Weekly Market Perspectives

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Fed in Focus This Week: Is It Time To Adjust The Message?

Coming into the final day of trading last week, the S&P 500 Index and NASDAQ Composite were on track to post a positive week. Instead, losses last Friday reversed much of the gains made on Thursday to send each major U.S. stock average down for their second straight week. And after flirting with their 50-day moving averages earlier in the week, the S&P 500 and NASDAQ finished last week again below their key short-term trading threshold. That said, both indexes closed the week just fractionally lower, while the Dow Jones Industrials Average eked out a slight gain. With September roughly at the halfway point, stock returns appear to be tracking relatively in line with their historically weaker September trends. The S&P 500 Index is down 1.2% month-to-date, which is modestly worse than the 0.5% average September decline over the last twenty years but in line with the 1.5% average loss seen over the previous ten years. Given the steeper September declines over recent years, we believe stocks appear to be holding up relatively well this month, considering their weaker historical patterns. Yet, becoming too comfortable in a September return that is only halfway complete would be like ending a game at halftime. *It's not over until it's over.* Importantly, stocks have treaded water over the last three months, bouncing higher and lower without really going anywhere, as inflation, interest rates, and economic trends have provided a mixed picture for growth over the coming quarters.

Last week, Big Tech (a key driver to stronger market performance this year) ended mixed. Tesla saw a notable price boost following positive comments about its supercomputer prospects, while Apple declined slightly, facing a sell-the-news theme after its product event last week. Utilities (+2.7%) and Consumer Discretionary (+1.7%) led S&P 500 sectors on the week, while Information Technology (down 2.2%) and Industrials (down 0.6%) trailed. U.S. Treasury prices were slightly weaker last week, as yields rose and the 2-year Treasury yield ended above 5.0%. Gold finished marginally higher, and West Texas Intermediate (WTI) crude notched its third straight week of gains, ending above $90 per barrel for the first time since November 2022.

Fed likely to hold rates steady as CPI numbers bring no surprises

The August headline Consumer Price Index (CPI) rose +3.7% year-over-year, beating the consensus estimate of +3.6% and above July's pace of +3.2%. But core CPI (ex-food and energy) rose +4.3% year-over-year, in line with estimates and down from July's print of +4.7%. For the headline number, higher energy prices were the most significant contributor to boosting CPI, as energy prices rose +5.6% month-over-month. **Bottom line: While nothing in the August CPI print was too surprising, nothing in the report changed the market's view on Fed rate expectations either.** Notably, core inflation is running at over twice the level the Fed wants to see, which means the Federal Reserve is likely to amplify its higher-for-longer rate theme at this week's policy meeting.

However, mostly in line core inflation reports last week helped solidify the point that the Federal Reserve will likely hold rates steady on Wednesday. Notably, the August core Producer Price Index (PPI) showed inflation (ex-food and energy) moved lower by 0.2 percentage points to +2.2% year-over-year, down from +2.6% in July. That brought core PPI in August to its lowest level since

January 2021, adding further evidence price pressures are easing at the wholesale level, which should translate to helping control price pressures at the consumer level over time.

Outside of the U.S. inflation data, the European Central Bank (ECB) basically delivered a "dovish" hike of 25 basis points last week. The ECB's policy statement read: "*Based on its current assessment, the Governing Council considers that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target.*" That's a wordy way of saying ECB rate hikes are likely in the rearview mirror at this point, and the central bank is comfortable waiting out the eventual drop in inflation by leaving rates where they are now. **Bottom line: The ECB's decision and stance last week may be a precursor to what the Fed may start to communicate in the not-to-distant future. That is, policy rates have reached a sufficient level that, with time, the Fed believes will curb the last bit of inflation back to target.** We suspect investors would welcome such clarity in Fed messaging even though the end result could lead to slower economic growth and higher unemployment over time. However, that message is unlikely to materialize at this week's meeting, given core inflation is still much too high for the Fed's liking.

Retail sales and United Auto Workers strike also move markets

In other items that helped move markets, August retail sales were hotter than expected, and initial weekly jobless claims came in below consensus. A preliminary look at September University of Michigan consumer sentiment showed year-ahead inflation expectations dropping to +3.1%, down from +3.5% in August. That marks the lowest reading since March 2021. Although consumers remain tentative, and the report noted respondents saw a slowdown in disinflationary trends recently, five-year ahead inflation expectations dropped to +2.7% from +3.0% previously.

