CLARUS WEALTH ADVISORS

Market Watch

September 9, 2024

Primary Market Drivers

Inflation

This week we will get inflation data from the month of August. On tap are CPI (9/11) and PPI (9/12), though it remains to be seen if the impact from either report will be market-moving barring a surprise spike. Recall July Core PCE came in at expectations m/m with a gain of +0.2%, though the y/y figure was slightly below expectations at +2.6% (vs. +2.7%). The most recent inflation data point is further evidence that the war on inflation that started years ago is nearing its conclusion. Powell's recent speech at Jackson Hole indicated that the Fed has shifted its attention away from worrying about inflation and towards policy response and the health of the economy. Inflation's status as a primary market driver is fading as the Fed gains confidence that it does not pose serious upside risk and is on its way back to the stated 2% long-term target.

Fed Policy

No change from last week aside from rate cut probability updates. At the recent Jackson Hole Economic Symposium, Jerome Powell noted that "the upside risks to inflation have diminished. And the downside risks to employment have increased." He also noted that "confidence has grown that inflation is on a sustainable path back to 2%." The speech was particularly dovish, a stark contrast to the rhetoric of the last few years, indicating that the Fed pivot is finally here. Current odds per CME's FedWatch Tool are 27% for 50bps and 73% for 25bps. Powell was quick to reiterate that the Fed's timing and pace of rate cuts will remain data dependent, adding "we do not seek or welcome further cooling in labor market conditions." The Fed's next policy decision will be made on 9/18.

Economic Data & Seasonality

Last week's labor market data showed further cooling, something the market and the Fed are not welcoming at this point. ADP Employment came in well below expectations at +99k (vs. +141k), while Nonfarm Payrolls rebounded from last month but still missed expectations at +142k (vs. +160k). However, the silver lining was the Unemployment rate falling from +4.3% last month to +4.2%. All eyes will be on August CPI (9/11) and PPI (9/12) this week, though barring a surprise spike, the result will likely do little to shift the Fed's policy decision on 9/18. Aside from inflation data, the economic calendar is very light this week. We get NFIB Small Business Index (9/10), Imports & Exports (9/13), and Michigan Consumer Sentiment (9/13). Perhaps the largest driver of the current market is seasonality. We're now in the month of September, historically the S&P 500's weakest month (average -1.17% return) and the only month of the year to average worse than a -0.14% return. Despite not having a catalyst or any significant headwind, traders are once again using the September playbook to sell equities and manufacture volatility. This is the fourth year in a row where volatility has spiked in September, though in two of the past three, the market ended the year significantly higher.

All referenced market information, statistics, and economic data were gathered from StreetAccount, a paid subscription data service provided by FactSet Research Systems Inc.

Market Returns 9/6/2024

Category	*Ticker*	*YTD%*
Domestic Equity		
S&P 500	SPY	14.41%
Dow Jones	DIA	8.41%
Large-Cap Growth	QQQ	9.89%
Large-Cap Value	IVE	10.94%
Mid Caps	MDY	6.61%
Small Caps	IWM	4.12%
International Equity		
Developed Intl	EFA	7.75%
Emerging Markets	EEM	4.62%
Fixed Income		
Core Bonds	AGG	4.35%
Corporate Bonds	LQD	4.38%
High Yield Bonds	HYG	6.35%
ST Treasuries	IEI	4.20%
LT Treasuries	TLT	3.16%
International Bonds	BNDX	2.79%

Performance data and stock chart were gathered from eSignal, a paid market screening application provided by Intercontinental Exchange, Inc.

Current Environment Summary

What's Working	What's Not	What's Next
Inflation Subdued	Economy Slowing	**August CPI (9/11) & PPI (9/12)**
Fed Rate Cuts Begin in September	Rising Unemployment	Earnings: ORCL (9/9), KR & ADBE (9/24)
Strong Earnings Growth	Elevated Volatility	Presidential Debate (9/10)
Long-Term Bull Market	Negative Seasonality	September Seasonality
Positive Slope for Yield Curve	Rates are Falling But Remain Elevated	Fed Policy Decision (9/18)
Broad Market Rally	Geopolitics	

Portfolio Manager Commentary

Ken Hartley, CFA

It’s hard to argue with the equity market’s multi-year run. Has it been a straight line up? No. It has, however, continued to move upwards and to the right. The battle with inflation has put a cap on the fastest rate since the late 70’s. The US Treasury market has proven to be a much more difficult battle to make consistent gains. The security formally subscribed to by “widows and orphans” have shown that bonds can lose money to (if sold before maturity). The investing public is beginning to understand the flip side of “easy money”.

