

# Weekly Market Perspectives

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“We believe investors should maintain a somewhat optimistic view of the U.S. economy and financial markets heading into yearend. Investing in opportunities across cyclical areas inside/outside of Technology, putting excess cash back to work in the market during potential periods of market stress, and locking in higher interest rates across bond allocations are strategies that could help investors navigate the final months of the year.”

## Good news is good news for investors.

The S&P 500 Index and NASDAQ Composite each edged out their fourth straight week of gains, avoiding breaking the streak after Friday's unexpectedly strong September jobs report. A port strike on the East and Gulf Coasts that had the potential to slow economic growth in the fourth quarter quickly ended with a temporary union agreement, while violence in the Middle East continued to simmer. Also, Federal Reserve Chair Jerome Powell said if the U.S. economy evolves broadly as expected, policy rates would likely return to a neutral level over time (i.e., neither restrictive nor stimulative for growth). However, the Chair was quick to point out that policymakers are not in a hurry to lower rates, and following last week's strong jobs data, odds now heavily favor a 25-basis point rate cut in November.

### Last Week in Review:

- The S&P 500 Index rose +0.3%. Over its four-week streak of gains, the Index is higher by +6.3%.
- The NASDAQ Composite gained +0.1%. The tech-heavy benchmark is higher by +8.7% over the last four weeks.
- Stock gains on the week were stronger across the Dow Jones Industrials Average (+0.8%) and the Russell 2000 Index (+1.5%). The Dow is up nearly +5.0% over its current four-week winning streak.
- Along with Big Tech, airlines, autos, banks, retail apparel, energy, and insurance performed well during the week.
- Government bond yields rose significantly, following stronger-than-expected labor data and falling odds of another outsized 50-basis point Fed rate cut next month. However, the 2-year/10-year Treasury spread remained positive, but barely.
- The U.S. Dollar Index strengthened against a basket of currencies.
- Gold ended slightly lower. In 2024, the precious metal is higher by over +28.0%, outperforming the S&P 500. In our view, rising U.S. debt levels, falling interest rates, a slowing U.S. economy, and an increasingly unstable geopolitical environment are key factors that could remain supportive for the noble metal over the next six to twelve months.
- West Texas Intermediate (WTI) crude settled higher, logging its best week since March 2023. Crude prices have jumped higher recently on growing anxiety that the current Middle East conflict across Israel, Gaza, Lebanon, and Iran continues to escalate to levels that may start to risk global crude supply. Roughly 20% of the world's oil supply runs through the Strait of Hormuz.
- Here at home, the International Longshoremen's Association agreed to suspend their strike until January 15<sup>th</sup>, which will allow cargo to move

again off the East and Gulf Coast ports. A tentative agreement boosts dock worker pay by about +62% over six years and gives time for negotiations to develop on other key issues, such as automation.

**Bottom line: A port strike that could have slowed growth and disrupted the economy and markets for a period in the fourth quarter has been avoided.** Notably, it's one less concern investors need to contend with through yearend.

- September nonfarm payrolls grew by an unexpectedly strong +254,000, while the unemployment rate edged lower to 4.1% last month from 4.2% in August. Further, July and August job figures were revised higher by a combined +72,000. Add in a very healthy level of available jobs in the U.S. (over +8 million in August) and a strong September private payrolls report, and you have a U.S. economy that continues to benefit from a labor market on firm footing.
- Finally, ISM manufacturing showed activity coming in slightly below consensus for September, while ISM services activity beat estimates and saw its highest level since February 2023.

### Reasons to maintain a positive but balanced outlook as the year winds down.

As it stands at the moment, we believe the bulls appear to have the edge in directing stock traffic at the start of the fourth quarter. Economic data remains solid, particularly on employment, and the Fed easing cycle is in its early stages. Notably, last week's falling odds for an outsized 50-basis point cut in November and increasing odds for a more gradual 25-basis point cut next month should be music to investor's ears. A Fed that can gradually bring down its policy rate in an environment where growth remains positive and inflation continues to ebb lower is likely far more supportive for asset prices than an environment in which the Fed has to lower rates quickly and by outsized cuts (i.e., 50-basis point increments).

**Simply, good news is good news at the moment.** Economic growth should remain firm (we see the U.S. economy growing by +2.5% in Q3 and by +1.9% in Q4), inflation should continue to ebb lower, labor conditions remain solid, and rate pressures should ease, causing less stress on consumers and businesses over time. The potential for a lingering port strike in the U.S. has been avoided. China is adding stimulus to the world's number two economy. Most global developed central banks are also in the process of easing policy rates. And, by the way, NVIDIA's CEO Jensen Huang said last week that the demand for its new artificial intelligence chip Blackwell is "insane." **In our view, the fundamental backdrop for asset prices remains supportive, and investors should take note of it.**

That said, valuations across major U.S. averages, such as the S&P 500 and NASDAQ, are elevated, and much of the "soft-landing" narrative described above has been priced into stocks, in our view. How much better or worse data comes in around expectations, particularly as the Q3 earnings season ramps up, could be a key factor in driving asset prices in Q4.

