

# Weekly Market Recap

September 18, 2023

Index	Price	Price Returns	
	Close	Week	YTD
S&P 500 <sup>®</sup> Index	4,450	-0.2%	15.9%
Dow Jones Industrial Average	34,619	0.1%	4.4%
NASDAQ	13,708	-0.4%	31.0%
Russell 2000 <sup>®</sup> Index	1,847	-0.2%	4.9%
MSCI EAFE Index	2,100	1.2%	8.0%
Ten-Year Treasury Yield	4.33%	0.1%	0.5%
Oil WTI <sup>1</sup> (\$/bbl <sup>2</sup> )	\$91.10	4.1%	13.5%
Bonds <sup>3</sup>	\$95.51	-0.3%	0.8%

<sup>1</sup>WTI = West Texas Intermediate Oil. <sup>2</sup>bbl = Barrel. <sup>3</sup>Bonds are represented by the iShares U.S. Aggregate Bond ETF. Sources: Bloomberg L.P.; FactSet.

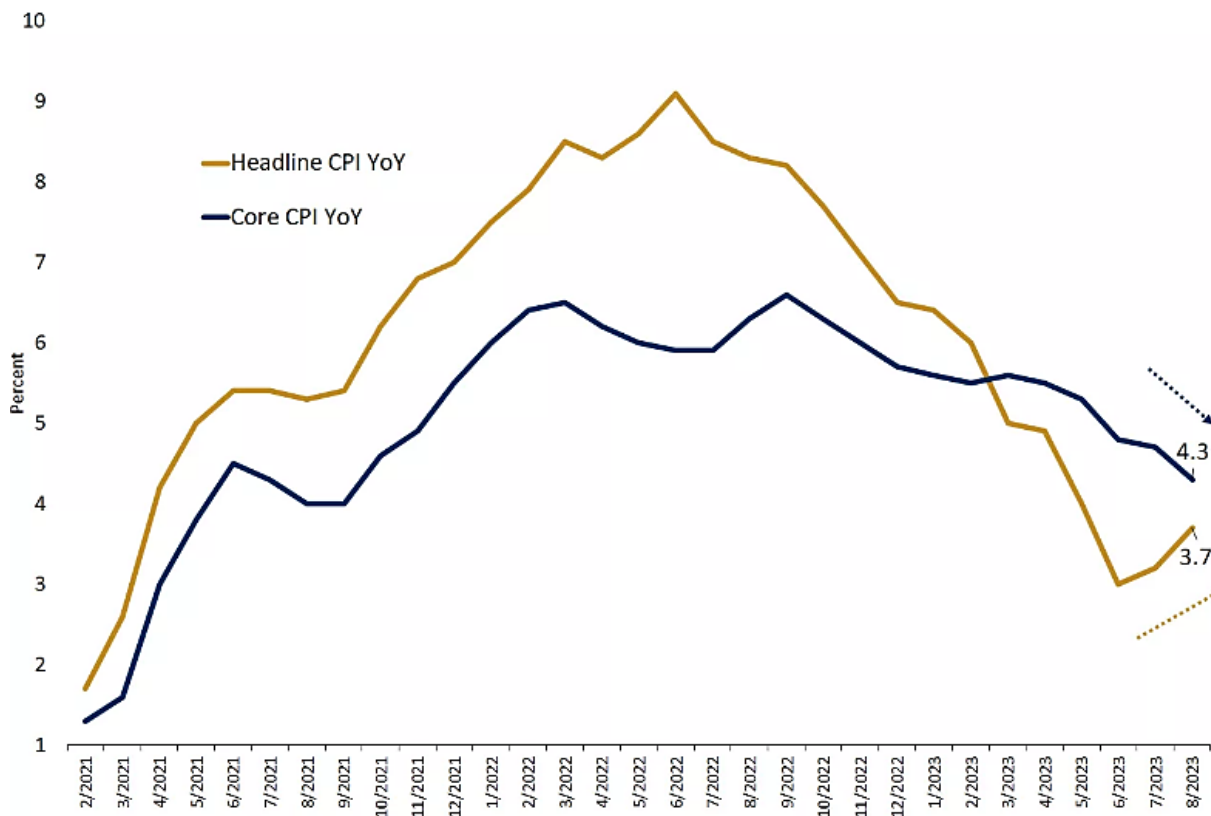
## Last Week:

