

September 16, 2024

## The Age of Productivity

Equity markets certainly had an excellent week! Despite receiving some higher than expected inflation data last week, investors appear fully convinced that the Federal Reserve is their friend. The only question is how good a friend. Well, they will find out on Wednesday, when the Federal Reserve Open Market Committee concludes its policy-setting meeting. The question is, will they cut rates by 25 or 50 basis points? The Fed has been conservative in the past, and its primary job is not to be a friend to the market but to maintain *orderly* markets. As readers will see in the table below, equity markets have been quite strong for some time.

Index	Total Return (%)		
	Prior Week	Year-to-Date	1-Year
<b>S&amp;P 500</b>	4.06	19.13	27.80
<b>S&amp;P 500 Equal Weighted</b>	2.73	12.02	21.22
<b>Dow Jones Industrial Average</b>	2.60	11.35	22.07
<b>NASDAQ Composite</b>	5.98	18.43	29.00

Bank of America recently reported that their private clients have 63% of their portfolios in equities, up from 60% earlier this year and significantly higher than the long-term average of 56%. It should not surprise anyone if we experience some market volatility around the rate announcement. If the market falls, we believe it will most likely be temporary.

### Economics

The United States economy appears to be gradually slowing or perhaps moving into a neutral state. The growth slowdown has not been drastic enough to be worrisome, but it has been enough for the Fed to ease its monetary policy stance.

*“Productivity isn’t everything, but in the long run, it’s almost everything.”* In his 1990 book, *The Age of Diminished Expectations*, Paul Krugman argues that a country’s prosperity and its citizens’ future well-being depend on increasing productivity. We have written about this topic in the past, taking the position that we are positive about the future because of the potential for AI-fueled productivity gains. Before we delve into this topic further, a definition will be necessary. “Total factor productivity” is a measure of the share of output that increases in capital and labor inputs cannot explain. This mostly depends on innovation and improvements in technology. Productivity in most developed economies has underwhelmed for some time now. It has become a hot topic lately for many reasons, not the least of which is due to productivity’s disinflationary benefits. It is the staple of a strong and growing economy. We thank the International Monetary Fund for taking up the cudgel and extensively studying the topic.

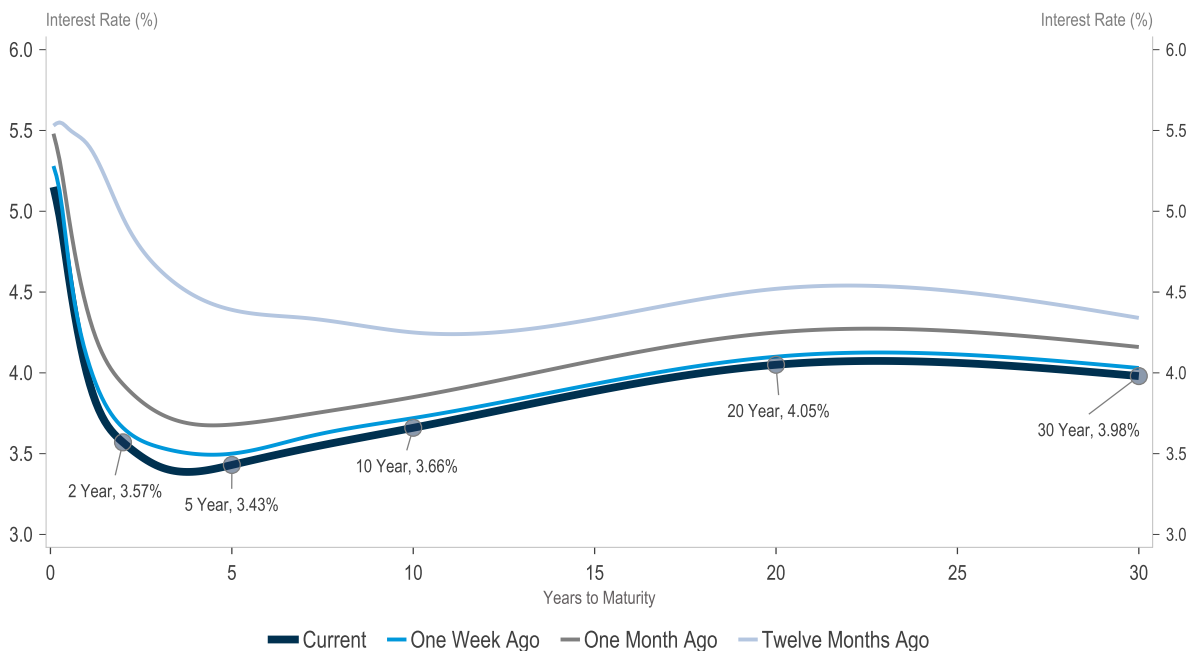
# Weekly Market Insights

## Conclusion

U.S. equity markets appear to be in good shape and look poised to remain so for the foreseeable future. The Fed moving forward with at least one rate cut is as sure a bet as can be made now. The only question is by how much. As we warned earlier, it is possible that we may see heightened market volatility after the Fed concludes its meeting, but that should not worry investors. We will continue to study and write about productivity as it is fundamental to economic growth and prosperity. As always, we welcome your comments and thoughts.

## 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 9/13/2024

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