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October Market Update

Long-term investors with diversified portfolios had a solid month in September, as the S&P 500 rose for three consecutive weeks. As a bonus, the recent stock index rally was further fueled by a Federal Reserve (Fed) that delivered on a 50-basis-point rate cut.

With the major U.S. equity market indexes continuing their impressive overall upward trajectory since May, now is the perfect time to inform you about key developments over the course of the last month.

Major Stock Indexes

The recent stock market rally continued for another month, but it wasn't without some fireworks at the beginning of the month over labor market concerns.

Amazingly, the S&P 500 had its worst week of 2024 to start the month. Yet by month's end, it was another month in the green. It is truly amazing how the volatility has come and gone so quickly this year.

Overall, for the month of September, the S&P 500 added 2.02%, the Nasdaq 100 tacked on 2.48%, and the Dow Jones Industrial Average was higher by 1.85%.

Fed Rate Cut

In September, the Fed delivered the hugely anticipated rate cut in the form of a 50-basis-point cut to the overnight lending rate, leaving the Fed's target rate between 4.75 - 5.00%. The rate cut is the first in four years, and the market response was supportive.

Heading into the Fed rate decision, a rate cut was widely expected, and it was just a matter of whether it would be 25 or 50 basis points. The Fed went in the more aggressive direction.

Fed Market Reaction & Expectations

Market reaction to the Fed rate decision the day after the announcement was bullish and was on full display, as the Dow and S&P 500 jumped to record high levels.

According to the Fed's Summary of Economic Projections (SEP), 50 basis points of additional cuts are now expected for 2024, a more dovish and accommodating stance than previously thought.

Fed Recalibration

Are you looking for a new financial buzzword? Fed "recalibration" is here! This term originated at the Fed press conference following the interest rate decision.

The message is one of strength surrounding the state of the economy, indicating that the large 50-basis-point rate cut was not executed due to economic weakness, but rather to shore up the labor market .

Markets interpreted the message in the intended fashion, as asset prices soared the day after the Fed announcement and recalibration message.

Softer U.S. Inflation Readings

The overall trend for inflation saw some further cooling in September to the delight of stock market bulls.

Consumer Price Index (CPI): The most recent CPI data released in September (August data) showed inflation continuing to cool on an annualized basis, coming in right at expectations. The report revealed a 0.2% increase in monthly CPI, resulting in an annual increase of 2.5% — the lowest annual inflation rate since 2021. Markets liked it.

Prices of goods and services are still elevated; we don't need government data to let us know that! But we are making great strides toward the Fed's 2% inflation target. Many analysts expect the overall inflation-cooling trend to continue, but let's see how the 50-basis-point cut affects it!

CPI Market Reaction: Markets initially lost some ground upon the CPI data release in September, with the Dow falling 743 points intraday before mounting its largest intraday comeback in almost two years.

The trading action came as a result of traders and investors trying to figure out if the data would edge the Fed toward a 25- or 50-basis point cut and whether such an action would translate to a soft or hard landing.

Well, we got the 50 basis points at the Fed meeting, and the current consensus and market reaction is one for a soft landing.

Producer Price Index (PPI): The day after we got CPI, producer pricing (i.e., wholesale pricing) was released and showed a rise of 0.2% in August, matching Dow Jones estimates. Major stock indexes came into the day of the release higher from the previous day's CPI print and continued their upward journey that day.

Personal Consumption Expenditures (PCE): The freshest piece of inflation data came towards the end of September in the form of the Fed's preferred inflation gauge, PCE.

Data showed pricing coming in below expectations, with prices rising 2.2% annually and only 0.1% for the month versus expectations for 0.2%.

2.2%, psychologically, is very close to the Fed's goal of 2%, and the encouraging data print on the inflation front paves the way toward a rate-cut-friendly Fed in the future.

Mixed Labor Market Data

September's monthly jobs report showed another decline in job creation, with 142,000 jobs created in August vs. 161,000 forecasted. Unemployment declined on a monthly basis, however, to 3.9% versus 3.7% forecasted.

The data comes after recent revisions that triggered concern over the labor market. Over the last couple of months, we've seen downward revisions in previously printed job creation data, and they factored heavily into the Fed's 50-basis-point rate cut decision to shore up the labor market.

Treasury Yields & Normalization

The 2-year Treasury yield and the 10-year Treasury yield moved lower overall throughout the month, ending September near 3.803% on 10s and 3.645% on 2s.

Perhaps more important is the relationship between the 10-year and 2-year yields. We saw the 2/10 yield curve "uninvert" or normalize in September for the first time in 793 days, which represented the longest yield inversion in history. Yield inversion occurs when the 2-year Treasury yield is larger than the 10-year yield.

Well, we are back to normal now. The 2/10 yield curve normalization has various interpretations, one of which is that it's a historical indicator that portends recession. Yet, other interpretations exist based on where we are.

Mixed Consumer Data

September retail sales data showed an increase of 0.1% in August amid varying expectations. After reaching a six-month high in August, consumer confidence dropped in September to 98.7 versus expectations of 103.9.

So, it was a mixed bag for the consumer last month. We'll see how the Fed's rate cut affects the consumer in upcoming data releases.

The Takeaway

September featured a further continuation of the rally in anticipation of a Fed rate cut, and the market got what it wanted in the form of the 50-basis-point variety. Inflation data showed further signs of encouragement, although the labor market could use some help. We know the Fed has this in mind.

The yield curve "uninversion" or normalization hasn't commanded too much attention in the media, but we know it has occurred. Election Day themes are a topic of discussion and will continue to be until Election Day and beyond.

Current expectations for 50 basis points more in cuts to come for the rest of 2024. How will the normalization of the yield curve intertwine with any potential further rate cuts? Time will tell.

As always, we're dedicated to prioritizing long-term goals and strategy while keeping you apprised of current market developments. If you have questions or concerns, feel free to reach out to your advisor anytime.

Wishing you a fantastic October,

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