Weekly Market Perspectives

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But more importantly, the committee may look to evolve its messaging on Wednesday to communicate that 'growth' (i.e., maintaining stable employment) has become a key factor in driving rate decisions moving forward, possibly even more than price stability (i.e., inflation)."

The Fed has more than enough evidence to cut rates this week.

Following the S&P 500 Index posting its worst week since Silicon Valley Bank collapsed in March 2023, the Index notched gains in every day of trading last week. As a result, the S&P 500 is back within 1.0% of its July record close. In addition, the NASDAQ Composite snapped a two-week losing streak, with Big Tech again leading stock gains. Helping drive stocks higher last week included tame inflation reports, traders jumping on oversold stock conditions from the previous week, positive AI-themed commentary from NVIDIA and Microsoft, as well as growing expectations for a "jumbo-sized" Federal Reserve rate cut this week.

Last Week in Review:

- The S&P 500 rose +4.1%, its largest one-week point and percentage gain since November 3rd, 2023. The Index is higher in four of the last five weeks.
- The NASDAQ gained an impressive +6.0%, its largest weekly percentage gain since November 3rd, 2023. NVIDIA (+15.8%), Amazon (+8.8%), and Microsoft (+7.2%) saw outsized gains on the week. Positive commentary on the AI theme at a Goldman Sachs conference and well-received earnings results from Oracle (+14.3%) drove Big Tech higher.
- The Dow Jones Industrials Average and Russell 2000 Index rose +2.6% and +4.4%, respectively.
- August headline and core consumer inflation came in mostly in line with expectations on an annualized basis, while month-over-month core inflation came in above expectations due to elevated shelter costs. Producer prices also came in mostly in line with expectations, with downward revisions for July. Taken in total, U.S. inflation trends continue to point to deceleration.
- The latest New York Federal Reserve Survey of Consumer Expectations showed one-year and five-year ahead inflation expectations unchanged. A preliminary look at September Michigan Sentiment showed an improvement in consumers' attitudes about current conditions and expectations. One year ahead inflation expectations ticked down in the report.
- Vice President Kamala Harris and former President Donald Trump exchanged a fiery round of barbs in their first (and maybe only) debate. Most presidential polls continue to show a tight race post-debate.
- U.S. Treasury prices rose as yields eased. Gold hit a new record high.
- West Texas Intermediate (WTI) crude ended flat following the previous week's steep declines, and the U.S. Dollar Index also ended mostly flat.

- Overseas, the European Central Bank (ECB) delivered a 25-basis point rate cut, as expected, following June's 25-basis cut. The ECB said it will remain data-dependent when evaluating future cuts.

As the Fed readies to cut its policy rate this week, it exposes the market's *Big Disconnect*.

As discussed above, the overall trend in inflation remains on a downward slope, providing the last bit of evidence needed to confirm a Federal Reserve rate cut this week. **In our view, the combination of weaker-than-expected (but still solid) updates on employment recently and last week's updates on inflation provide more than enough evidence for the Fed to confidently cut its policy rate by "at least" 25 basis points on Wednesday as it looks to begin its policy easing cycle.**

But more importantly, the committee may look to evolve its messaging on Wednesday to communicate that "growth" (i.e., maintaining stable employment) has become a key factor in driving rate decisions moving forward, possibly even more than price stability (i.e., inflation). As such, language in this week's updated policy statement may reflect more nods to slowing employment and policymakers' growing attention to supporting this side of their mandate. We also expect changes in the committee's dot plot, which will be included in the Fed's updated Summary of Economic Projections. Here, the committee, in aggregate, may show more members cutting rates earlier in the cycle or more aggressively than has been previously presented in prior surveys.

Taken in total, we believe the committee's first rate cut since March 2020, accompanied by policy language that shows the committee is attentive to slowing growth and a dot plot that potentially bakes in a few more rate cuts over the next few quarters, could be a positive for the stock market. Yet, how markets might initially react this week to such a scenario or other potential outcomes post-Fed meeting remains an open question.

Notably, we would draw investors' attention to a dynamic that is somewhat difficult to square based on assumptions for growth and rates moving forward. It centers around the market's expectations for pretty aggressive corporate profit growth in an environment where the Fed is expected to cut rates (with some estimates seeing 250 basis points worth of cuts over the next twelve months) to help combat slowing economic activity and potentially rising unemployment. While our base case view sees the Fed engineering a soft landing and lowering rates enough to keep economic growth positive for this year and next year, history is also not very kind to this view.

