July 2024

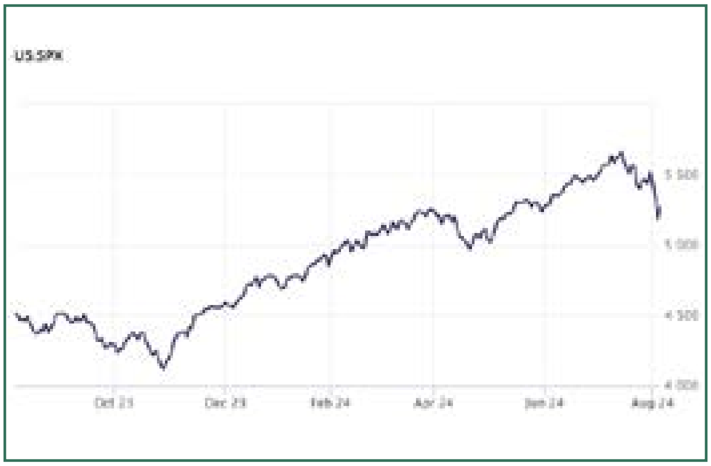
Market Recap

The stock market delivered a mixed bag in July. The broader indices set new highs while tech stocks ultimately took a step back. Still, the long-term upward trend that began for stocks in October 2022 remains solid. Reading between the lines of the policy statement following the July meeting of the US Federal Reserve (Fed) -- plus comments from Fed Chair Jerome Powell -- it now appears that an interest rate cut in September is all but a done deal.

Stock Surge in July

The markets continued their climb higher in July, setting new highs before a widespread selloff caused stocks to slide in the first week of August. The popular Dow Jones Industrial Average® (DJIA) led the surge, gaining 4.4%, while the broad market S&P 500® (SPX) gained 1.1% compared to June. The tech-heavy NASDAQ Composite Index (COMP) also made a new high before taking a small step back, falling just under 1% for the month.

The positive momentum was driven by a steady march of positive economic signals, including economic growth (GDP) and inflation numbers. The NASDAQ's eventual pullback was largely expected as investors looked to sell to take advantage of the upswing in tech stock prices. The July Fed meeting also buoyed stocks as the interest rate policymaker now appears poised to cut rates in September. CNN



Source: Wallstreet Journal

Interest Rate Cuts Likely in September

Taking no one by surprise, the Fed kept rates unchanged following its latest policy meeting at the end of July. The US central bank continues to keep its sights set firmly on bringing down inflation by keeping its key rate at a 23-year high of 5.3%. According to its statement, “the Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.”

The news comes as traders and investors – many of whom had abandoned any hope of interest rate cuts this year – will likely see at least one reduction, most likely in September. The financial markets appear to agree, currently pricing in 100% odds that the US central bank will cut its benchmark rate. Fed Chair Jerome Powell said during post meeting comments that “a reduction in our policy rate could be on the table” when the Fed meets in September.

The Fed seeks to play a tricky balancing game. On the one hand, it wants to keep interest rates high enough to put a long term damper on inflation. Its preferred inflation gauge stands at 2.5%, considerably below its peak of 7.1% two years ago, but stubbornly above its 2% target. On the other hand, it wants to keep interest rates low enough to keep borrowing costs from hampering growth and job creation. Should the Fed achieve both goals, it will likely achieve a “soft landing” out of this latest interest rate cycle, a rare accomplishment. Federal Reserve, AP News

Inflation Continues Easing

Inflation figures continue to moderate. According to the latest figures from the US Bureau of Economic Analysis, the personal expenditures price index (PCE) increased slightly in June, up 0.1% over May. Compared to a year ago, prices were up 2.5%, in line with Dow Jones estimates. The year-ago numbers have now decreased two months in a row. Spending also held relatively strong according to the report, up 0.3% and in line with expectations.

Core inflation – which excludes the more volatile components of food and energy – also came in at expectations in June, gaining 0.2% for the month and 2.6% for the year. The Fed tends to focus more on core inflation numbers – both PCE and CPI (Consumer Price Index) -- since over the long run they tend to fluctuate less widely than the top line inflation gauges. CNBC, Bureau of Economic Analysis

Soft Jobs Data Sparks Recession Concerns

Weaker-than-expected labor data has raised concerns about the health of the US economy. With job creation at its weakest and the unemployment rate at its highest since October 2021, signs of a looming recession are becoming more pronounced. A rise of 0.6% in unemployment since January is alarming, as such increases aren’t typical of a healthy economy. This trend indicates that the Federal Reserve may have delayed interest rate cuts for too long, and the markets have responded sharply. The S&P 500 has dropped nearly 5% in the days since the jobs data was released, while ten-year Treasury yields fell to 3.82%.

Despite the modest job gains in July, broader economic indicators paint a more troubling picture. The unemployment rate’s rise to 4.3% and the decline in average monthly job growth from 251,000 in 2023 to 194,000 over the past six months signal a slowdown. Additional data, such as reduced hiring rates, increased jobless claims, and a slump in manufacturing activity, further underscore the weakening job market. Although some factors, like labor force expansion and temporary layoffs, offer a slightly optimistic view, the overall trajectory suggests the need for action by policymakers. The markets now anticipate a larger rate cut from the Fed in September. USA Today