

Weekly Market Perspectives

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The Fed's "soft-landing" scenario looks largely baked into stock prices. What now?

The S&P 500 Index set a fresh new all-time high last week, following a somewhat unexpected "jumbo-sized" Federal Reserve rate cut that kept the soft-landing narrative alive and well. While technology stocks performed well during the week, other cyclical areas took the lead, as prospects for lower rates brightened the outlook for areas like Energy and Financials. Generally positive economic reports, including better-than-expected retail sales and weekly initial jobless claims, also helped boost investor confidence.

Last Week in Review:

- The S&P 500 rose +1.4%, logging its 39th all-time closing high of the year and its second consecutive weekly gain. The Index is higher in five of the last six weeks.
- The NASDAQ Composite rose +1.5%, also logging its second consecutive week of gains. Over the last two weeks, the tech-heavy index is higher by +7.5%, its largest two-week gain since November 2023.
- The Russell 2000 Index led major averages, rising by +2.1%. Before a modest pullback on Friday, the small-cap stock barometer had traded higher for seven consecutive trading days.
- The Dow Jones Industrials Average rose +1.7%, crossing 42,000 for the first time and posting its 29th record close of the year.
- The Federal Reserve lowered its fed funds target range by an outsized 50 basis points to 4.75% - 5.00%. Importantly, the committee noted an increased focus on supporting the maximum employment side of its dual mandate now that policymakers see better control on the price stability side. **The Fed now projects lower rates over the coming quarters, stable growth/employment trends, and near-trend inflation by the end of 2025. In our view, the soft-landing scenario (i.e., normalizing inflation without materially increasing unemployment) is fully baked into Fed projections.**
- With the big bounce in stocks last week, investor sentiment and equity fund flows also jumped higher. The latest *American Association of Individual Investors (AAII)* saw its bull-bear spread jump +15.6 percentage points to 24.4% in the week ending September 19th. That's the biggest weekly jump since November. In addition, the BofA Flow Show report showed that U.S. equity funds attracted nearly \$34 billion in the week ending September 18th, the largest inflow in nine weeks and the third-largest weekly haul of the year.
- Headline August retail sales came in slightly positive, beating expectations for a decline. Favorable weather trends and a solid back-to-school shopping season drove the better-than-expected results.

- New York and Philadelphia Federal Reserve manufacturing activity unexpectedly moved into expansion from contraction.
- Jobless claims posted their lowest weekly reading since May, and August housing starts/permits beat expectations.
- U.S. Treasury yields were mostly weaker, with the 2-year/10-year spread ending 15 basis points in "positive" territory.
- Gold notched another new record high, West Texas Intermediate (WTI) rose, and the U.S. Dollar Index moved lower.

The "soft-landing" scenario looks largely baked into stock prices. What now?

Heading into last week's Fed decision, some Fed watchers stated that an upcoming presidential election or concern about what message a 50-basis point rate cut would potentially signal about the state of the economy would prevent the committee from making such an outsized cut at the start of the easing cycle. At the end of the day, the Fed themselves were not very concerned about either of those factors. We believe it was a great reminder to the market of their independence.

Moving rates lower close to an election (which the Fed has done in the past) was likely going to draw some criticism whether they went 25 or 50 basis points last week. Further, if most of the Fed sees rates lower by 100 basis points at the end of the year anyway (which implies 50 basis points more in cuts by yearend), why not move faster to help keep the economy on track? Notably, the Fed manages policy to the economy and where they believe rates should be on their outlook for growth/inflation. **In our view, their move last week sent a very clear message to the market and investors that the only priority the Fed has is to steer policy in a direction that best suits the current and future state of the economy. Doing anything else could inject doubt into their credibility and independence.**

That said, expectations for further rate cuts over the next few quarters are well-entrenched into both market and Fed officials' expectations. Any incoming economic data that suggests the Fed could delay further cuts because of lingering inflation or have to move more aggressively due to a sudden deterioration in employment could cause stock volatility to rise. On a related note, with the S&P 500 ending last week above 5,700, the Index is well within striking distance of our yearend target of 5,750. As much as we'd like to brush off our hands, call mission accomplished, and head to the beach for the rest of the year, there's still an entire quarter left to go in 2024. The third quarter earnings season is approaching over the horizon, as is the pending outcome of the U.S. election. Thus, the market and investors still have a lot to contend with as the year winds down. Did we mention that the U.S. government is facing yet another potential shutdown at the end of the month?

