Weekly Market Insights

August 19, 2024

The Best Week Yet!

Financial Markets

This past week was one of the best for equity markets in a very long time—the strongest of the year and the best week since November 2023, to be exact. One of the most comforting aspects of last week was equities responding to economic releases rationally rather than being influenced by carry trades, algorithmic trading, and corrections at the top of the market.

	Total Return (%)		
Index	**Prior Week**	**Year-to-Date**	**1-Year**
S&P 500	4.0	17.5	28.0
S&P 500 Equal-Weighted	2.5	9.3	17.5
Dow Jones Industrial Average	2.9	7.9	17.0
NASDAQ Composite	5.4	18.0	31.9

Impressive indeed. Investors should note that every sector of the S&P 500 was up for the week. Certainly, an encouraging sign.

Economics

Last week's economic data let loose a considerable amount of confidence in traders, portfolio managers, and analysts alike. With retail sales doing well, unemployment claims turning lower, and CPI coming in a bit soft, the economic data set the stage for the Fed to move forward with their first rate cut in September. The only open question is whether the cut will be 25 or 50 basis points.

As the U.S. presidential election gets closer, the issue of Chinese tariffs comes back into focus. Is the correct policy move to expand the tariffs already in place? This is a difficult question to answer. Trade is a powerful tool that can be used to moderate inflation and encourage innovation. However, the early advocates of free trade did not address home governments subsidizing industries. The Chinese godfather of industry was Deng Xiaoping. He looked to industrial production to bring China's economy out of the dark age. So, Chinese leaders decided to subsidize domestic production to bring China out of poverty and into the twentieth century. While China's poverty levels have declined, they wound up with excess capacity, too much federal and local government debt, and depressed wage growth. Ultimately, China has become overdependent on exports to keep its finances balanced and often must sell its products below cost. If the U.S. were to expand the current tariffs, it would certainly accelerate some of the issues already plaguing the country. Yes, certain U.S. industries should be protected from Chinese overproduction. The best example is rare earth materials—a vital resource for the country that we cannot sustainably produce without subsidies. However, it is worth noting that expanded tariffs would likely add some inflationary pressure on the United States and that these actions would not be successful without the full cooperation of the E.U. and the U.K. Clearly, this is a very difficult question that we will continue to research.

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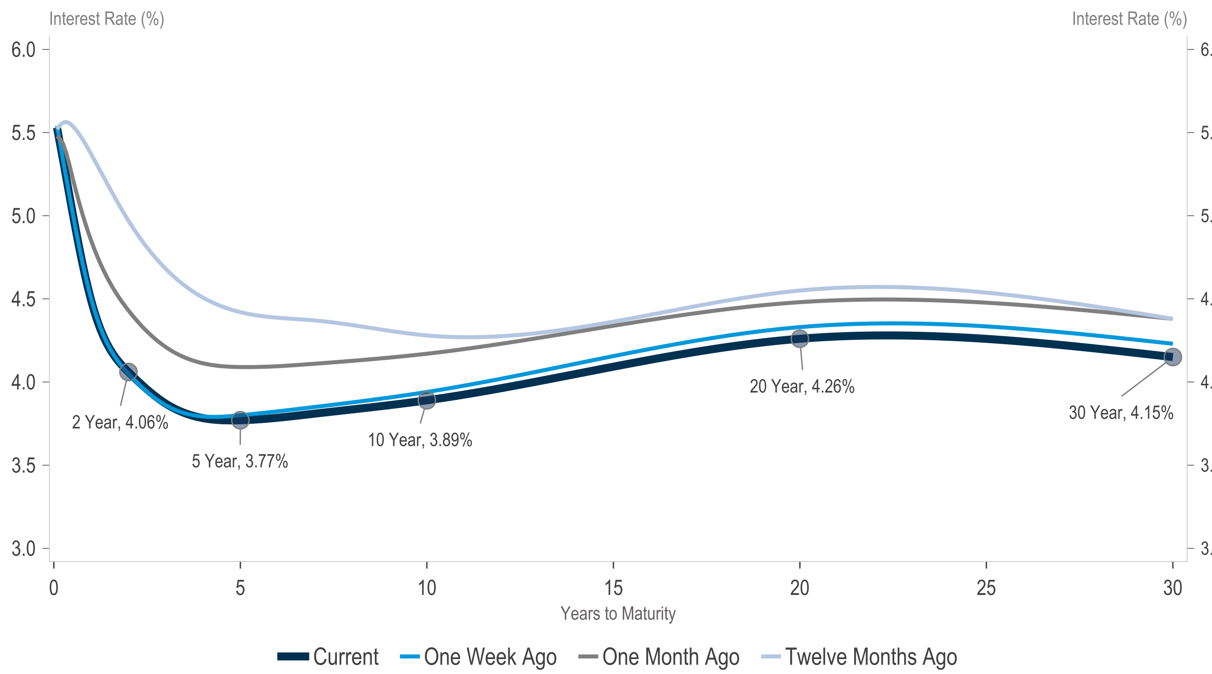
Conclusion

Investors have good reason to be encouraged. The U.S. economy appears relatively healthy, and the Fed is on track to ease at their next meeting. If the economy continues on its current path and consumers stay confident, this would provide helpful support for corporate profits.

Yield Curve

Interest Rates for U.S. Treasury Securities by Maturity Date



U.S. Department of Treasury, Daily Treasury Bill Rates Data
Data as of 8/16/2024

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