### U.S. Equity Market

- U.S. large-cap equities (S&P 500 Index) fell -0.2% as the August Consumer Price Index (CPI) report was largely in-line with expectations, but the core CPI was modestly better than expected and supported the narrative that the Federal Reserve (Fed) will hold rates higher for longer. Analysts believe the CPI reports likely won't change the Fed's plan to likely hold rates at current levels during the Federal Open Market Committee (FOMC) meeting next week. However, investors may focus on the Summary of Economic Projections (SEP) to see whether policymakers continue to envision another 0.25% rate hike in 2023 as well as whether the median 2024 projection incorporates fewer rate cuts. The August Producer Price Index (PPI) was better than expected, driven by higher energy prices, but the core PPI data was in line with expectations. The ten-year yield rose +0.07% from 4.26% to 4.33%. Gold rose modestly, and WTI increased +4.1% to over \$90/barrel for the first time since November 2022.
- S&P 500 Index Sector Returns:
  - Utilities (+2.7%), consumer staples (+0.4%), and healthcare (+0.1%) outperformed, as investors favored more-defensive stocks.
  - Consumer discretionary (+1.7%) rose, led by travel stocks, autos, and retailers.
  - Financials (+1.4%) rose, led by fintech and banks.
  - Communication services (+0.6%) rose, led lower by telecom, traditional media, social media, and internet search stocks.
  - Real estate investment trusts (REITs) (+0.1%) rose, led by apartments, data centers, and public storage.
  - Energy (+0.1%) rose, as the price of WTI increased +4.1%.
  - Materials (-0.1%) fell, led lower by paint and chemical companies.
  - Industrials (-0.6%) fell, led lower by airlines and aerospace and defense stocks.
  - Technology (-2.3%) fell, led lower by software stocks.

- The August headline CPI data increased year-over-year as oil prices rose recently. However, the core CPI (excludes food and energy) moved lower from 4.7% to 4.3% with used car prices dropping for the third straight month. The Fed stated that they are more focused on driving the core CPI lower.

### Headline and core inflation trends diverge in August



Sources: Bloomberg L.P.; Edward Jones.

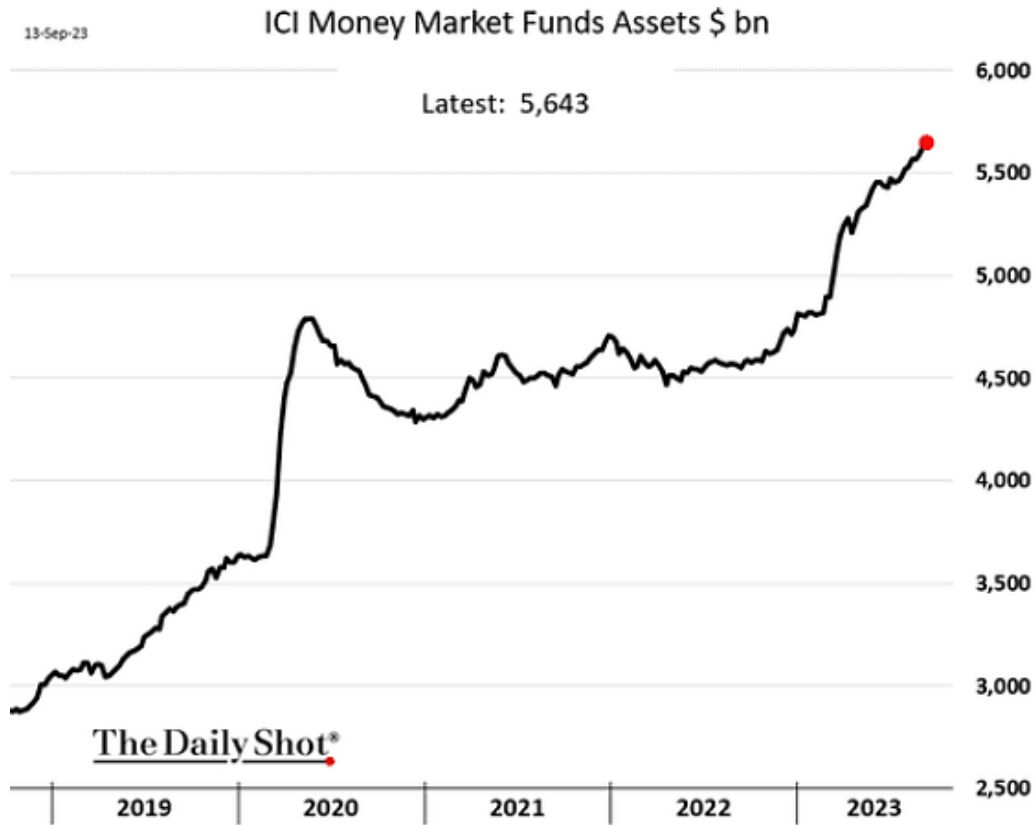
- Historically, the S&P 500 Index performed well during periods of strong economic growth and rising rates, and cyclical stocks historically outperformed defensive stocks during these periods.

