perform tasks, make decisions, and boost efficiency. CRM's AI-powered sales agents help streamline sales cycles by guiding reps in real time, improving conversion rates and reducing prospecting time. Meanwhile, NOW is rolling out customer service agents that enhance call center productivity and resolution accuracy. These use cases mark a shift from AI hype to tangible enterprise utility, with agents driving productivity gains and opening up new revenue streams.

Boeing Heads for the Clouds

Boeing (BA) looks to be emerging from a prolonged stretch of turbulence. Manufacturing quality has improved, and the FAA has cleared the company to ramp production to 38 737s and 7 787s per month. Deliveries have accelerated—220 through May, up 51% year over year—reflecting stronger execution. Orders have continued to flow in, pushing the total backlog to 6,537 aircraft. With much of the operational overhang behind it, Boeing is showing meaningful progress on free cash flow recovery. The stock has responded, rallying 64% off its lows and rewarding investors who stayed patient.



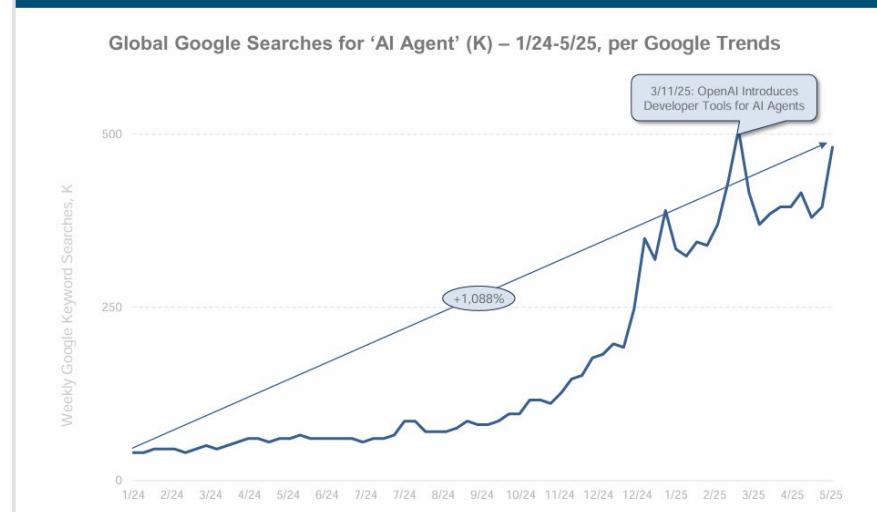
Fed Easing: How Many Cuts and When?

The Federal Reserve's dual mandate to preserve stable prices and support maximum employment is clearly in play as it considers when to ease interest rates. Inflation has declined from its pandemic peak but nonetheless remains above the Fed's target rate of 2%. With the added risk of upward pressure on inflation from tariffs, the central bank has reason to hold off on easing. In addition, there are few signs of stress in the labor market, implying a rate cut is unlikely without an unforeseen uptick in unemployment. Added to the mix is the Trump Administration's proposed tax cut bill, which in its current form would add to the national debt, raising the risk of higher market interest rates. Taking all this into account, consensus among Wall Street economists has the Fed making at least one quarter point cut by the end of 2025, pending the likely outcome of tariff negotiations and passage of the tax bill.

Outlook

The market has achieved a remarkable recovery after a negative Q1 and April, as several perceived risks have diminished. Although the final outcome of tariff negotiations remains to be seen, the potential for a protracted trade war has declined significantly. In addition, the risk of a larger regional conflict in the Middle East has subsided after 12 days of fighting between Israel and Iran. Finally, inflation has continued to moderate, opening the door to the Fed easing in the second half, providing a tailwind for the equity markets. Despite the improving backdrop, other risks remain; for instance, the long-term impact of the Trump administration's tax reform bill on inflation and market interest rates remains a wild card.

AI Agent Interest (Google Searches) =
+1,088% Over Sixteen Months



Source: Google Trends via Glimpse (5/15/24). OpenAI (3/25)

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