Finally, the United Auto Workers (UAW) began a targeted strike against three assembly plants for General Motors, Ford, and Stellantis. Automakers and the UAW couldn't reach a labor agreement before their contract expired on September 14th. As a result, more than 12,000 UAW members crossed the picket lines last Friday. The current UAW strike departs from its usual form, as the strike against all three domestic automakers simultaneously, instead of striking against one to help form a blueprint for the others, is a new twist this time around. **Bottom line: Record profits at automakers over recent years, potential growth in electric vehicles (which don't require as many UAW members to build), and years of contracts that have seen inflation-adjusted wages and benefits slip have led to more contentious negotiations between the UAW and automakers.** Industry experts believe a final deal in the range of a 25% to 30% wage increase and a reduction in temporary/tier system workers could help both sides find some common ground.

The week ahead

Frankly, it's all about the Fed this week. The Federal Open Market Committee (FOMC) meets on Tuesday and Wednesday and, as discussed above, is widely expected to hold its fed funds target rate steady at 5.25% to 5.50%. We believe investors' primary focus from the September meeting will be on Fed Chair Powell's press conference following Wednesday's release of the policy statement as well as an updated Summary of Economic Projections. The market will likely closely scrutinize the new "dot plot" and whether policymakers continue to see one more 25 basis point increase in 2023. And even more important than that, has the median rate projection for next year changed, and does it include rate cuts at some point?

Bottom line: In our view, Fed policy now comes down to the duration of higher rates and the effect and magnitude of the growth drag on the economy. Importantly, stocks could start moving more on the timing of potential rate cuts rather than whether the Fed will continue to hike rates from here or not. It's a small change, but one that begins to reflect the market has moved through a period of peak Fed hawkishness and onto an environment focused on rate impacts and the timing of when the Fed will cut rates to help support growth. Yet, that last part is clearly open for interpretation about where stock prices and the economy could be when the Fed finally begins cutting rates. Look for Mr. Powell to be peppered with questions at the Q&A section of his press conference on Wednesday about when and under what conditions the committee believes it would be appropriate to end its tightening campaign and begin thinking about cutting rates. **In our view, to engineer a soft landing for the economy, the Fed needs to start thinking about how it**

might stick the landing now. Though it may not be ready to share that strategy publicly, we suspect it may be time to start having some internal debate about what an exit strategy on tightening might look like.

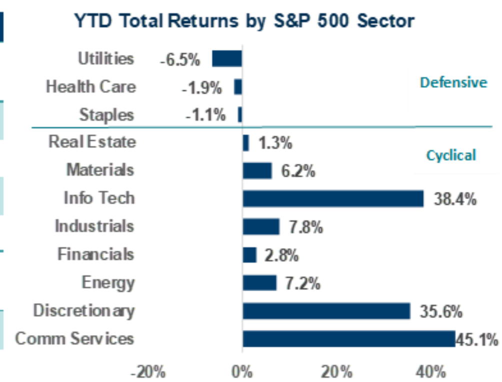
Outside of the all-encompassing Fed meeting, the Bank of England, Bank of Japan, and the People's Bank of China will also deliver policy updates this week. Home data and preliminary looks at September PMIs play in the background.

Stock Market Recap							
Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 4,450	-0.1%	-1.2%	17.3%	22.2	21.2	1.5	1.7
Dow Jones Industrial Average: 34,618	0.1%	-0.2%	6.1%	22.2	19.6	2.1	2.1
Russell 2000 Index: 4,590	-0.2%	-2.7%	6.0%	36.3	34.9	1.5	1.3
NASDAQ Composite: 13,708	-0.4%	-2.3%	31.8%	38.1	31.5	0.8	0.9
Best Performing Sector (weekly): Utilities	2.7%	3.1%	-6.5%	21.6	21.2	3.3	3.2
Worst Performing Sector (weekly): Info Tech	-2.2%	-4.3%	38.4%	33.9	27.3	0.8	1.0

Source: Factset. Data as of 09/15/2023

Bond/Commodity/Currency Recap			
Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	-0.3%	-1.0%	0.8%
West Texas Intermediate (WTI) Oil: $90.77	3.7%	8.6%	13.2%
Spot Gold: $1,924.10	0.3%	-0.8%	5.5%
U.S. Dollar Index: 105.32	0.2%	1.6%	1.7%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 5.02%	4 bps chg	17 bps chg	61 bps chg
10-year U.S. Treasury Yield: 4.33%	7 bps chg	24 bps chg	45 bps chg

Source: Factset. Data as of 09/15/2023. bps = basis points



Source: S&P Global, Factset. Data as of 09/15/2023

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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 **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.

University of **Michigan Consumer Sentiment Survey** is a rotating panel survey based on a nationally representative sample of households in the coterminous U.S. The minimum monthly change required for significance at the 95% level in the Sentiment Index is 4.8 points; for Current and Expectations Index the minimum is 6.0 points.

Producer Price Index (PPI) measures change in the prices paid to U.S. producers of goods and services. It is a measure of inflation at the wholesale level. The index is published monthly by the U.S. Bureau of Labor Statistics (BLS).

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