Market Returns: Growth-Rate Matrix		
S&P 500 Returns, 1962-Present, Real GDP Growth & 10-Yr Yields		
	Higher Growth	Lower Growth
Higher Rates	12%	1%
Lower Rates	15%	6%

Cyclicals vs. Defensives: Growth-Rate Matrix		
Avg Sector Returns, 1962-Present, Real GDP Growth & 10-Yr Yields		
	Higher Growth	Lower Growth
Higher Rates	4%	-3%
Lower Rates	3%	-8%

Sources: Fidelity (Denise Chisholm); The Daily Shot.

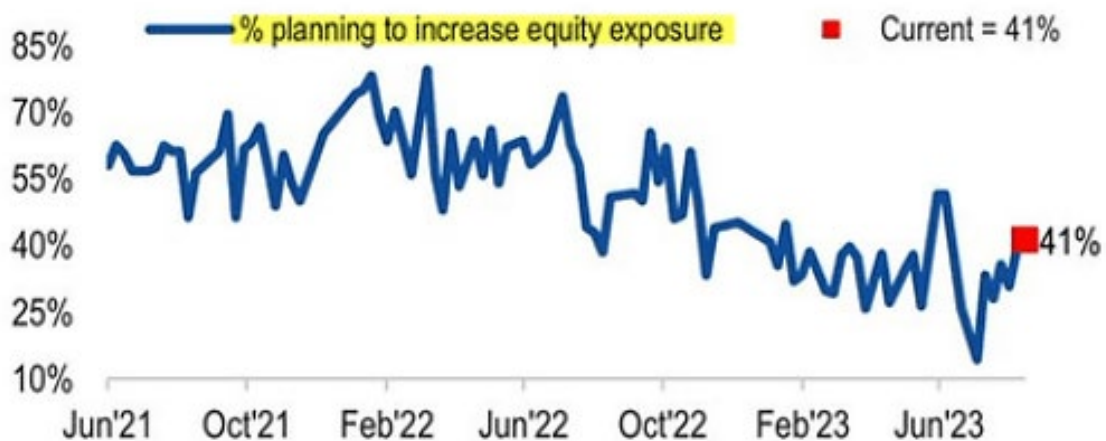
- Total assets in money market funds are at all-time highs.



ICI: Investment Company Institute. Source: The Daily Shot.

- J.P. Morgan's clients appear more likely to increase their equity exposure in the future.

