Ameriprise Financial

Weekly Market Perspectives

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Stocks Stuck in Neutral as Investors Await Key Inflation Reports

The S&P 500 Index posted its first down week in three weeks, dropping 1.3% and falling back below its 50-day moving average. The NASDAQ Composite also closed lower last week, falling 1.9% and moved back below its 50-day moving average. Across the other major U.S. averages last week, the Dow Jones Industrials Average closed down 0.8%, while the small-cap focused Russell 2000 Index sank 3.6%.

While mega-cap Tech was mostly higher on the week, Apple Inc. was down roughly 6.0%. As a result, the largest stock by market capitalization in both the S&P 500 and NASDAQ weighed on performance across each broad U.S. stock benchmark last week. In addition, Apple's weak performance pressured Information Technology more broadly, contributing to the S&P 500 sector closing the week lower by 2.3%. A Chinese ban on iPhone use at government agencies and demand concerns regarding potentially higher prices for premium models of the new iPhone 15 dampened sentiment. Apple's annual fall launch event will be held this Tuesday, where it is expected to unveil new iPhone and Apple Watch models ahead of the all-important holiday shopping season.

Energy rises to the top of performance charts

Elsewhere across S&P 500 sectors, Energy (+1.4%) rose to the top of the performance charts on the week, as West Texas Intermediate (WTI) oil closed at $87.51 per barrel, gaining +2.3% last week and hitting its highest level since November 2022. Announcements of longer-than-expected production cuts from Saudi Arabia and Russia helped place a bid under crude and contributed to sending Energy stocks higher. Gold ended lower last week following two straight weeks of gains.

Investors seek relative safety of the U.S. dollar

On the currency front, the U.S. Dollar Index again moved higher last week, recording its eighth straight weekly gain and hitting its highest level since March. Conversely, the euro has fallen for eight consecutive weeks and is on its longest losing streak versus the dollar since 2014, when the European Central Bank (ECB) took its key deposit rate into negative territory for the first time. Today, slowing economic growth in Europe and concerns the Eurozone may soon be headed for a recession have currency traders flocking to the safety of the U.S. dollar. From a stock perspective, the S&P 500 Index has outperformed the Euro Stoxx Index by roughly +1.0% over the last month.

In China, the offshore yuan hit 7.36 per U.S. dollar last week, near its lowest level since the inception of the offshore market in 2010. Late last week, the People's Bank of China (PBoC) set the yuan fixing rate at a two-month low, driving speculation the central bank is comfortable seeing China's currency gradually depreciate against the U.S. dollar. Similarly, the on-shore yuan weakened to a 16-year low last week. Increasing concerns about China's growth trajectory, property market stress, growing trade issues with the West, and divergent monetary policies from the U.S. have investors on guard regarding China. As a result, over the last month, the Hang Seng Index has underperformed the S&P 500 by over 5.0%, while China's Shanghai A Share Index has underperformed by over 3.5%. **Bottom line: Increased uncertainty**

regarding growth in Europe and China and the still solid economic picture in the U.S. have investors seeking the relative safety of the U.S. dollar, which has also translated into U.S. stock outperformance versus Europe and China over recent weeks.

Stock prices susceptible to periods of volatility until investors get a handle on rate policy

U.S. Treasury prices were generally weaker across the curve last week, though yields moderated by Friday's close, and after the 2-year yield rose back above 5.0% mid-week. Notably, while off its lows, the 10-year and 3-month yield curve inversion is still deeply inverted today, keeping recession risks elevated. Although conditions specific to the current environment may cause this recession indicator (i.e., an inverted yield curve) to be less valuable today, the upward movement in stock prices this year does not suggest the inversion in the yield curve is useless information or that a recession has been avoided. Investors are best served recognizing that the continued inversion in the yield curve points to an abnormal rate environment and that some level of caution across a portfolio is prudent given other macro uncertainties.