As we have noted previously, the economy is on firm ground, rates are now easing, and corporate profits are growing. Overall, that's a positive tailwind for asset prices. Notably, lower rates favor stocks when the economy isn't in a recession. Goldman Sachs recently put some data behind that statement. During the last five cutting cycles since 1984, where the U.S. economy did not quickly enter a recession, the S&P 500 on average returned +6.0% during the three months, +9.0% during the six months, and +17% during the next year following the first Fed rate cut. Goldman also noted that earnings drove the bulk of the gains, with price-to-earnings multiples expanding in three of the five episodes. FactSet analyst S&P 500 earnings per share (EPS) estimates forecast profits rising by +3.8% y/y in Q3 and by +15.1% y/y in Q4. Full-year 2025 S&P 500 EPS is seen rising by an impressive +15.0% over 2024 levels, which implies a 20 P/E multiple based on current Index levels. **That said, we believe much of the good news is now mostly priced into stocks.**

Moving forward, stock prices will likely move based on how much better or worse results come in around already pretty elevated expectations for economic/profit growth and easing rate policy. Uncertainties about the pace of growth heading into next year, as well as the fiscal policy path post-election, given some of the "extreme" fiscal proposals from both presidential candidates, may temper how much stocks can keep riding higher through yearend.

For now, we remain comfortable with our yearend S&P 500 targets, recognizing that stocks may drift higher or lower from current levels through yearend. **Yet the S&P 500 is also unlikely to move enough away from our base and favorable (5,900) targets to necessitate large changes in our target forecast that would inform a material shift in how investors should allocate their portfolios through yearend.**

The Week Ahead:

The U.S. economic calendar is full this week, which could keep stocks volatile as investors continue to digest last week's aggressive Fed actions.

- Preliminary looks at September manufacturing and services activity as well as August PCE, personal income, consumption, and durable orders, should provide updated looks at the current state of the economy. A final look at Q2 GDP is expected to hold at +3.0%.

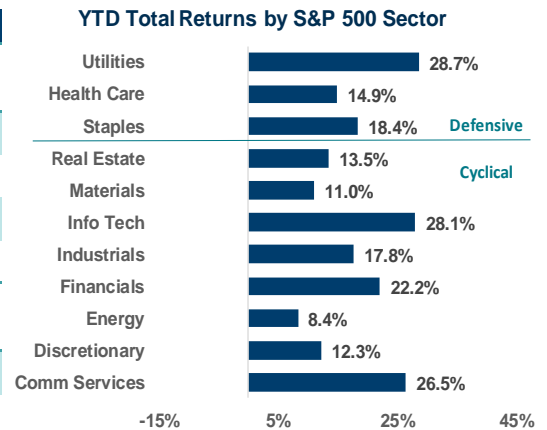
Stock Market Recap							
Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 5,703	1.4%	1.1%	20.8%	26.6	22.7	1.2	1.5
Dow Jones Industrial Average: 42,063	1.7%	1.3%	13.2%	24.0	20.3	1.7	2.0
Russell 2000 Index: 5,537	2.1%	0.5%	11.0%	60.2	38.4	1.3	1.3
NASDAQ Composite: 17,948	1.5%	1.4%	20.2%	39.7	37.1	0.7	0.8
Best Performing Sector (weekly): Energy	3.8%	-2.7%	8.4%	13.0	11.0	3.3	3.9
Worst Performing Sector (weekly): Consumer Staples	-1.2%	0.6%	18.4%	23.1	22.6	2.4	2.5

Source: Factset. Data as of 09/20/2024

Bond/Commodity/Currency Recap			
Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	-0.1%	1.6%	5.1%
West Texas Intermediate (WTI) Oil: \$71.91	3.3%	-3.5%	0.0%
Spot Gold: \$2,622.24	1.7%	4.7%	27.1%
U.S. Dollar Index: 100.72	-0.4%	-1.0%	-0.6%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 3.60%	0 bps chg	-34 bps chg	-66 bps chg
10-year U.S. Treasury Yield: 3.73%	7 bps chg	-19 bps chg	-15 bps chg

Source: Factset. Data as of 09/20/2024. bps = basis points

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.



Source: S&P Global, Factset. Data as of 09/20/2024

Important Disclosures

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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.

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 **US Dollar Index** (USDIX) indicates the general international value of the USD. The USDIX 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 **American Association of Individual Investors** (AAII) Survey is a weekly survey of stock market sentiment amongst individual investors in the US. The survey is widely used as a *contrarian indicator*. The [American Association of Individual Investors](http://www.aaii.com) is a nonprofit organization representing individual investors.

BofA Flow Show report is a weekly report on client fund flows.

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