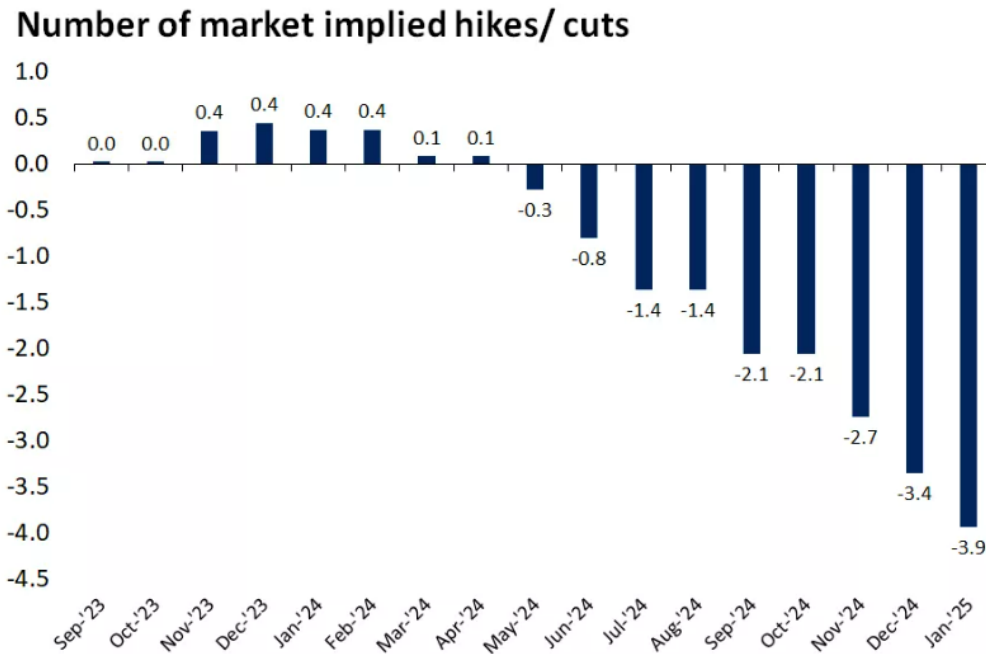
**Figure 3: Are you more likely to increase or decrease equity exposure over the coming days/weeks?**



Sources: J.P. Morgan; The Daily Shot.

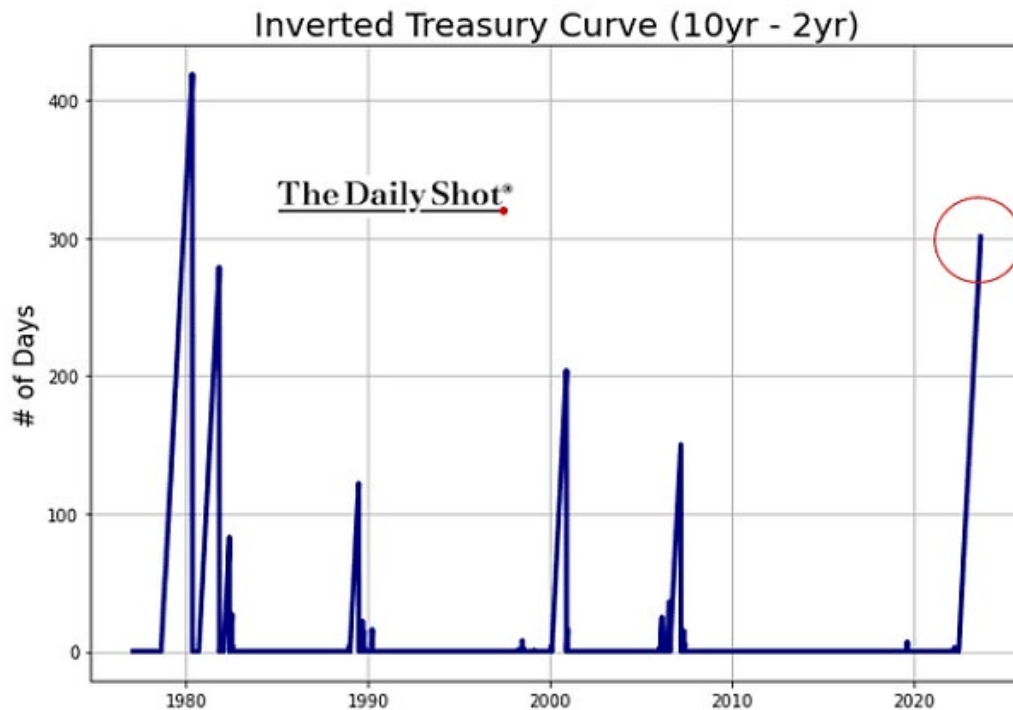
## Fixed Income Markets

- The futures market is implying rate cuts of approximately 1.0% to bring the federal funds rate to 4.5% by the end of 2024. The chart below shows the futures market-implied changes of rate hikes and cuts over the next 16 months.



Sources: Bloomberg L.P.; The Daily Shot.

- The U.S. Treasury curve has been inverted (two-year yield is higher than the ten-year yield) for over 300 days, which is longer than during 2007-2008 and 2000-2001.



Sources: Bloomberg L.P.; The Daily Shot.

