

THE CAPITAL MARKETS

New Covenant Trust Company

Issue 9 | September 2024

MARKET UPDATE AT A GLANCE

The Dow Jones Industrial Average (DJIA) finished August at 41,563, up +1.76% for the month and +10.28% so far in 2024. The S&P 500 closed August at 5,648, up +2.28% for the month and up +18.42% year-to-date. The NASDAQ Composite gained +0.65% in August, up +18.00% for the year. Small-company stocks as measured by the Russell 2000 ended August down -1.63% for the month, up +9.40% so far for the year. Real estate (+13.46%) has been the best-performing sector so far this quarter.

MARKETS TREADING WATER AHEAD OF FED MEETING, ELECTION

The S&P 500 had its best week of the year in the second week of September. The only problem was that the prior week had been the index's worst week of the year.

Markets have been moving in a “W” shape since mid-July, when the S&P 500 hit its last record high. A market with elevated volatility within a range is common when uncertainty is elevated, and market participants are waiting for clarity on a topic or topics. In this case, traders are very much tuned in to what is likely the most anticipated Federal Reserve meeting in recent years.

The September FOMC meeting is all but sure to bring about the first of what is expected to be several interest rate cuts in the coming years. Traders have now priced in a total of 200 basis points (bps) in rate cuts through the end of next year, putting the expected Fed Funds rate right around 3.0% by the end of 2025.

There is speculation swirling around whether it will be a 25 or 50 bps rate cut for the Fed in September, and investors should not be surprised to see increased volatility around the September 18th press conference, whichever way it comes down.

Like when reading the headlines touting the S&P 500's best week of the year — but leaving out the prior week's worst week of the year context — investors are almost always well-served to keep things in perspective, which is often longer than one week, month or year. Most investors are multi-decade investors, who will see multiple interest rate cycles, business cycles, bull markets and bears.

Like we wouldn't want our favorite team to get too excited or discouraged by one drive in the first quarter of a football game, investors with an appropriate asset allocation based on their goals and time horizon, and a cash reserve for any near-term needs, should be able to weather near-term volatility with confidence in their long-term plan.



“Questions about the health of the U.S. economy, the magnitude of coming interest-rate cuts and the November presidential election have given some investors pause.”

(Wall Street Journal, Hardika Singh, Sept. 12, 2024)

MORE INVESTORS ON RECESSION WATCH

One of the versions of the 25 or 50 bps rate-cut debate has been whether deciding to cut 50 bps will actually lead to fear in markets that the Fed is more concerned about recession than previously known.

With investors on edge following a couple of disappointing jobs numbers in a row, and with stock valuations already priced for great earnings and company performances through 2025, it may not take much to trigger some angst in this market.

The consensus that is building, however, is that what we're

seeing is more of a deceleration from the strong rebound of the post-pandemic economy, rather than a reversal.

Jobs growth has slowed but is still positive. GDP is not expected to be continuously above 2.5%, but it is above 1.5%.

A normalization of the economy may be good, particularly for inflation, but signals that the deceleration is continuing into negative territory may be yet another trigger of volatility in this market.

ECONOMIC UPDATE

Headline inflation year-over-year increased just 2.5% in August, its lowest level in over three years.

Core inflation has also remained on a declining path, despite being slightly higher than expected at 3.2% in August.

With inflation painting an optimistic picture, markets have turned their worries to slowing growth in the jobs market and in manufacturing.

The ISM Manufacturing Index hit an eight-month low in July and just barely recovered in August. This has been attributed mainly to declining demand.

The jobs market has also seen some cooling, with the unemployment rate ticking up to 4.3% in July and coming down just a bit to 4.2% in August.

Despite the lower-than-expected jobs numbers a few months in a row, and even with the revisions lower, many economists agree that current jobs-growth numbers would be constructive in a normal environment and were, in fact, close to pre-pandemic norms.

The primary concern on Wall Street is whether the softening momentum in jobs and the economy will continue the trajectory lower into negative territory.

While this remains uncertain, investors can be sure that these reports will be closely watched and reacted to by markets in the near-term, and that we are likely back to a “bad news is bad news” response by markets on these reports.



Seema Shah, chief global strategist at Principal Asset Management, noted in a report that the stock market has been higher 16 out of 23 times in the six months after the first rate cut of easing cycles dating back to 1970. “The key determinant of market performance has been whether the U.S. economy avoided recession,” wrote Shah, adding that “history shows that rate cuts themselves aren’t the enemy. It’s the economic context in which they occur that investors should pay close attention to.”

(Barron's, Paul La Monica, Sept. 13, 2024)



Market Metrics

Index or Metric	Close as of 7/31/2024	Close as of 8/31/2024	Change Previous Month End	2024 YTD % Change
Dow Jones Industrial Average	40,842.79	41,563.08	+720.29	10.28%
S&P 500	5,522.30	5,648.40	+126.10	18.42%
NASDAQ Composite	17,599.40	17,713.62	+114.22	18.00%
RUSSELL 2000	2,254.48	2,217.63	-36.85	9.40%
Fed Funds Rate	5.25% - 5.50%	5.25% - 5.50%	UNCHANGED	
2-Year Treasury	4.29%	3.91%	-0.38%	
10-Year Treasury	4.09%	3.91%	-0.18%	
Crude Oil \$ per Barrel	\$77.91	\$73.55	-\$4.36	2.65%
Gold \$ per Troy oz.	\$2,473.00	\$2,527.60	+\$54.60	22.00%
UK Point in U.S. \$	\$1.2844US=1£	\$1.3143US=1£	\$ WEAKER	3.09%
Euro in U.S. \$	\$1.0821US=1	\$1.1069US=1	\$ WEAKER	0.20%
Canada \$ per U.S. \$	\$1.38145C=\$1.00US	\$1.34775C=\$1.00US	\$ WEAKER	2.21%
Japan Yen per U.S. \$	150.46¥=\$1.00US	145.605¥=\$1.00US	\$ WEAKER	3.28%