In addition, Middle East tensions continue to ratchet higher, which exposes the market to elevated "event shock" risk. For example, an unexpected and sudden spike in oil prices (potentially caused by supply disruptions in the Middle East) could suddenly slow global economic growth more than expected, causing corporate profits to fall, which then leads to lower stock prices as profit forecasts for the future decline. While this type of geopolitical event can't really be planned for and seldom is discounted into stock prices prior to occurring, it's a risk investors should understand, given U.S. stocks sit near all-time highs.

In addition, potential volatility after the U.S. election is another wildcard factor that should temper investor bullishness. Assets are priced for divided government, and while the odds are low the November U.S. election produces a one-party control result in Washington, we believe the potential for stock volatility post-result shouldn't be discounted to zero.

**In sum, we believe investors should maintain a somewhat optimistic view of the U.S. economy and financial markets heading into yearend.** Investing in opportunities across cyclical areas inside/outside of Technology, putting excess cash back to work in the market during potential periods of market stress, and locking in higher interest rates across bond allocations are strategies that could help investors navigate the final months of the year.

### The Week Ahead:

The third quarter earnings season will kick off this week with PepsiCo, Delta Airlines, and some of the big banks reporting results. Consumer and producer inflation updates, as well as fresh looks at consumer sentiment, line the economic calendar.

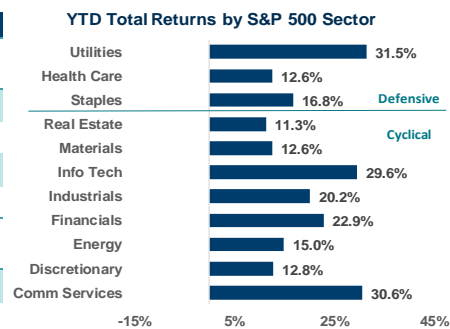
- Q3'24 S&P 500 earnings per share (EPS) is expected to grow by +4.2% year-over-year on revenue growth of +4.7%. S&P 500 EPS expectations have moved down for the current quarter, leaving a lower hurdle rate for companies in aggregate to surpass over the coming weeks. Information Technology is again expected to provide a large tailwind to S&P 500 profits in the third quarter, while Energy is expected to be the largest drag. Health Care and Communication Services should also be additive to S&P 500 profit growth. Investors will likely focus on artificial intelligence trends, with "return on investment" playing a growing theme in how Big Tech results are interpreted in the market. Impacts/outlooks from Fed easing, updates on bifurcated consumer trends, the health of business spending, operational cost management/efficiency, labor trends, and profit margins will also help shape how the market reacts to Q3 earnings.
- Consumer and producer inflation is expected to have cooled slightly in September on most major measures, while a preliminary look at October Michigan consumer sentiment is expected to show a slight uptick. The September FOMC meeting minutes, weekly jobless claims, and a fresh look at small business sentiment will also provide key updates on the direction of policy and economic sentiment.

Stock Market Recap							
Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 5,751	0.3%	-0.2%	21.9%	27.0	22.7	1.2	1.5
Dow Jones Industrial Average: 42,353	0.1%	0.1%	14.0%	24.2	20.4	1.7	2.0
Russell 2000 Index: 5,499	-0.5%	-0.8%	10.3%	61.0	39.4	1.3	1.3
NASDAQ Composite: 18,138	0.1%	-0.3%	21.5%	40.1	37.5	0.7	0.8
Best Performing Sector (weekly): Energy	7.0%	6.1%	15.0%	13.8	11.0	3.1	3.9
Worst Performing Sector (weekly): Materials	-1.9%	-1.4%	12.6%	28.2	18.9	1.8	1.9

Source: Factset. Data as of 10/04/2024

Bond/Commodity/Currency Recap			
Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	-1.1%	-0.9%	3.9%
West Texas Intermediate (WTI) Oil: \$74.33	8.2%	8.1%	3.4%
Spot Gold: \$2,653.84	-0.2%	0.7%	28.6%
U.S. Dollar Index: 102.52	2.1%	1.7%	1.2%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 3.92%	38 bps chg	28 bps chg	-33 bps chg
10-year U.S. Treasury Yield: 3.98%	23 bps chg	19 bps chg	9 bps chg

Source: Factset. Data as of 10/04/2024. bps = basis points



Source: S&P Global, Factset. Data as of 10/04/2024

These figures are shown for illustrative purposes only and are not guaranteed. They do not reflect taxes or investment/product fees or expenses, which would reduce the figures shown here. An index is a statistical composite that is not managed. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

## Important Disclosures

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Commodity investments may be affected by the overall market and industry- and commodity-specific factors, and may be more volatile and less liquid than other investments.

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.

Investments may not keep pace with inflation, resulting in loss of purchasing power.

In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities. Yields may vary.

**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.

### **Past performance is not a guarantee of future results.**

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.

**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 **Institute for Supply Management (ISM)** manufacturing index is a national manufacturing index based on a survey of purchasing executives at roughly 300 industrial companies. It is an index of the prevailing direction of economic trends in the manufacturing and service sectors.

The **ISM Services** 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.

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.

The **US Dollar Index** (USD<sub>X</sub>) indicates the general international value of the USD. The USD<sub>X</sub> 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.

**Price/Earnings:** An equity valuation multiple calculated by dividing the market share price, as of a certain date, by earnings per share. Trailing P/E uses the share price divided by the past four-quarters' earnings per share. Forward P/E uses the share price as of a certain date divided by the consensus estimate of the future four-quarters' EPS.

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