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WEALTH MANAGEMENT

The Weekly Market Update – 9/23/24: Fed Lifts Animal Spirits Again

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,702.55	1.36%	4.43%	19.55%	26.51%	5,713.64	0.2%
Dow Jones Industrial Average	42,063.36	1.62%	7.53%	11.60%	21.14%	42,063.36	0.0%
NASDAQ Composite	17,948.32	1.49%	1.22%	19.56%	27.88%	18,647.45	3.9%
Russell 2000	2,227.89	2.08%	8.80%	9.91%	17.28%	2,442.74	9.6%
MSCI EAFE (USD)	2,420.93	0.42%	4.59%	8.26%	14.78%	2,453.44	1.3%
MSCI Emerging Markets (USD)	1,106.44	2.23%	1.86%	8.08%	12.86%	1,444.93	30.6%
Bloomberg Commodity Index	98.16	2.05%	-2.81%	-0.50%	-7.43%	237.95	142.4%
Barclays U.S. Aggregate Bond	94.36	-0.25%	4.90%	2.90%	6.28%	112.07	18.8%

Source: FactSet

The Fed delivered 0.50% of interest rate cuts despite solid economic data. After weeks, if not months, of prepping investor expectations, the U.S. Federal Reserve Bank (Fed), on 9/18/24, reduced its overnight bank lending fed funds interest rate target for the first time since March 2020. The Fed had held the target range at a relatively elevated level of 5.25% to 5.50% for 14 months (since July 2023), but after last week's move, the new target range is 4.75% to 5.00%. U.S. equities surged on the news (including a +1.7% gain for the widely followed S&P 500 equity index on Thursday), and the S&P 500, Dow Jones Industrial Average, and Equal Weight S&P 500 all closed at all-time highs during the week. While we had not ruled out a 0.50% rate cut at the September meeting, we still expected the Fed to start with a more modest quarter point reduction because larger-than-0.25% rate cuts are often associated with a much weaker economy and growing recession fears. But Fed Chair Jerome Powell, in his post-meeting press conference, outlined a need to "recalibrate" interest rate policy as inflation trends have improved significantly in 2024, allowing the Fed to shift its policy focus to the labor market. Along with its rate cut announcement, the Fed updated its Summary of Economic Projections (SEP), which reflect Committee member estimates about the expected levels of economic growth, inflation, unemployment, and interest rates. Compared to the previous SEP estimates in June, the latest estimates were lower for inflation and higher for the U.S. unemployment rate, while Fed estimates for 2024 and 2025 U.S. economic growth (as measured by gross domestic product, or GDP) were relatively unchanged. However, the Fed sees its targeted fed funds interest rate target dropping to 4.40% and 3.40% at year-end 2024 and 2025, respectively, indicating 0.50% of additional rate cuts this year and 1.00% in 2025. In our view, last week's 0.50% interest rate reduction could reflect some concern about weakening labor data (monthly jobs growth has decelerated, and previously reported jobs data in 2023 and early 2024 were revised substantially lower). The Fed's larger-than-expected move perhaps gets them ahead of the curve if the labor market decelerates further, and also sends a signal to investors that the Fed is prepared to aggressively lower interest rates, if necessary.

Third quarter (3Q24) U.S. GDP growth is tracking above estimates. For at least the past four quarters, predictions of slowing U.S. economic growth have proved elusive. Strong consumer spending drove better-than-expected GDP growth in the second half of 2023, and 2Q24 GDP growth of +3.0% also beat estimates. In the current quarter (3Q24), ending in one week, growth estimates have also trended higher. The FactSet consensus estimate for 3Q24 GDP growth was +1.8% as of 9/20/24, up from +1.5% at the end of June, and the Atlanta Federal Reserve Bank's GDPNow estimate, which updates the current quarter GDP growth trend as monthly data is reported, was +2.9% as of its 9/18/24 report. It appears that consumer spending continues to provide economic resilience, even as many U.S. companies express some caution ahead.

In the final week of September, we are watching company comments at many scheduled Wall Street investor conferences, as well as a key report showing August consumer spending and inflation data. It's an active week for Wall Street conferences, which give companies an opportunity to update business trends near the end of the third quarter. This can lead to equity market volatility if companies adjust investor expectations. On Friday, the Bureau of Economic Analysis (BEA) will release consumer spending data that is expected to slow vs. July, and the BEA's PCE inflation is expected to show an annual increase of +2.3%.

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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.

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.

On a quarterly basis the Fed publishes a Summary of Economic Projections (SEP), which reflects economic projections of Federal reserve Board members and Federal Reserve Bank presidents under individual assumptions. Although these individual assumptions do not reflect official Fed policy, the Fed publish the range and median estimates of the individual projections. We believe this gives an accurate view of collective Fed expectations at the date of the published projections.

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 U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). 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.

The U.S. Bureau of Economic Analysis (BEA) published monthly data on consumer income and spending. Personal income is income from all sources, except realized or unrealized capital gains. Personal outlays includes consumer spending on goods and services and interest and transfer payments.
The Federal Reserve Bank of Atlanta publishes a current quarter U.S. economic growth, to track real (inflation adjusted) gross domestic product, or GDP. GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow – the estimate is based solely on the mathematical results of the model.