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September Market Update

After a strong July, major U.S. equity indexes retreated slightly yet remained resilient in August. Treasury yields captured the market's attention for much of the month.

Here is the tale of the tape for the month of August: The S&P 500 ($SPX) declined by 1.77%, the Nasdaq 100 fell by 1.62% ($NDX), and the Dow Jones Industrial Average ($DJI) declined by 2.36%.

S&P 500 Makes It 5 for 6

U.S. stock indexes have been good to investors in 2023, even with several headwinds in play. So, major averages taking a mild breather in August is OK, with the S&P 500 breaking a five-month winning streak. Markets don't go up or down in a straight line!

Energy Strength

Looking at stock sectors, energy was the one gainer of the eleven S&P Dow Jones Indices in August, as declining crude oil inventories translated to higher crude oil prices.

America's SPR (Strategic Petroleum Reserve) is still near a 40-year low, with no signs of replenishment anytime soon. As of September 5, the national average gasoline price was $3.812 per gallon for regular, according to data from AAA.

Jobs Picture: Fed Delight?

The employment situation was mixed in August.

The month brought a jobs gain of 187,000 reported versus estimates for 170,000, according to the Sep 1st data release. Unemployment, however, rose to 3.8%, the highest level since February of 2022.

The "real" unemployment rate (also known as the U-6 unemployment rate) rose to 7.1% in August, the highest since May 2022. The U-6 rate includes people who want to work but have given up searching and part-time workers who cannot find full-time work.

So, with the unemployment rate ticking higher, have the aggressive rate hikes by the Fed served their purpose yet? Let's measure inflation next to add to the picture.

Inflation Data Mixed

The most recent Inflation data (July) implied a mixed picture. Here's the latest:

Consumer Price Index (CPI) - July CPI rose less than expected, showing a rise of 3.2% year-over-year versus 3.3% expectations. This, of course, is a good sign for the inflation battle. However, the 3.2% annual number marked an increase from the 3.0% rise in June, the first such rise in 13 months.

Market reaction to the data was initially positive, but the overall daily gains in major equity indexes were mostly given back by the market close on the day of the data release.

Producer Price Index (PPI) - After markets digested the mixed reading on CPI, Producer Price Index (wholesale inflation) was in focus.

The wholesale pricing metric rose 0.3% in July on a monthly basis, higher than the estimates of 0.2%. The rise was the biggest monthly gain since January and a jump from an unchanged reading in June.

The wholesale pricing data could be viewed as a precursor to higher consumer prices.

Treasuries

Credit rating agency Fitch downgraded the U.S. government's credit rating from AAA to AA+ at the beginning of August. The downgrade was due in part to the high/growing debt burden.

Rising Treasury yields were a prevailing theme for most of August, with higher yields noted across the curve. 2-year yields crossed the 5% level but finished the month near 4.85%.

10-year notes fared similarly, closing the month of August near 4.094%, also off its highs set earlier in the month. A rising yield typically means investors are gravitating toward higher-risk investments that can produce higher rewards–an indication of investor confidence (as opposed to a falling yield, which signals investor caution).

Interestingly, yields did not move much initially on the Fitch downgrade but moved higher mid-month on strong economic data. They ultimately cooled down some towards the end of the month, perhaps in anticipation of tame labor data.

Rate Hike Probabilities

With the next Fed meeting right around the corner on September 20th, the chances of a rate hike at the meeting seemed slim to start the month. Perhaps the August labor data showing higher unemployment helped to cement these probabilities, indicating the Fed's hikes have cooled the economy.

You can check out current probabilities via the CME FedWatch Tool.

Ultimately, keeping you informed of key economic news is a top priority. As more developments occur, we will keep you apprised of them.

In the meantime, if you would like to talk about the current market outlook and explore investment strategies based on your objectives, please don't hesitate to contact your advisor.