WEEKLY ECONOMIC UPDATE JUNE 17, 2024

Stocks notched a solid gain last week, driven by the Fed's decision, May's inflation report, and Apple's AI-related news. The Standard & Poor's 500 Index rose 1.58 percent, while the Nasdaq Composite picked up 3.24 percent. The Dow Jones Industrial Average, which has lagged most of the year, slid 0.54 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, fell 1.44 percent for the week through Thursday's close.[1]

S&P 500, Nasdaq Lead; Dow Lags

Market leadership took a familiar form. The tech-heavy Nasdaq led while the Dow trailed for the second week (and four out of the past six weeks).[2]

Stocks trended higher at the start of the week as investors cheered an artificial intelligence update from Apple.[3,4]
By midweek, the market had split, with the Nasdaq and S&P 500 moving higher while the Dow lagged. Investors were upbeat after learning that consumer prices rose less than expected in May and that the Fed decided to keep rates steady. However, some investors were unsettled after learning Fed officials had shifted their outlook and now only penciled in a single rate cut between now and year-end. A few months ago, the Fed had indicated as many as three cuts were possible.[5]

MARKET
INSIGHTS

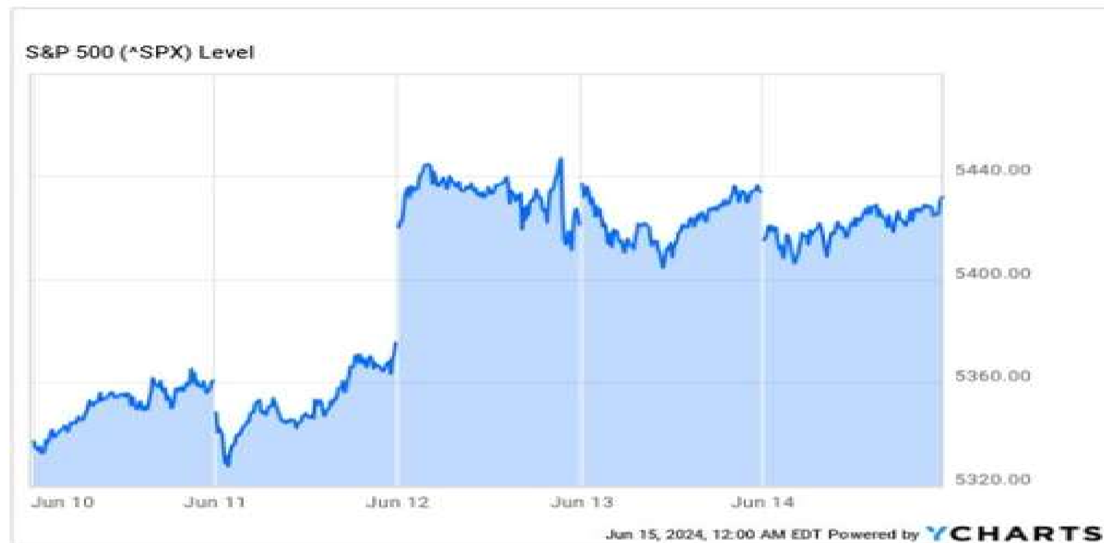
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	-1.71%	3.47%	15.28%	64.50%
MSCI EAFE	-0.32%	6.58%	12.82%	44.62%
Nasdaq Composite	7.91%	18.09%	31.17%	134.9%
S&P 500	4.22%	14.65%	26.27%	104.0%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 06/14/24	4.20%	4.45% 4.29% 3.83%	-5.62% ▼ -2.10% ▼ 9.66% ▲

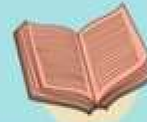
Busy Week For News
Last week was chock full of market-moving events. Between Apple's AI update, inflation, and the Fed, it was a toss-up which one influenced sentiment the most.

AI's outsized role in driving market momentum continued last week. OpenAI's deal with Apple arrived at the start of last week, and the news followed OpenAI's deal earlier this year with Microsoft. (These companies are mentioned for illustrative purposes only; it is not a recommendation to buy, sell, or hold this or any security.)[6]

Wednesday morning, the Consumer Price Index (CPI) was announced. A few hours later, the Federal Open Market Committee updated its monetary policy. Those pieces of news have only arrived together 13 times since 2008.
The FOMC kept rates steady at the current 5.25-5.50 percent target range, a widely expected decision. However, the tame CPI report caused some volatility as investors grappled with how the report may influence Fed policy.[7,8]

This Week: Key Economic Data
Monday: Empire State Manufacturing Index. Fed Official Patrick Harker speaks.
Tuesday: Retail Sales. Industrial Production. Fed Officials Thomas Barkin, Lori Logan, Alberto Musalem, and Austan Goolsbee speak.
Thursday: Housing Starts and Permits. Jobless Claims. Fed Official Thomas Barkin speaks. EIA Petroleum Status Report.
Friday: Existing Home Sales.

Quote of the Week



"Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, one by one."

