October 2024

MONTHLY MARKET INSIGHTS

Key takeaways:

- In a repeat of August, equities came under pressure early in the month but quickly recovered on the back of easing financial conditions and resilient economic data.
- The Federal Reserve ("Fed") initiated a rate-cutting cycle with an outsized 50-basis-points ("bps") cut at its September meeting and guided market participants to expect a "recalibration" of rates over the next two years.
- China's benchmark CSI 300 index surged 25% during the last week of September after the Chinese government announced a series of stimulus measures aimed at supporting its economy, property sector, and domestic equity markets.[1]

US equity market investors experienced a bout of déjà vu in September. Much like they did in early August, US equities started the month of September under pressure as economic growth and labor market concerns resurfaced. During the first week of the month, the Job Openings and Labor Turnover Survey ("JOLTS") showed a larger-than-expected decline in job openings. On the same day as the JOLTS survey, the Fed released its Beige Book economic summary of current conditions across its twelve districts, pointing to flat or declining economic activity in nine districts. To cap off a difficult first week, August's non-farm payroll report, released on the first Friday of September, missed consensus estimates and sparked recession fears. Payrolls for August rose 142,000, while the prior two months were revised down by 86,000 jobs.[2] The report brought the three-month average of payroll gains to 116,000, a notable decline from the pace earlier in the year, inciting widespread concerns that the Fed was behind the curve on cutting rates.

The S&P 500 had its worst week of the year to start September, declining -4.25%, as investors questioned the sustainability of August's rebound.[3] However, just as it did in August, the S&P 500 and broader equity market recovered quickly from early-month weakness. By month end, the S&P 500 had logged its fifth straight monthly gain, rising 2.02% and closing the month at an all-time high.[4] The tech-heavy Nasdaq also performed well, gaining 2.68%, while the Russell 2000 small-cap index lagged both with gains of only 0.56%.[5]

September's bounce was catalyzed by a benign Consumer Price Index ("CPI") inflation report on September 11, which gave investors confidence that the Fed would deliver a 50-bps cut to its policy rate at its upcoming meeting on September 18. The Fed and Chairman Powell did not disappoint when it came time for the meeting. The Fed delivered an outsized cut of 50 bps despite the first dissent from a Fed Governor since 2005. Additionally, the Fed's Summary of Economic Projections ("SEP") forecasts another 200 bps of cuts over the next two years, bringing the fed funds rate to 2.9%, its current estimate of the neutral rate.

During his post-meeting press conference, Chairman Powell went out of his way to assure investors that the economy and labor markets were in good shape and that the larger-than-normal cut should be taken as a sign of their commitment to keep things that way. Powell uttered the words "recalibrate," "recalibration," or "recalibrating" nine separate times to drive home the point that the Fed was now embarking on a journey of taking the policy rate from restrictive territory to a more neutral level. While investors initially had a "sell-the-news" reaction after the press conference, they changed course and embraced the message overnight. The S&P 500 had a strong gain the following day and went on to make a series of all-time closing highs over the last two weeks of the month.

1. Bloomberg
2. Id.
3. FactSet
4. Id.
5. Id.

Constructive economic and labor market data, accompanied by declining bond yields, supported the equity market's rally in the back half of the month. The economy continues to prove resilient with first-half GDP growth of 2.2%, and the Atlanta Fed forecasts GDP growth of 2.5% for the third quarter.[6] Weekly jobless claims have been trending down and now stand at a four-month low, suggesting the labor market may be stabilizing at a healthy level. Despite increasing odds of a soft landing, bond yields declined during the month, with the 2-year Treasury yield down 28 bps to 3.64% and the 10-year Treasury yield down 13 bps to 3.79%.[7] The move lower in yields helped interest-rate sensitive sectors, like consumer discretionary, utilities, and REITs, outperform the S&P in September. The artificial intelligence ("AI") investment theme also showed signs of stabilizing with outperformance from the technology and communication services sectors.

One of the most noteworthy events of the month came during September's last week when the Chinese government announced a series of stimulus measures aimed at supporting its economy, property sector, and ailing equity markets. The actions taken by the Chinese government were more substantial and targeted than previous measures, while the urgency and tone of policymakers suggest a deeper willingness to help China out of its economic malaise. Investors responded favorably, driving Chinese stocks significantly higher. While there remains plenty of investor skepticism about the effectiveness of the announced policy actions, better economic growth in China could be a positive catalyst for global stocks in 2025.

As we look to October, we believe markets may be vulnerable to modest profit-taking ahead of the election. The election remains historically tight, and investors cannot ignore the odds of a contested election. Meanwhile, tensions in the Middle East are escalating, as Israel has successfully crippled Hezbollah's infrastructure and leadership structure, including killing its leader, Hassan Nasrallah. In retaliation, Iran launched missile strikes against Israel, and the conflict seems likely to intensify in the weeks ahead.

Domestically, approximately 45,000 East and Gulf Coast port workers went on strike on October 1, and the affected ports have the capacity to handle close to fifty percent of US trade volumes. An extended walkout could have significant consequences for economic growth and inflation going forward. In one report, JP Morgan estimates the strike could cost the economy between $3.8 billion to $4.5 billion per day.[8] At the same time, parts of Florida, Georgia, North Carolina, and Tennessee have been devastated by Hurricane Helene. While rebuilding efforts should eventually support economic growth, there will be distortions in the economic and labor data coming from those areas in the coming weeks.

Taken together, we see the upcoming election, heightened geopolitical tensions, the port strike, and the repercussions of Hurricane Helene as potential catalysts for investor profit-taking after strong year-to-date performance for equities. However, any such pull-back would likely be shallow as long as the soft-landing narrative is intact.

6. "GDPNow." Federal Reserve Bank of Atlanta, www.atlantafed.org/cqer/research/gdpnow. Accessed 1 Oct. 2024.
7. FactSet
8. Curtis, Laura. "Strike Shuts Eastern US and Gulf Ports, Threatening Economy." Strike Shuts US East Coast, Gulf Ports for First Time Since 1977, Bloomberg. Accessed 1 Oct. 2024.

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