Weekly Market Insights

August 26, 2024

A Return to Balance

Financial Markets

Chairman Powell's speech at Jackson Hole greatly relieved participants in financial markets and the real economy. Ultimately, Powell signaled to the world that more accommodative monetary policy is on the way. For so long, everything seemed to hinge on inflation coming down and the labor market coming into better balance. While we are not completely out of the woods, those concerns have certainly been relaxed. At least for now, it appears as if a soft landing is the most likely outcome. We will discuss this in the economics section.

Equities continued to advance this past week, rallying strongly on Friday following Chairman Powell's remarks.

	Total Return (%)			
Index	**8/23/2024**	**Prior Week**	**Year-to-Date**	**1-Year**
S&P 500	1.15	1.47	19.20	28.91
S&P 500 Equal-Weighted	1.29	2.07	11.55	20.07
Dow Jones Industrial Average	1.14	1.27	10.56	21.83
NASDAQ Composite	1.47	1.41	19.66	31.28

Economics

For participants in financial markets, concerns have been centered around stubbornly high inflation, restrictive monetary policy, and fears of a hard landing. A similar story dominates the real economy, although greater focus is paid to the labor market. Labor market statistics have been confusing and somewhat contradictory for quite some time. The Federal Reserve analyzes employment data very carefully, looking for signs of whether the economy is overheating or slipping into a recession. This strict reliance on economic data has had a paralyzing effect on Fed actions, frustrating those who would like to see swift action. The latest employment reports have relieved the Fed of their concerns over an overheating economy. However, when unemployment expands, recession fears grow. The Chairman addressed this in his speech, arguing that the rise in the unemployment rate has not been driven by a weakening economy but by a growing supply of labor. That is very good news. Increasing labor force participation is neither inflationary nor a sign of economic weakness. It allows for some degree of non-inflationary expansion. This is why Powell announced that it is time for the Fed to adjust its policy stance. At this point, the only open question is whether the Fed will cut by 25 or 50 basis points at their September meeting. Today, not even the Fed knows what they will do with certainty, but perhaps caution should be the name of the game.

Conclusion

For quite some time, we have tried to make a case that Covid threw the global economic cycle out of order, impacting labor markets, inflation, trade, and more. Perhaps economic order is finally returning to its pre-Covid state.

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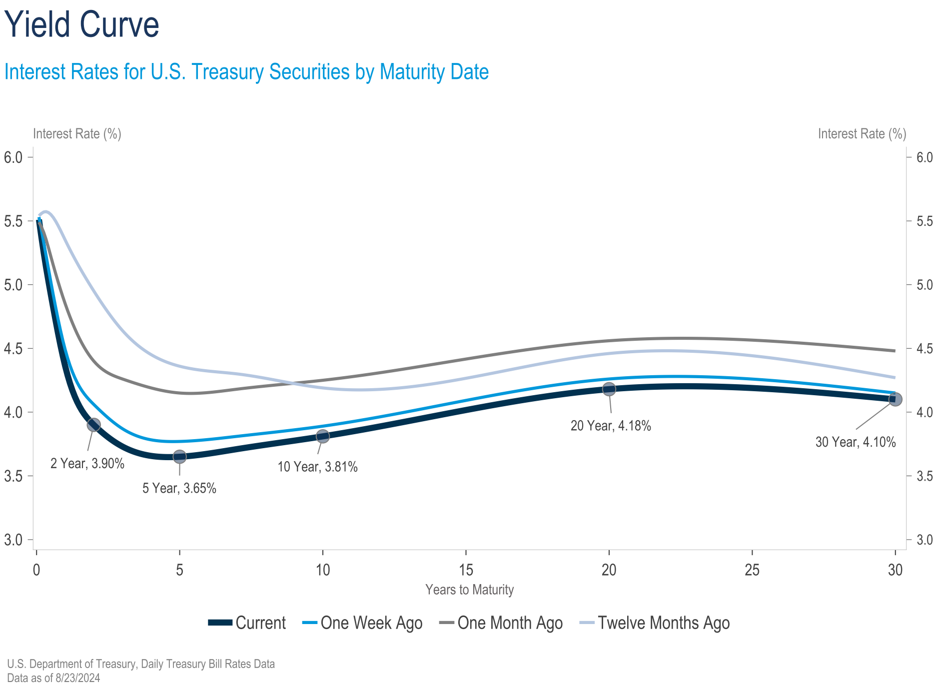
Yield Curve Update

Yields fell this past week, continuing the downward trend that began in early August when growth and unemployment concerns triggered a sharp decline in interest rates. Comments from Fed officials, most notably Chairman Powell with his Jackson Hole[1] speech, were the primary catalysts for the movements. During the week, the 2-year Treasury yield fell 13 basis points, the 10-year yield fell 8 basis points, and the yield curve inversion lessened to 12 basis points. Relative to the end of July, the declines have been much more notable, with 2-year and 10-year yields now lower by 48 basis points and 38 basis points, respectively.

Yields reached an intra-week low on Wednesday, driven by continued momentum from last week's package of encouraging economic data[2] and the Bureau of Labor Statistics (BLS) announcing a significant downward revision to payroll growth. Specifically, job growth was revised lower by 818,000 over the one-year period through March, or 68,000 per month - one of the largest downward revisions in history, second only to March of 2009. While the downward revision was larger than we have seen in the past, the news largely aligns with the consensus view that the labor market is weakening but not enough for the Fed to cut rates by 50 basis points at their September meeting. Yields reversed course and climbed higher on the news, as hawkish Fedspeak, the release of July's FOMC minutes, and jobless claims data reaffirmed expectations for a single cut in September.

Federal Reserve Chairman Powell delivered his annual Jackson Hole speech on Friday morning, where he met market hopes for an explicit signal on rate cuts. Powell noted his personal confidence that inflation is on a sustainable path towards 2% and emphasized the growing risks surrounding the labor market. He added that he doesn't "...seek or welcome further cooling in labor market conditions..." and concluded that "the time has come for policy to adjust." Unsurprisingly, yields declined while Powell made his remarks. Rate cuts certainly appear imminent, although the timing and magnitude of those cuts remain in question



We will receive plenty of economic data before the Fed's next meeting on September 18th, and expectations surrounding rate cuts are sure to evolve between now and then. However, as it stands now, the Fed looks set to move forward with its first rate cut in September after holding rates steady since July of 2023. As always, we will keep readers updated on how the situation develops.

[1]The Federal Reserve's Jackson Hole Economic Symposium is a three-day annual international conference hosted by the Federal Reserve Bank of Kansas City at Jackson Hole in the United States attended by central bank leaders from around the world.

[2]The headline and core measures for the July Consumer Price Index (CPI) came in lower than expected at 2.9% and 3.2%, respectively. Retail sales increased more than consensus estimates, 1.0% MoM vs estimates for a 0.3% increase. Together, these reports signaled continued disinflation and helped to qualm fears over a weakening consumer.

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