Weekly Market Insights

October 7, 2024

Economic Statistics Bolster Confidence!

Financial Markets

Last week proved to be a big confidence builder for the U.S. economy. Friday's job numbers provided investors with a strong sense that the Federal Reserve's efforts are working and that a soft landing is becoming even more likely. As you will note from the table below, markets didn't break any performance records but ended the week on a positive note.

	Total Return (%)			
Index	**Friday**	**Prior Week**	**Year-to-Date**	**1-Year**
S&P 500	0.92	0.26	21.87	36.89
S&P 500 Equal Weighted	0.76	-0.20	14.75	30.61
Dow Jones Industrial Average	0.84	0.09	14.03	30.42
NASDAQ Composite	1.22	0.12	21.51	38.07

Economic releases showing surprising economic growth and employment strength fueled markets last week. The S&P 500 sector performance shows significant dispersion under the surface.

	Total Return (%)
S&P 500 Sector	**Prior Week**
Energy	7.01
Communication Services	2.23
Financials	1.14
Utilities	1.09
Industrials	0.53
Information Technology	0.07
Health Care	-0.89
Consumer Discretionary	-1.24
Consumer Staples	-1.54
Real Estate	-1.76
Materials	-1.93

Economics

As we wrote earlier, real economic data bolstered investor confidence, suggesting that Fed policy is working and that the most likely outcome is a soft landing. The most convincing statistic for investors was undoubtedly the stronger-than-expected jobs report. Specifically, the U.S. economy created 254,000 new jobs in September, around 100,000 more than anticipated, and there were upward revisions to the prior two months. To top it off, the unemployment level unexpectedly declined to 4.1%. Achieving maximum employment is one-half of the Fed's dual mandate, and Friday's employment report must have provided the FOMC members with some confidence. However, we don't think last week's economic releases would convince the Fed to stop easing quite yet, perhaps just not by 50 basis points like they did with their first cut. Those concerned about another wave of inflation were relieved to see the end of the Longshoremen's strike. Most can still remember the long, expensive holdup of commerce when they last went on strike.

Over the long term, the outlook for the United States economy may be quite bright. We continue to believe productivity growth will be a long-term driver for the U.S. economy. Two interesting facts on this topic. 1) U.S. companies have been investing heavily in technology. 2) The commerce department has been reporting an exceptionally large number of new business license requests. Both could provide boosts to efficiency and competitiveness. Even if a small percentage of these efforts succeed, it would make a big difference.

European economies are generally trailing the United States. It is reasonable to expect the European Central Bank (ECB) to follow the Federal Reserve in easing at their next meeting. China is the big question mark. We write about China almost every week, so this week, we will say that we have seen no substantial change in the country's long-term outlook.

Conclusion

While the global economy seems to be in good shape, there are some notable exceptions—China due to obvious reasons and the Middle East due to the escalating conflict. We continue to believe that the United States presents the most favorable investment environment, but Europe is a region that requires close monitoring. The upcoming election has the potential to significantly influence the global economy, and we look forward to discussing its impact in future updates.

Yield Curve Update

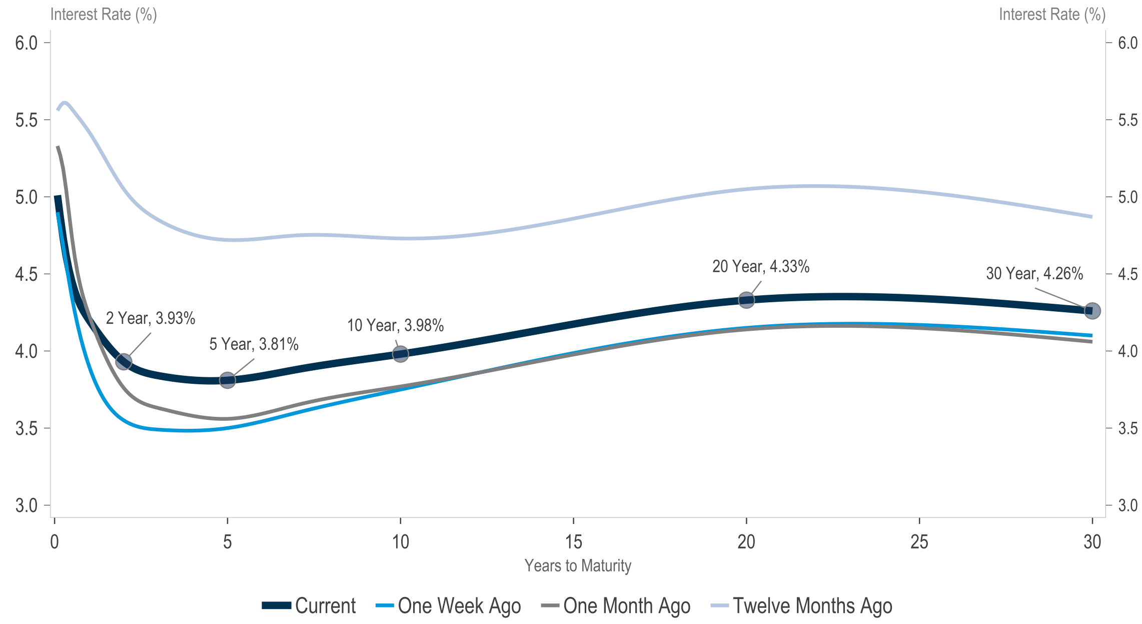
Yields rose steadily throughout the week on the heels of solid economic data and spiked higher after Friday's surprisingly strong employment report. The Treasury yield curve experienced a flattening move, with the 2-year yield rising 36 basis points and the 10-year yield rising 22 basis points relative to the prior week. The 2-year/10-year yield spread declined from positive 19 basis points to 5.

Friday's employment report indicated a notable pick up in hiring, with payrolls growing by 254,000 in September. The reported number was significantly higher than consensus estimates, calling for 140,000 to 150,000 and August's 159,000 print. Furthermore, job growth for the prior two months was revised higher, and the unemployment rate dropped to 4.1%. Friday's more robust-than-expected employment report came after consecutive days of surprisingly solid economic data. Of note, job openings unexpectedly increased, ADP payroll growth accelerated, unemployment claims remained low, and the ISM Services PMI posted its highest reading since February 2023.

Through Thursday, 2-year and 10-year yields rose by around 10 basis points but spiked higher after reporting Friday's robust labor market data. Specifically, the more monetary policy-sensitive 2-year yield jumped 20 basis points, while the 10-year rose 10 basis points. With inflation trending sustainably towards 2%, the Federal Reserve's attention is now squarely on the labor market. September's employment report provided convincing evidence that labor market conditions are still solid. While this report alone does not take further rate cuts off the table, it decreases the chances of another "jumbo" 50 basis point cut at their next meeting in November. Market expectations adjusted accordingly, with the Fed Funds futures pricing just two cuts before year-end, down from three one week earlier. The Fed meeting is still about a month away, and a lot can change between now and then. Next week, we will get September's Consumer Price Index (CPI) and Producer Price Index (PPI) reports for another update on inflation and a glimpse into the data-dependent Fed's thinking.

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 10/4/2024

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

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