As we touched on last week, when the Fed starts to lower rates, a recession usually quickly follows, at least over the last few cycles. To be clear, current conditions don't line up exactly with history. They never do. The circumstances that led to above-trend growth, higher inflation, and higher rates (in response) are unique to the pandemic era and are generally well understood now. What is less understood is how these conditions normalize on the way back down, which is the condition the economy and financial markets are working through at the moment. **Thus, while history can act as a guide and insert some caution into one's investment strategy, measures of the past and how markets/economies reacted in previous cycles are not absolute in informing the future.**

That said, we do find it interesting that S&P 500 analyst profit estimates continue to climb higher when most see economic conditions slowing over the coming quarters. FactSet estimates show S&P 500 earnings per share (EPS) climbing to over $268 over the next twelve months. In addition, analysts see 2025 S&P 500 EPS rising by +15% over 2024 levels and 2026 S&P 500 EPS growing by over +12% above 2025 levels. In our view, S&P 500 profit estimates for periods longer than this year appear disconnected from the general outlook for the economy and rates over the coming quarters.

Notably, stock prices mostly move on profit "expectations," and right now, we believe expectations for next year don't synch well with our current view of the economy and rates. Thus, investors should expect more volatility as the market works to make a better connection between evolving macroeconomic conditions and the profit outlook. Yet, outside of a recession, profit growth could remain positive in 2025. And if a recession is avoided, rates ease, and employment trends remain stable, once profit expectations come back in line with fundamentals, stocks may see a tailwind that could benefit a broader set of companies/industries outside of Big Tech.

The Week Ahead:

All eyes are on the Federal Reserve's policy update on Wednesday. Along with its rate decision, investors will closely scrutinize the updated Summary of Economic Projections to see where policymakers believe rates and the economy are headed over time. Also, this week, the Bank of England (BOE) and Bank of Japan (BOJ) deliver their rate decisions.

- Market odds favor a 50-basis-point rate cut on Wednesday. If the Fed does decide to deliver a "jumbo-sized" rate cut this week, clear messaging around the committee's rationale and decision for the larger-than-normal cut will likely be critical in avoiding a negative reaction in financial markets.
- In the background, updates on retail sales, housing, and industrial/manufacturing production will keep investors busy.
- The BOE is expected to keep rates on hold after a surprise August cut; The BOJ is expected to hold rates steady.

Stock Market Recap

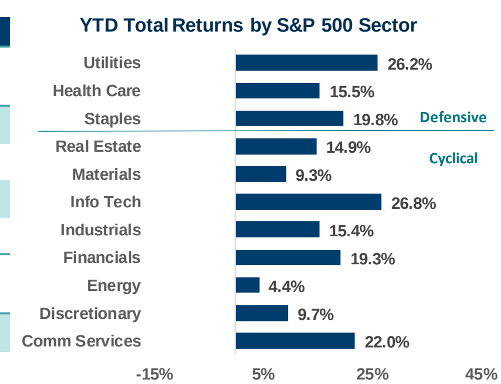
Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 5,626	4.1%	-0.3%	19.1%	26.3	22.7	1.3	1.5
Dow Jones Industrial Average: 41,394	2.6%	-0.4%	11.4%	23.6	20.3	1.8	2.0
Russell 2000 Index: 5,424	4.4%	-1.5%	8.7%	59.3	38.4	1.3	1.3
NASDAQ Composite: 17,684	6.0%	-0.1%	18.4%	39.7	37.1	0.7	0.8
Best Performing Sector (weekly): Info Tech	7.3%	-0.2%	26.8%	38.8	32.2	0.6	0.9
Worst Performing Sector (weekly): Energy	-0.7%	-6.2%	4.4%	12.5	11.0	3.4	3.9

Source: Factset. Data as of 09/13/2024

Bond/Commodity/Currency Recap

Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	0.5%	1.7%	5.2%
West Texas Intermediate (WTI) Oil: $68.65	0.1%	-7.9%	-4.5%
Spot Gold: $2,578.72	3.2%	3.0%	25.0%
U.S. Dollar Index: 101.11	-0.1%	-0.6%	-0.2%
Government Bond Yields	**Yield Chg**		
	Weekly	**MTD**	**YTD**
2-year U.S. Treasury Yield: 3.60%	-8 bps chg	-34 bps chg	-66 bps chg
10-year U.S. Treasury Yield: 3.66%	-6 bps chg	-26 bps chg	-23 bps chg

Source: Factset. Data as of 09/13/2024. bps = basis points



Source: S&P Global, Factset. Data as of 09/13/2024

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

Stock investments involve risk, including loss of principal. High-quality stocks may be appropriate for some investment strategies. Ensure that your investment objectives, time horizon and risk tolerance are aligned with investing in stocks, as they can lose value.

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.

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 New York Fed's **Survey of Consumer Expectations** (SCE) provides information about consumer expectations through three broad categories: inflation, labor market, and household finance.

University of **Michigan Consumer Sentiment Survey** is a rotating panel survey based on a nationally representative sample of households in the U.S. that measures how consumers feel about the economy, personal finances, business conditions, and buying conditions.

West Texas Intermediate (WTI) is a grade of crude oil commonly used as a benchmark for oil prices. WTI is a light grade with low density and sulfur content.

The **Summary of Economic Projections** is a quarterly report published by the Federal Reserve. The SEP includes projections for key economic indicators such as GDP growth, unemployment rate, inflation, and the expected path of the federal funds rate.

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