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## U.S. Economic and Political News

- August retail sales were ahead of analyst expectations.
- Initial jobless claims were below consensus expectations.
- The N.Y. Fed's Empire State Manufacturing Index for September was stronger than expected, and the preliminary read for the University of Michigan's consumer sentiment report revealed lower inflation expectations for both the short and long term.

## International Markets and News

- European markets (STOXX 600 Index) rose +1.6% as the European Central Bank (ECB) raised interest rates but signaled that the ECB may have reached a peak in this tightening cycle.
- The Chinese stock market (Shanghai Composite) ended the week roughly flat as August industrial production and retail sales grew more than forecast year-over-year, which supported the narrative that the Chinese economy may have bottomed.
- Japanese equities (Nikkei 225 Index) rose +2.8% as positive Chinese economic data, as well as data suggesting that Japanese stimulus efforts are contributing to economic growth, led to improved sentiment for Japanese equities.

## This Week:

- The volume of corporate earnings reports will be modest this week.
- Investors will be focused on the Fed's meeting on Wednesday.
- Economic data:
  - Monday: National Association of Home Builders (NAHB) Housing Market Index, Treasury International Capital (TIC) Flows;
  - Tuesday: Building Permits, Housing Starts, American Petroleum Institute (API) Crude Inventories;
  - Wednesday: FOMC Meeting; Fed Funds Target Upper Bound, Mortgage Bankers Association (MBA) Mortgage Purchase Applications, U.S. Department of Energy (DOE) Crude Inventories;
  - Thursday: Current Account Balance, Philadelphia Fed Index, Existing Home Sales, Leading Indicators, Weekly Jobless Claims, Energy Information Administration (EIA) Natural Gas Inventories;
  - Friday: Flash Manufacturing Purchasing Managers' Index (PMI), Flash Services PMI, Fed Governor Lisa Cook Speaking in Toronto.

As always, thank you very much for your interest in our thoughts and support of our services.

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**The S&P 500® Index** is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

**The Russell 2000® Index** measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. 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 Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

**The NASDAQ Composite Index** is the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

**The MSCI EAFE Index** is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 900 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**The STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

**The Nikkei 225** is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

**The Shanghai Stock Exchange Composite Index** is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

Technical Terms: The target set of goods and services evaluated in the **Consumer Price Index (CPI)** are expenditures of domestic and internationally imported consumer-related services for residents of urban or metropolitan areas, including professionals, the self-employed, the poor, the unemployed, and the retired, as well as urban wage earners and clerical workers. **Cyclical and defensive stocks** are two types of stocks that react differently to the economic cycles. Cyclical stocks are stocks that tend to do well when the economy is doing well, such as luxury goods and services. Defensive stocks are stocks that tend to do well when the economy is doing poorly, such as staples and utilities. Cyclical stocks usually have higher volatility and higher returns, while defensive stocks usually have lower volatility and lower returns. The term **federal funds rate** refers to the target interest rate range set by the Federal Open Market Committee (FOMC). This target is the rate at which commercial banks borrow and lend their excess reserves to each other overnight. A **futures market** is an auction market in which participants buy and sell commodity and futures contracts for delivery on a specified future date. Futures are exchange-traded derivatives contracts that lock in future delivery of a commodity or security at a price set today. **The Empire State Manufacturing Index** rates the relative level of general business conditions New York state. A level above 0.0 indicates improving conditions, below indicates worsening conditions. The reading is compiled from a survey of about 200 manufacturers in New York state. **Money market funds** are funds that invest at least 99.5 percent of their total assets in cash, government securities, and/or repurchase agreements collateralized by cash and government securities. The **Producer Price Index (PPI)** measures the average change over time in the prices domestic producers receive for their output. It is a measure of inflation at the wholesale level that is compiled from thousands of indexes measuring producer prices by industry and product category. **The Purchasing Managers' Index (PMI)** is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting. The purpose of the PMI is to provide information about current and future business conditions to company decision makers, analysts, and investors. **The Summary of Economic Projections** occurs four times a year when the Federal Reserve releases a summary of Federal Open Market Committee (FOMC) participants' projections for GDP growth, the unemployment rate, inflation, and the appropriate policy interest rate. (Technical definitions are sourced from Corporate Finance Institute.)

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