The Weekly Market Update – 8/19/24: Effectiveness & Transmission of Monetary Policy

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,554.25	3.93%	1.72%	16.45%	21.04%	5,667.20	2.0%
Dow Jones Industrial Average	40,659.76	2.94%	3.94%	7.88%	14.34%	41,198.08	1.3%
NASDAQ Composite	17,631.72	5.29%	-0.57%	17.46%	22.90%	18,647.45	5.8%
Russell 2000	2,141.92	2.93%	4.60%	5.67%	6.93%	2,442.74	14.0%
MSCI EAFE (USD)	2,374.84	3.99%	2.60%	6.20%	7.98%	2,418.31	1.8%
MSCI Emerging Markets (USD)	1,093.65	2.84%	0.68%	6.83%	4.46%	1,444.93	32.1%
Bloomberg Commodity Index	95.71	0.21%	-5.23%	-2.97%	-10.83%	237.95	148.6%
Barclays U.S. Aggregate Bond	92.94	0.51%	3.32%	1.35%	3.79%	112.07	20.6%

Source: FactSet

The Federal Reserve Bank's (Fed) Jackson Hole Symposium is themed "Reassessing the Effectiveness and Transition of Monetary Policy." The annual event begins this week and runs from August 22nd to the 24th, with Fed Chair Jerome Powell's remarks scheduled Friday (8/23) morning. We expect Mr. Powell to reinforce expectations for the start of Fed interest rate cuts in September (the Fed sets a target range for its overnight bank lending fed funds interest rate target, and next meets on 9/17-18). While investors debate the expected size of the first Fed rate cut, either 0.25% or 0.50% (we are in the 0.25% camp) from the current 5.25% to 5.50% fed funds target range, we expect Mr. Powell to remain noncommittal on that issue, connecting rate decisions to ongoing economic data, but repeating that, over time, the Fed sees lower fed funds rates to a "neutral" level. But given the 2024 theme of "effectiveness," Chair Powell and the Fed could explore how the U.S. economy, despite 5.25% of interest rate hikes from March 2022 to July 2023, continued to grow above-trend and not only avoid a recession thus far, but even exceeded "soft landing" expectations. Is it different this time? The U.S. economy in 2024 versus past cycles relies more on services and software and less on manufacturing and other capital-intensive investment, perhaps limiting the restrictive impact of higher interest rates. In addition, many of the largest U.S. companies hold net cash positions (more cash than debt) and can self-fund growth and expansion. Business conditions are also boosted by high levels of government spending. For consumers, many homeowners refinanced mortgages at much lower fixed interest rates, locking in relatively low monthly payments, easing constraints on monthly budgets. On the other hand, high interest rates appear to have weighed on new home construction, manufacturing expansion, vehicle sales, and credit delinquencies, which are expected from higher interest rates. Does the Fed believe that it has the necessary tools (interest rate targets and open market purchases and sales of Treasuries and mortgages to adjust liquidity) to guide inflation and employment? We await the Jackson Hole discussion.

Equity markets reject immediate recession fears and post the best weekly gains of 2024. The widely followed S&P 500 index surged +3.9% last week (ended 8/16/24), its best weekly gain since November 2023. This followed four consecutive weekly declines (back to mid-July) and gains were driven by July retail sales data that exceeded expectations and consumer inflation (consumer price index, or CPI) that increased +2.9%, the lowest Y/Y increase in more than three years. While the index level at 5,554 remained 2.0% below its mid-July all-time closing high of 5,667, it is now positive both in August and the third quarter (3Q24). We expect ongoing volatility due to election uncertainty, a slowing labor market, and high valuations, but we see ongoing investor support due to solid corporate earnings reports and expectations for lower interest rates. We recommend increasing diversification across sectors and rebalancing portfolios.

The week of 8/19/24 begins with the Democratic National Convention (DNC) and ends with the Fed's Jackson Hole conference. We expect the DNC to provide more details on the Harris/Walz economic platform, allowing investors to better compare and contrast the Democrat and Republican platforms. Many believe the real election begins post-Labor Day, which now is two weeks away. The Fed will discuss the state of the U.S. economy and inflation and likely will further set policy expectations for the balance of 2024.

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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 Bank of Kansas City's Economic Policy Symposium in Jackson Hole, Wyoming, is one of the longest-standing central banking conferences in the world. The event brings together economists, financial market participants, academics, U.S. government representatives, and news media to discuss long-term policy issues of mutual concern.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. 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.

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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.

We define an economic “soft landing” as U.S. GDP growth that tis below the 5-year pre-pandemic average of 2.2% to 2.3% but remains positive near 1%.

Earnings growth. We refer to the weighted average (based upon equity market capitalization) of the earnings per shares (EPS) of all S&P 500 companies compared to the prior period (generally year-over-year). We use data as reported in FactSet.

The U.S. Census reports annualized monthly data on housing starts, permits, and completions. It is a widely followed measure to track construction activity in the residential housing market. New home sales measures sales of new single-family homes and is a measure of the demand for housing. Home price data is monitored by the S&P CoreLogic Case-Shiller Home Price Index. Retail sales is reported monthly by the U.S. Census (Advance Estimates of U.S. Retail and Food Services, compiled from survey to 4,800 retail and food service firms.