The Weekly Market Update – 9/30/24: Tech Improves in September, But Sector Rotation Intact

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,738.17	0.62%	5.09%	20.30%	27.30%	5,745.37	0.1%
Dow Jones Industrial Average	42,313.00	0.59%	8.17%	12.27%	21.86%	42,313.00	0.0%
NASDAQ Composite	18,119.59	0.95%	2.18%	20.71%	29.10%	18,647.45	2.9%
Russell 2000	2,224.71	-0.14%	8.64%	9.75%	17.11%	2,442.74	9.8%
MSCI EAFE (USD)	2,506.69	3.54%	8.30%	12.10%	18.85%	2,506.69	0.0%
MSCI Emerging Markets (USD)	1,174.52	6.15%	8.13%	14.73%	19.81%	1,444.93	23.0%
Bloomberg Commodity Index	100.26	2.14%	-0.72%	1.64%	-5.44%	237.95	137.3%
Barclays U.S. Aggregate Bond	94.29	-0.07%	4.82%	2.83%	6.21%	112.07	18.9%

Source: FactSet

Ongoing third quarter (3Q24) sector rotation drove September gains for the S&P 500 equity index despite weakness to begin the month. After the index dropped -4.2% to begin September (its largest one-week decline in 2024), equities rallied for three straight weeks and the S&P 500 was up +1.6% for the month with one day remaining. We attribute recent equity market gains to a market view that a U.S. economic "soft landing" (no recession) will support the Federal Reserve Bank's (Fed) plan to gradually lower short-term interest rates (fed funds) and, at the same time, be prepared to deploy more aggressive rate cuts if the economy falters. We often look to equity performance at the sector level (as defined by MSCI's Global Industry Classification Standards, or GICS) to assess how investor expectations can change. In September (through 9/27/24), 8 of 11 sectors posted gains, led by Consumer Discretionary, Utilities, and Communication Services. The three negative sectors were Energy, Health Care, and Financials. While the Technology (Tech) sector did not lead the market in September, its monthly gain of +1.9% beat the index, and several tech-centric stocks in other sectors performed better in recent weeks. Since the end of June (6/30/24 to 9/27/24, 3Q24 to-date), the S&P 500 increased +5.1% (not including dividends), which compared to the first-half (1Q24 & 2Q24) gain of +14.5%. But the Tech sector, after a first-half increase of +27.8%, was up only +0.9% in the third quarter. 3Q24 sector gains (through 9/27) were led by Utilities +18.0%, Real Estate +15.4%, and Industrials +10.6%. When investors ask the question, "Can the S&P 500 move higher without Technology leadership?" the short-term answer is yes, but we believe that a pull-back in equities is possible in October. While the S&P is set to have a positive September for the first time in five years, Octobers have also been volatile, with a down month in four of the past eight Octobers. Potential market headwinds include election uncertainty and a weakening labor market.

In August, year-over-year (Y/Y) "core" inflation (excludes food and energy prices) remained elevated, but month-to-month (M/M) data indicated progress. The personal consumption expenditures price index (PCE PI), the Fed's preferred measure of consumer inflation (reported monthly by the Bureau of Economic Analysis), increased +2.2% Y/Y in August compared to +2.5% and +2.4% in July and June, respectively. August prices for goods fell -0.9% (mostly energy, which dropped -5.0% Y/Y), while prices for services increased +3.7%. Excluding energy and food, core PCE prices increased +2.7%, a slight uptick from +2.6% Y/Y in each of the prior two months. On the surface, while sustained inflation below +3.0% is a positive development, it remains stubbornly above the Fed's +2.0% target. But when viewed on a M/M basis, both PCE PI and core PCE increased just +0.1%, and have been at +0.1% or +0.2% for four consecutive months. This tells us that inflation pressures are easing and, for now, allows the Fed to lower interest rates more aggressively, with the rate-cutting cycle now underway.

As the calendar rolls to October, we believe economic data will drive near-term investor sentiment, with Friday's September employment consequential. The FactSet consensus (from Wall Street economists) estimate for net new nonfarm payrolls (jobs) is +140 thousand (K), in-line with +142K in August. The estimate is lower than both the average monthly increase over the prior six months (+164K) and throughout 2023 (+251K). This indicates slowing jobs growth but, thus far, in an orderly fashion that has not weighed on sentiment.

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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. We define a "soft landing" as the U.S. economy (as measured by annual inflation-adjusted ("real") GDP) that remains positive but grows below the 2.3% average over the five years 2014 to 2019 (prior to the pandemic).

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 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 National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months" and also looks at the depth, diffusion, and duration of the downturn.