The 800-pound gorilla in the room is the upcoming presidential election. With the country evenly split based on political ideology, the market is searching for a way to hedge some bets as the polls are currently tight. Most people consider their financial situation to be worse off than four years ago. So why do the polls continue to be so tight?

The recent pullback in the technology sector, and semiconductors specifically, has many investors becoming emotional and considering leaving the space. In any long-term financial plan, it proves to be a mistake to invest based on emotions. The semi’s and technology in general have had an enormous move higher. It always makes sense to reduce concentrations of an asset that has made a parabolic move. Stay focused on the long-term prospects of the company and the stock price should follow.

The economic data continues to show an overall slowing in the US economy. Globally, most countries are beginning to cut rates to soften the decline. Japan is the exception. With the steep decline in the national currency, the central bank has had to raise rates to prevent an historic decline. It has rarely proven to be a positive for a country to have its currency depreciate too rapidly.

The US Federal Reserve is expected to cut rates at the upcoming meeting this month. The debate centers around how much the Fed will cut. Unless there is a dramatic decline in the economic numbers between now and then, the market is looking for 25 basis points. Anything more and the market may get spooked into wondering if the economy is weaker than the Fed is letting on.

The US Treasury yield has finally returned to a normal sloping posture. That means 2yr notes are yielding less the 10yr notes. Usually that is a normal and healthy condition for the financial markets. The banks welcome this return to “normalcy” because it allows them to build in some profitability to the loans they are making. In addition, the drop in rates helps dramatically with the pricing of the securities they own at coupon rates much lower than current levels. Time will be a great healer of the banks if the curve continues to be positively sloped.

Don Moenning

September seasonality is alive and well. After the first week of trading here are the return profiles month-to-date for major equity index ETFs: SPY -4.13%, QQQ -5.79%, MDY -4.83%, IWM -5.5%, EFA -3.82%, EEM -3.66%. An equal opportunity beating, and one that probably could've been expected. This marks the fourth straight year that September was met with sudden, spiking volatility to the downside. Historically speaking, September is the worst market month of the year with an average return of -1.17%, easily taking the crown of "worst month" from the only other two months with negative returns in February (-0.14%) and May (-0.11%). So, while we've all heard the "sell in May and go away" adage that is typically a coin toss, the "September swoon" appears to be the seasonality that we should take seriously.

I've spent the past week searching for downside catalysts and have come up mostly dry. The labor market cooling is an emerging theme, though this isn't anything new and has been observed for months now. We actually just witnessed the unemployment rate fall this past month and Fed cuts are on the way. Perhaps the market believes the Fed is too late to play the role of white knight? I doubt it. "Cooling" is not to be confused with "falling off of a cliff," so I don't believe the market is being driven by this data set.

I heard whispers last week of some leftover carry-trade liquidations as well. After shaking my head in bemusement, I can't get behind a "Carry Trade 2.0" happening just a few weeks after the trade was unwound and traders (assumingly) learned a valuable lesson. Perhaps it contributed in a session or two, but I doubt that trade has the power to shift markets again the way it did last month.

Broadcom (AVGO) earnings last week were solid. The company beat EPS ($1.24 vs $1.22), revenues ($13.07B vs $12.98B), adjusted EBITDA ($8.22B vs $7.82B) and raised Q4 guidance to above mid-line estimates. AVGO is one of the largest semiconductors players and a bellweather for AI. The stock sold off sharply because the beat and raise wasn't "big enough." OK. Once again, I can't get behind this as a headwind because analysts secretly wanted more than they stated in their expectations. All this showed was semiconductors are still printing and will continue to do so for the foreseeable future.

So what's causing the indigestion in early September? From my perch, it's simply traders following the September playbook. The only difference this year from years past is they're not even trying to feign an excuse. In times like this, it's important to separate what is "real" and what is "noise" and the action so far this month is very noisy. It seems the market has front-loaded the negative seasonality of September, so we'll see if the bulls can put up a stand soon. We get CPI, PPI, and earnings from ORCL and ADBE this week. If we can find some footing over the next few weeks, October through January is historically the market's strongest period.

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