Back to stocks, the S&P 500 Index has moved around quite a bit over the last month without really going anywhere. Over the last month, the S&P 500 is basically flat on a price-alone basis. During that period, the Index moved down from as low as the 4,369 level near the middle of August to as high as above the 4,500 level at the end of August. Last week's more defensive tone in the market came from a few items. First, yields are again on the rise, which is pressuring long-duration assets like growth stocks. Next, August ISM services data beat expectations as activity expanded for the eighth straight month. New orders, business activity, supplier deliveries, prices paid, and employment components rose in August, suggesting a strong services economy could prompt the Fed to tighten monetary policy later this year. In our view, the ISM services data appears consistent with the Atlanta Fed's GDPNOW model, which currently forecasts Q3 GDP at an eyepopping +5.6%. And while the Fed's latest Beige Book pointed to modest economic growth in July and August, takeaways on the consumer, housing, and loan demand was mixed with positives and negatives. Here, too, the added color on the economy last week did not definitively remove the possibility of further rate hikes later this year, which is what investors likely want to see to push stock prices higher from here. **Bottom line: Until investors can get a better handle on rate policy heading into next year, stock prices may be susceptible to periods of volatility, particularly if stronger-than-expected economic data implies the Fed has more work to do.**

The week ahead

On Monday, U.S. exchanges will commemorate the 22nd anniversary of the 9/11 terrorist attacks with a moment of silence to honor the victims, survivors, and their families. This week's inflation reports will be the key economic items to watch, as the data should essentially lock in a Fed rate pause at the September meeting. Wednesday's release of the August headline Consumer Price Index (CPI) is expected to show an acceleration from July levels driven by higher gasoline prices. FactSet estimates forecast headline CPI rose +0.6% month-over-month in August versus the +0.2% pace in July. On a year-over-year basis, August headline CPI is expected to jump to +3.6% from the +3.2% pace in July. However, core CPI in August is expected to match July's month-over-month level of +0.2% and fall to +4.3% from +4.7% in July. **Bottom line: Consumer prices are expected to drop on a core basis for the third straight month.** Notably, headline and core consumer inflation are well off their 40-year highs, as each has trended in the right direction all year. Though some stickiness across core components and elevated energy prices will likely keep the Fed attentive to inflation risks through the rest of the year, this week's reports shouldn't alter the market's overwhelming expectation that the Fed pauses rate hikes at next week's meeting. Also, on the inflation front this week, August Producer Price inflation (PPI) reports are out on Thursday. Prices at the wholesale level are expected to increase modestly from July levels, driven partly by higher energy costs.

The New York Fed's latest Survey of Consumer Expectations (Monday), August retail sales (Thursday), preliminary September Michigan Sentiment (Friday), and the September 14th United Auto Workers (UAW) contract deadline with automakers will be the other key items that drive market action this week. If the Big Three domestic automakers (General Motors, Ford, and Stellantis) do not reach a labor agreement with the UAW by September 14th, the union's nearly 150,000 members across all three automakers have threatened to strike in unison. Contract proposals by the automakers to the UAW have thus far been summarily rejected. Outside of a last-minute deal, the prospects for a UAW strike appear

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high, in our view. The Anderson Economic Group estimates a ten-day UAW strike against all three automakers could cost the U.S. economy $5.6 billion. Four years ago, a UAW strike against GM alone lasted six weeks, costing the company $3.6 billion. GlobalData estimates that 450,000 vehicles could be lost in a strike against all three automakers over thirty days and 1.4 million cars lost in a strike that lasted 100 days. This compares to the roughly 2 million vehicles currently sitting on U.S. dealer lots.

Stock Market Recap

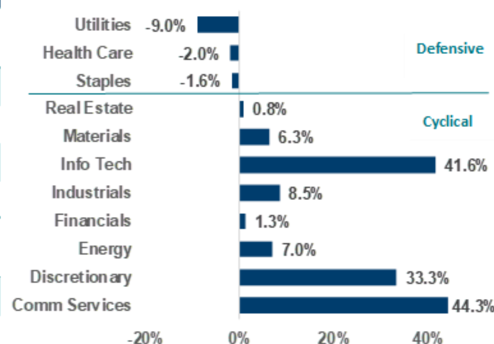
Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 4,457	-1.3%	-1.1%	17.4%	22.4	21.2	1.5	1.7
Dow Jones Industrial Average: 34,577	-0.7%	-0.4%	6.0%	22.4	19.6	2.1	2.1
Russell 2000 Index: 4,602	-3.6%	-2.5%	6.2%	36.3	34.9	1.5	1.3
NASDAQ Composite: 13,762	-1.9%	-1.9%	32.3%	38.6	31.5	0.8	0.9
Best Performing Sector (weekly): Energy	1.5%	3.6%	7.0%	9.5	14.0	3.7	3.9
Worst Performing Sector (weekly): Industrials	-2.9%	-2.4%	8.5%	21.7	21.9	1.6	1.7

