The Weekly Market Update – 9/9/24: Is September Weakness a Repeat of August?

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,408.42	-4.25%	-0.95%	13.39%	19.98%	5,667.20	4.8%
Dow Jones Industrial Average	40,345.41	-2.93%	3.14%	7.05%	16.20%	41,563.08	3.0%
NASDAQ Composite	16,690.83	-5.77%	-5.87%	11.19%	18.92%	18,647.45	11.7%
Russell 2000	2,091.41	-5.69%	2.13%	3.17%	10.09%	2,442.74	16.8%
MSCI EAFE (USD)	2,383.01	-2.87%	2.95%	6.57%	12.98%	2,453.44	3.0%
MSCI Emerging Markets (USD)	1,074.89	-2.28%	-1.05%	5.00%	9.65%	1,444.93	34.4%
Bloomberg Commodity Index	93.72	-2.47%	-7.20%	-5.00%	-11.61%	237.95	153.9%
Barclays U.S. Aggregate Bond	94.13	1.22%	4.64%	2.65%	6.03%	112.07	19.1%

Source: FactSet

U.S equities traded lower as the August jobs report missed expectations, stoking economic uncertainty. According to data from the Bureau of Labor Statistics (BLS), August nonfarm payrolls (jobs) increased +142 thousand (K), which was lower than the +160K expected. The unemployment rate improved to 4.2% from 4.3% in July but remains well above the 3.7% rate at the beginning of the year. In addition, previously reported monthly jobs data for June and July were revised lower by a combined -86K. When combined with the August report, the 3-month average of monthly jobs additions moved to +116K, the lowest trend since June 2020 and also lower than any 3-month period from 2015 through 2019 (5 years pre-pandemic). August was the 2nd consecutive disappointing monthly jobs report, feeding investor caution and indicating potentially weaker economic data ahead. The widely followed S&P 500 dropped -1.7% on Friday (9/6/24) after the report, extending a weekly decline that reached -4.2% on Friday. This latest decline mirrored a similar drop in early August (S&P 500 -6.1% over the first three days) and also corresponded with a weak jobs report (July). Early August was part of 2024's largest S&P 500 peak-to-trough decline, which was -8.5% from 7/16/24 to 8/5/24. The August decline aligned with a jobs slowdown and also elevated valuations (especially for technology-centric industries). But later in August, a few large retailers, while highlighting strong consumer trends, reported solid July quarter earnings results, and previously reported second quarter U.S. economic growth (gross domestic product, or GDP) was revised higher to +3.0% from +2.8%. By the end of August, the S&P 500 recovered the early decline and gained +2.3% for the month (although it did not quite reach the 7/16/24 all-time high). The August rally, however, continued a change in sector leadership that began in mid-July. Since 6/30/24 (through 9/6, the third quarter to-date), the S&P 500 dropped -1.0%, but Real Estate (+13.3%), Utilities (+10.8%), and Financials (+7.4%) all posted strong gains, while the Technology sector decreased -8.0%. We believe that September weakness could continue, especially the rotation into more diversified sectors, with a focus on defensive and interest rate-sensitive sectors.

Lower interest rates are coming. Since 6/30/24, the U.S. 2-year Treasury yield (TY), a market-traded short-term interest rate, has moved to 3.67% (9/9/24) from 4.72%, and the 10-year TY (long-term interest rate) has moved to 3.72% from 4.37%. Investors anticipate that the Federal Reserve Bank (Fed) will begin moving its fed funds (very short-term overnight rate) interest rate target range lower at its next Fed meeting in nine days on 9/18/24. Short-term rates relative to long-term rates made a more dramatic move lower this summer. We believe this indicates that investors believe the September cut will be the first of many, and that inflation fears have subsided. We continue to expect a -0.25% drop in the fed funds target (to 5.00% to 5.25%) next week, but the 2-year TY suggests there will be more cuts ahead.

The August reading for consumer inflation is due Wednesday with some improvement expected. The BLS' consumer price index (CPI) report for August will be the last key reading on consumer inflation prior to the Fed meeting next week. The FactSet consensus estimate is for the CPI to increase +2.6% year-over-year (Y/Y), vs. +2.9% in July, but core CPI (excludes food and energy) is estimated to remain flat at +3.2% Y/Y. On a month-to-month (M/M) basis, both are expected to increase +0.2% (which is +2.4% annualized). Recent Fed commentary reflects their view that inflation is now less of a concern than employment trends, but the report will be watched closely.

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The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities. We define "defensive" sectors as sectors including many companies that can produce more stable results through weaker economic cycles as there products and services are relatively more essential. Traditionally, we view Consumer Staples, Utilities, and Health Care as defensive sectors, although some companies in these sectors are less defensive than others, and some companies in other sectors have defensive qualities as well. We define interest-rate sensitive sectors as sectors including companies that access capital markets to grow, and also often pay above average dividend yields. This includes sectors such as Real Estate, Financials, and Utilities.

U.S. economic growth: Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. The most recent GDP report can be found at www.bea.gov. It is reported by the U.S. Bureau of Economic Analysis (BEA). Personal consumption expenditures (PCE) measure consumer spending on goods and services during the period, and is a component of GDP.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The minutes from the most recent FOMC meeting is here. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.