– Charles Mackay, *Extraordinary Popular Delusions and the Madness of Crowds*, 1841

Of Note

The bankruptcy of Steward Health has become the latest cautionary tale about private equity's involvement in health care. Cerberus Capital Management's purchase in 2010 of several Massachusetts-based nonprofit hospitals was meant to be a life preserver for the struggling chain, but instead its woes deepened, compromising patient care. The PE firm saddled the business with debt before making $800 million in profit when it sold the chain in 2020, according to reporting by Bloomberg. How many other Stewards could be out there? We don't know. As private investors move into new corners of health care,

studying the impact of the trend remains frustratingly difficult because so many of the details don't need to be disclosed. It's too hard today to even figure out who owns your doctor's office — let alone whether their influence is good or bad.

The Steward Health story adds a dramatic data point to the growing body of evidence showing that private investors can hurt the care hospitals provide. Research has shown that patients experience more complications, like infections or falls, in hospitals bought by PE firms. PE-backed care can also come with a higher price tag and more-aggressive debt collection for poor patients. And the shift in ownership can deprive some areas of care altogether, including basic services like delivering babies or performing surgeries.

One review of all the academic studies of the influence of private equity in health care concluded: "No consistently beneficial impacts of PE ownership were identified."
But health care continues to be an attractive target for private equity firms, with physician practices becoming particularly alluring since 2016. Such deals are hard to track because the price usually falls below antitrust reporting thresholds.

From what we know, the first wave of acquisitions were centered on dermatology, ophthalmology and gastroenterology. Those specialties all have something in common: They perform a lot of procedures, whether that's colonoscopies, skin biopsies or cataract surgeries. The steady demand for those services and how they are reimbursed (at a reasonably high level per service)

means there’s an incentive to do them at high volumes, giving investors a clear path to a return.

The last four years have brought a second wave of investment in primary care and behavioral health practices, two areas that have suffered from doctor shortages. The financial motivations behind these deals differ from the earlier ones — money isn’t made by grinding out more procedures, but by growing the number of people covered by a health care system.

A recent study is, for the first time, putting some data around one important aspect of the first wave of deals: What’s the end game for acquirers? Everyone buys with an exit strategy in mind. A private investor typically holds onto a health care asset for 3-8 years, says Yashaswini Singh, a health care economist at Brown University. She found that dermatology, ophthalmology and gastroenterology practices acquired by a private equity firm were typically rolled up into larger networks before being quickly sold again — and that 97% of the time, they were sold to larger PE firms. Meanwhile, over half of the deals occurred within 3 years of the initial transaction, meaning another sale is likely just a few years away.

To be clear, this rapid consolidation isn’t inherently good or bad for patients and doctors. And these deals aren't happening in a vacuum — a lot of physician practices, hospitals and nursing homes are struggling financially and see a deal as the only way to get needed capital into their business. If private investors see an opportunity there, they’re just doing what investors do.

But it’s critical to understand what happens to patient care after a practice is acquired. One key component of that is what life is like for doctors afterward: Can they provide the same level of care, or are they pushed to see an unsustainable number of patients each day? If they’re unhappy, can they move to a different practice nearby?

Singh’s paper hints at where problems could crop up. Doctors selling their practices might think they’re doing their due diligence in choosing a financial partner, but that only applies to the first stage. It’s unclear how much influence they’ll have in picking any subsequent buyers, Singh says. Future ownership changes could have a significant impact on how happy doctors are in their practices — and ultimately on the health of people in their community.

Understanding that dynamic is essential. Unhappy doctors often can’t jump to another practice — at least not one anywhere near their current job. Private equity firms acquiring physician practices typically require physicians to sign noncompete agreements. The only way around them is to move outside of a certain radius.

That’s bad for the doctor and bad for their patients. When doctors are forced to move, patients lose access to that trusted provider, and in some communities, there might not be another specialist to fill the void. (Although the Federal Trade Commission recently banned noncompete clauses, those new rules are subject to legal challenges that could take years to wind through the courts.)

On a more basic level, PE's 3- to 8-year churn is disruptive. Each new investment team that takes over a practice is going to make changes to the business. And while those changes might help the bottom line or streamline operations, the turmoil exacts a toll. It's unclear whether doctors have the power to preserve the aspects of their practice that maintain high-quality care.

Opacity seems to be a feature, not a bug of private equity's involvement in health care. But without a window into the details, health economists will struggle to study PE's impact on care and regulators can't protect patients. And the public may assume that Steward Health is the norm rather than the exception.[9]

Footnotes And Sources

1. The Wall Street Journal, June 14, 2024
2. The Wall Street Journal, June 14, 2024
3. The Wall Street Journal, June 10, 2024
4. CNBC.com, June 12, 2024
5. The Wall Street Journal, June 10, 2024
6. The Wall Street Journal, June 10, 2024
7. The Wall Street Journal, June 10, 2024
8. MarketWatch.com, June 10, 2024
9. advisorperspectives.com/articles/2024/05/23/private-equity-bad-for-health?topic=alternative-investments

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technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid. Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors. International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility. Please consult your financial professional for additional information. This content is developed from sources believed to be providing accurate information. The information in this material is not intended as tax or legal advice. Please consult legal or tax professionals for specific information regarding your individual situation. This material was developed and produced by FMG Suite to provide information on a topic that may be of interest. FMG is not affiliated with the named representative, financial professional, Registered Investment Advisor, Broker-Dealer, nor state- or SEC-registered investment advisory firm. The opinions expressed and material provided are for general information, and they should not be considered a solicitation for the purchase or sale of any security.

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