Source: Factset. Data as of 09/08/2023

Bond/Commodity/Currency Recap

Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	-0.3%	-0.7%	1.1%
West Texas Intermediate (WTI) Oil: $87.51	2.3%	4.7%	9.2%
Spot Gold: $1,918.70	-1.1%	-1.1%	5.2%
U.S. Dollar Index: 105.09	0.8%	1.4%	1.5%
Government Bond Yields	**Yield Chg**		
	Weekly	**MTD**	**YTD**
2-year U.S. Treasury Yield: 4.98%	11 bps chg	13 bps chg	57 bps chg
10-year U.S. Treasury Yield: 4.26%	8 bps chg	17 bps chg	38 bps chg

Source: Factset. Data as of 09/08/2023. bps = basis points



Source: S&P Global, Factset. Data as of 09/08/2023

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A rise in **interest rates** may result in a price decline of fixed-income instruments held by the fund, negatively impacting its performance and NAV. Falling rates may result in the fund investing in lower yielding debt instruments, lowering the fund's income and yield. These risks may be heightened for longer maturity and duration securities.

The fund's investments may not keep pace with **inflation**, which may result in losses.

There are risks associated with **fixed-income** investments, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

The fund may invest significantly in issuers within a particular **sector**, which may be negatively affected by market, economic or other conditions, making the fund more vulnerable to unfavorable developments in the sector.

The products of **technology** companies may be subject to severe competition and rapid obsolescence, and their stocks may be subject to greater price fluctuations.

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An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

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The **Standard & Poor's 500 Index (S&P 500® Index)**, an unmanaged index of common stocks, is frequently used as a general measure of market performance. The index reflects reinvestment of all distributions and changes in market prices but excludes brokerage commissions or other fees. It is not possible to invest directly in an index.

The NASDAQ composite index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

The **Dow Jones Industrial Average (DJIA)** is an index containing stocks of 30 Large-Cap corporations in the United States. The index is owned and maintained by Dow Jones & Company.

The Russell 2000 Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the smallest 2000 securities in the Russell 3000.

The **US Dollar Index (USDX)** indicates the general international value of the USD. The USDX does this by averaging the exchange rates between the USD and major world currencies. This is computed by using rates supplied by approximately 500 banks.

The EURO STOXX 50 Index, Europe's leading Blue-chip index for the Eurozone, provides a Blue-chip representation of super-sector leaders in the Eurozone. The index covers 50 stocks from 11 Eurozone countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

The **Hang Seng Index** or HSI is a free-float market capitalization-weighted index of the sixty largest companies that trade on the Hong Kong Exchange (HKEx).

the **Shanghai Stock Exchange Composite Index**, is a stock market composite made up of all the A-shares and B-shares that trade on the Shanghai Stock Exchange (SSE). The index is calculated by using a base period of 100. The first day of reporting was July 15, 1991.

The **ISM Services PMI** (formerly the Non-Manufacturing NMI) is compiled and issued by the Institute of Supply Management (ISM) based on survey data. The ISM services report contains the economic activity of more than 15 industries, measuring employment, prices, and inventory levels; above 50 indicating growth, while below 50 indicating contraction.

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The **GDPNow** forecasting model provides a "nowcast" of the official GDP estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the U.S. Bureau of Economic Analysis. GDPNow is not an official forecast of the Atlanta Fed. 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.

The **Beige Book** is a summary and analysis of economic activity and conditions, prepared with the aid of reports from the district Federal Reserve Banks and issued by the central bank of the Federal Reserve for its policy makers before a Federal Open Market Committee meeting.

The **Consumer Price Index** (CPI) is an inflation indicator that measures the change in the total cost of a fixed basket of products and services, including housing, electricity, food, and transportation. The CPI is published monthly by the Commerce Department and is also commonly referred to as the cost-of-living index.

The **Core Personal Consumption Expenditures** (PCE) index is a measure of the prices paid by consumers for domestic purchases of goods and services, excluding the prices of food and energy.

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