Week in Review

Equity Markets:

The markets rallied last week following the rate cut from the Federal Reserve. The S&P 500 hit a new all-time high on Thursday reaching 5,733. The S&P 500 finished the week up 1.39%. The Dow Jones broke 42,000 for the first time on Wednesday and finished up 1.67%. The NASDAQ still sits 4% below its all-time high set in July but still rallied 1.51% last week[1]. Large-cap value has continued to close its performance gap with its growth counterpart. Year-to-date the Russell 1000 Value Index is up 15.32% and the Russell 1000 Growth Index is up 23.48%.

The next earning season is right around the corner. Following fantastic earnings results in the previous quarter, third-quarter earnings growth is expected to be mild. Analysts are expecting earnings growth to be 4.6%. These estimates have come down from the 7.8% expected on June 30[2]. Even with a tick down in expectations, if companies meet expectations, it will mark the fifth consecutive quarter of positive earnings growth.

Fixed Income Markets:

The Fed finally ended its historically long restrictive monetary policy last week with a 50 basis point rate cut. For the first time since 2005, the vote was not unanimous with Federal Reserve Governor Bowman being the lone dissenter and was in favor of a smaller cut of 25 basis points[3]. Policymakers noted the improvement in inflation and the small uptick in unemployment warranted the cut and believe they are still in a good position to uphold their dual mandate of price stability and a healthy labor market.

The reaction from the bond market was muted but the yield curve normalized for the first time in over two years. The 2-year Treasury had a yield greater than the 10-year Treasury for the first time since 2022. The 2-year yield finished the week at 3.55% and the 10-year ended at 3.73%.

Economic:

The economic calendar was light last week with the headline event being the conclusion of the Fed's policy meeting. The bright spot of the economy continues to be the consumer. Monthly retail sales beat expectations, which were to see a decline of 0.1%, and grew 0.1% in August. Initial unemployment claims were lower than expected. Economists were expecting new filings to come in at 230,000 but the actual number was 219,000.

Looking Ahead

Equity Markets:

The markets remain near all-time highs and we believe investors should remain diligent. Valuations continue to expand with the S&P 500 trading at 22.1x forward four-quarter earnings[4]. The recent rally has been fueled by multiple expansion and improving market breadth. Investors should evaluate their current strategic allocations to ensure they are still in line to meet their long-term investment objectives. The top-heavy market has also shifted with the broader index moving due to more participation. This is also a time to ensure your portfolio is properly diversified. The past 18 months the markets have been propelled higher by a few companies that have experienced significant outperformance. Recently, some of these names have slowed, and if your portfolio had overconcentration the recent rally may have been subdued.

Developing a strategic asset allocation that meets your desired risk levels, proper diversification, and a systematic rebalancing plan are, what we believe, to be the three key drivers for clients to achieve their investment goals.

Fixed Income Market

We believe that the Fed will continue down its path of data dependency and align itself with market expectations. The dot plot showed that we can expect a 25 basis point cut in November and the same cut in December. This put the fed funds rate in the range of 4.25-4.5%. Monetary policy has a very small impact on longer-dated bonds and we believe the 10-year will remain range bound between 3.25% and 3.75% for the remainder of the year.

For fixed-income investors that still have a significant amount of their holdings in cash/cash equivalents, we believe it is prudent to consider moving to longer-dated maturities. In a rate-cutting cycle, policy moves have a much quicker, and steeper, impact on very short-maturity holdings. Current yields are still attractive and will allow investors to lock in them in instead of riding the cutting cycle back down to neutral levels.

Economic:

Following a slow week of economic reports, the pace will ramp up this week. On Tuesday, The S&P/Case-Shiller Home Price Index and the Consumer Confidence Index from The Conference Board will be released. The final estimate for the second quarter GDP will be released on Thursday. The National Association of Realtors will provide a view of the housing market as interest rates have come down with Pending Home Sales. To close the week, the Fed's preferred inflation gauge, The Personal Consumption Expenditures Price Index (PCE) will be released. Also on Friday, the University of Michigan Consumer Sentiment Index.

**** *See Important Disclosures on the following page*

Sources:

1)JP Morgan Asset Management
https://am.jpmorgan.com/content/dam/jpm-am-aem/americas/us/en/insights/market-insights/wmr/weekly_market_recap.pdf

2) FactSet Research Inc.
https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_092024A.pdf

3) Reuters
https://www.reuters.com/markets/rates-bonds/fed-bowmans-dissent-is-first-fed-governor-since-2005-2024-09-18/

4) LSEG I/B/E/S
https://lipperalpha.refinitiv.com/wp-content/uploads/2024/09/TRPR_82221_766.pdf

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