Weekly Market Insights

September 9, 2024

Feast or Famine

Financial Markets

Equity markets sold off last week, with the S&P 500 experiencing its worst week since March 2023. As our title suggests, investors appear to be reacting impulsively rather than deliberately. The major concern this past week was the economy, and Friday's widely anticipated employment report propelled markets lower. Specifically, the Labor Department estimated that employers added 142,000 new jobs last month, slightly below the 160,000 that economists were expecting. Despite slower job growth, the unemployment rate dropped from 4.2% to 4.3%. Perhaps more notably, the prior two month's payrolls were revised lower by a combined 86,000 jobs. Clearly, expectations trumped reality. Even a casual glance at the performance box tells the story.

	Total Return (%)		
Index	**Prior Week**	**Year-to-Date**	**1-Year**
S&P 500	-4.25	14.48	22.91
S&P 500 Equal Weighted	-3.15	9.04	17.13
Dow Jones Industrial Average	-2.93	7.05	17.14
NASDAQ Composite	-5.77	11.75	21.23

It should be apparent from the performance table above that the past twelve months have been quite profitable for investors, and last week, many moved to monetize paper profits.

Investors are waiting with bated breath for September 18th when the Federal Reserve will make its next monetary policy decision. At least one rate cut is priced in with certainty, but a point many investors may be overlooking is the impact rate cuts will have on high-yield savings accounts. With lower yields on idle cash, will investors look to deploy funds elsewhere?

Economics

Although last week's economic reports caused some investor distress, it likely made the upcoming decision for the Fed a bit easier. The argument has shifted from whether to ease to by how much. The Fed is actually behind other major central banks when it comes to cutting rates. While writing about central banks, it is important to bring the Bank of China into the discussion.

We, along with most others who follow the global economy, have spent a lot of time thinking and writing about the economic slowdown in China. There are many reasons why China's economy is struggling, but one of the most prominent is the debt crisis affecting the country's banks and municipalities. There were reports coming out of Shanghai this past week that the Chinese government is considering some bold moves, including debt substitution and debt forgiveness. Rating agencies expect China's annual government debt issuance to approach $866 billion dollars by 2028, so these policies may have wide-ranging impacts.

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Conclusion

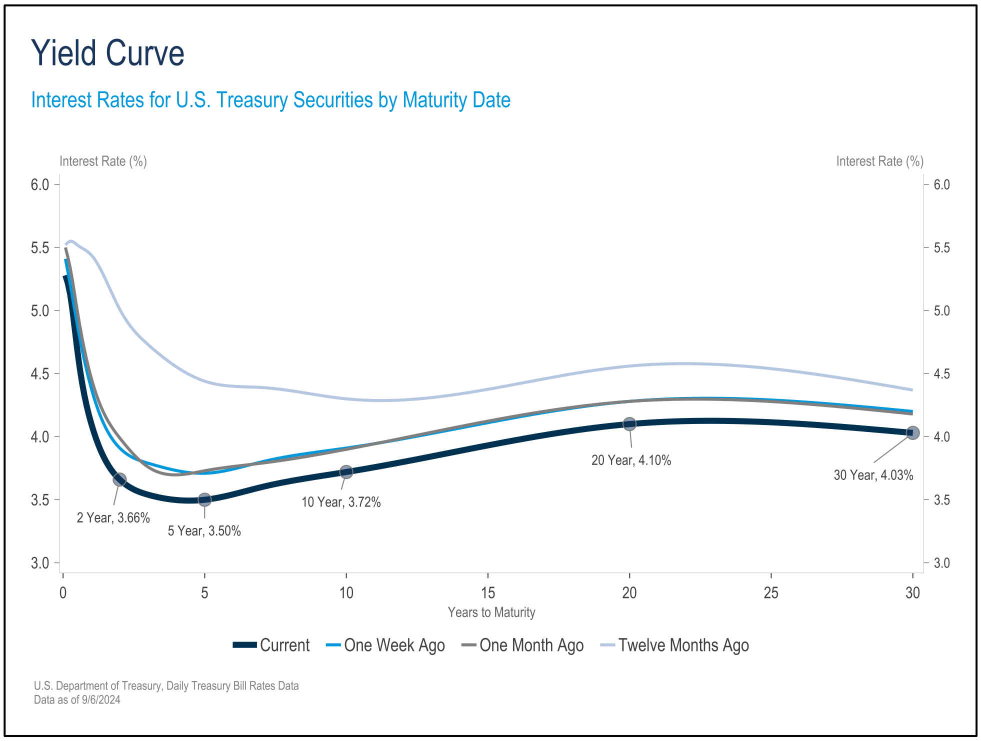
It has been a difficult stretch for investors. The U.S. economy is seemingly losing some momentum, but the path for monetary policy is clear. Easing is on the horizon, and investors know when, just not how much. In its entirety, it was not a great week for financial news, but it was not terrible and far from conclusive. In the past, we have written a lot about the positive impacts of AI and the burst of investment in technology that has been happening. Next week, we will spend more time explaining how and why.

Yield Curve Update

Yields have continued to trend lower, driven in large part by weaker economic data and growing fears that the Federal Reserve has waited too long to cut rates. Relative to last week, the 2-year Treasury yield declined 27 basis points, the 10-year Treasury yield declined 20 basis points, and the 2-year/10-year yield spread turned positive for the first time since early July of 2022. Interestingly, as economic growth concerns have mounted, market reactions to negative economic releases has changed. Since the Fed began its hiking campaign in March of 2022, markets have generally responded positively to negative economic releases, in hopes that weaker growth, slower inflation, and a looser labor market would incentivize the Fed to soften its restrictive monetary policy stance. However, following last month's surprisingly weak employment report, markets have responded negatively to weaker economic data, driven by fears that the Fed has fallen behind the curve and pulled the U.S. into economic recession. In other words, "bad news is good news" has become "bad news is bad news."

Yields declined sharply following the Monday holiday, after the ISM Manufacturing index[1] came in weaker than expected and its New Orders component (a leading indicator of demand) unexpectedly contracted. Growth fears were reignited on Wednesday, and yields made another leg lower in response, after job openings declined more than expected and the Fed Beige Book[2] reported a greater number of districts with flat or declining activity. Friday's employment report reinforced the downward trend in yields, as payroll growth was reported slightly below consensus estimates and prior months were revised lower by a cumulative 86,000 jobs. Following the release, 2-year and 10-year yields fell as low as 3.63% and 3.66%, respectively, but later recovered from the day's lows.

With the next Federal Reserve meeting less than two weeks away, the market is pricing in *at least* one rate cut with certainty; however, the debate remains whether the Fed will cut by 25 or 50 basis points. The incoming economic data has tipped the scales towards the latter, but the odds remain about 50/50. We will receive updated Consumer Price Index (CPI) and Producer Price Index (PPI) readings next week, which are sure to provide more insight into the Fed's plans.



[1]The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at manufacturing firms nationwide. It is considered a key indicator of the state of the U.S. economy.

[2]The Beige Book is a Federal Reserve publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from each District's sources.

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Michael Olin Clark. Sr. Advisor
moclark@1919ic.com

Ryan Schutte, CFA, CFP®, VP, Sr. Investment Associate
rschutte@1919ic.com

Abigail McKenna, Portfolio Administrator
amckenna@1919ic.com