Your Weekly Investment
Insights
September 3, 2024

VERDENCE CAPITAL ADVISORS

Key **Takeaways:**

- Inflation approaching Fed's 2% target; Fed signals cuts are on the way.
- Global equities remain resilient in the face of heightened volatility.
- Value sectors outperform growth sectors.
- Bond yields plummet as path forward for rate cuts get clearer.
- Commodities flat despite sharp drop in energy.

Equities Prevail in the Face of Volatility – August Recap

The first week of August was met with U.S. equities notching their worst daily performance since 2022 and volatility (i.e., VIX index) reaching its highest level since the pandemic. Weak economic data sparked fears of a hard landing, suggesting the Fed may be late to cutting rates. Bond yields fell sharply on the expectation for a hard landing. However, global equity markets staged an impressive turnaround as Federal Reserve speakers assured rate cuts were on the way. This week, we provide a recap of August from an economic and asset class perspective.

- **Inflation improving toward Fed target:** The Fed's preferred inflation gauge, PCE Core, increased in line with estimates at 2.6% (YoY %). Headline CPI inflation increased at the slowest pace since March 2021 at a 2.9% annualized pace.
- **Labor market weaker than expected:** The preliminary annual payroll benchmark revision indicated the U.S. economy added ~818k fewer jobs than originally believed through March 2024. This was the largest annual downward revision since 2009.
- **Fed signals rate cuts on the way:** The Federal Reserve held their annual Jackson Hole Symposium and Chairman Powell gave the clearest signal yet on rate cuts. He noted, "the time has come for policy to adjust."
- **Housing remains weak:** Tight inventory, elevated borrowing costs, and record high home prices all continue to challenge the housing market.
- **Consumer surprisingly resilient:** Despite record high credit card debt, retail sales jumped much more than expected. Early back to school sales likely pushed spending into July.

Global Equities – Equities remain resilient: The MSCI ACWI was higher for the fourth straight month despite a surge in volatility (and losses) to start the month.

- **Impressive turnaround:** The S&P 500 began the month lower by roughly 7% before staging an impressive rally to end the month ~2% higher. This ~10% swing (from low to high) was the largest swing since October 2022.
- **Value sectors lead the rally:** The Russell 1000 Value Index outperformed its Growth counterpart by ~60bps in August. Consumer staples and real estate were the best performing sectors.

Fixed Income – Bond yields tumble (prices higher) on prospect for Fed rate cuts: The Bloomberg Aggregate Index was higher for the second month in August as Treasury yields fell (bond prices moved higher).

- **Riskier areas of fixed income outperform:** High yield corporate bonds and EM debt (USD) led the bond rally.
- **Duration pays off:** Long term bonds outperformed short term bonds as Treasury bills, floating rate notes and leveraged loans lagged.

Commodities flat: The Bloomberg Commodity Index was relatively flat for the month.

- Energy and grains declined for the month. Primarily crude oil and heating oil. While grains were dragged lower by soybeans and corn.

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Key Takeaways:

- Consumer confidence climbs as expectations improve.
- Home prices reach highest level on record.
- PCE Core increases in line with estimates.
- Global equities climb on prospect for September rate cuts.
- High yield outperforms; Treasury yields higher.
- Grains rise on supply disruptions.

Weekly Economic Recap –

Economic Growth Better than Expected on Stronger Consumer Spending

Headline durable goods orders surged 9.9% in July. However, it was primarily due to a surge in aircraft orders. Orders excluding nondefense aircraft declined 0.1% (MoM).

Consumer confidence as tracked by the Conference Board increased to a six-month high in August. Consumers became more confident in the economy for the next six-months, as the gauge increased to a one-year high. Sentiment around the labor market decreased as those indicating jobs were "plentiful" (32.8%) was the smallest since March 2021, and the sixth straight decline.

Home prices reached the highest level on record according to the S&P CoreLogic Case-Shiller Index. Prices in Seattle, San Diego, and New York rose the most.

The U.S. economy grew more than expected in 2Q24 as consumer spending was revised to 2.9% vs. 2.3% original estimated. Health care, housing, and utilities were the largest contributors to the increase in spending.

Pending home sales dropped at the fastest monthly pace in three months and the Index made a fresh record low in July, surpassing the previous record low reaching the pandemic.

The Fed's preferred inflation gauge, PCE Core, increased in line with consensus estimates (2.6% YoY). Services inflation remains sticky, however, with the largest contributor to price increases being financial services and insurance.

Weekly Market Recap –

Global Equities Higher as Economic Data Clears Path for Fed Rate Cuts

Equities: The MSCI AC World Index was higher for the fourth straight week as investors welcomed signs of easing inflation data, clearing the path for September Fed rate cuts. Value sectors led performance in the U.S. The blue-chip Dow Jones Industrial Average was higher for the third straight week and outperformed the tech heavy S&P 500 Index by ~80 bps.

Fixed Income: The Bloomberg Barclays Aggregate Index was lower for the first time in three weeks. Treasury yields moved higher (prices moved lower) as bond investors are concerned there is too much optimism around a 50 bps rate cut in September. The 10YR U.S. Treasury yield climbed ~9bps. High yield, leveraged loans and floating rate instruments were the best performing sectors in fixed income.

Commodities/FX: The Bloomberg Commodity Index was lower for the first time in four weeks. Higher grain prices overshadowed weakness in energy, precious and industrial metals. Grain prices were led higher by wheat on concerns for fewer European exports. Soybeans were also higher on a Brazilian drought that is threatening crops. Gold prices slipped from their fresh record high after Treasury yields rose.

Consumer Expectations Improve to Highest in a Year

Footnotes: Data is as of August 2024.
Source: Bloomberg Finance LP, Verdence Capital Advisors.

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Global Equities Rise on Hopes for Fed Rate Cut

U.S. Equities	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	41,563	1.1%	2.0%	7.9%	22.1%	11.7%
S&P 500	5,648	0.3%	2.4%	7.4%	27.1%	19.5%
Russell 1000 Growth	3,679	-0.7%	2.1%	7.1%	30.8%	21.1%
Russell 1000 Value	1,848	1.3%	2.7%	6.9%	21.1%	15.1%
Russell Midcap	3,455	0.3%	2.0%	6.1%	20.1%	12.1%
Russell 2000	2,218	0.0%	-1.5%	7.5%	18.4%	10.4%
Nasdaq	17,714	-0.9%	0.7%	6.0%	27.2%	18.6%

International Equities	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	833	0.4%	6.0%	6.4%	23.1%	15.9%
MSCI EAFE (USD)	2,449	0.4%	7.1%	4.4%	19.5%	11.8%
MSCI Europe ex UK (USD)	2,750	0.5%	7.5%	3.2%	19.8%	11.5%
MSCI Japan (USD)	4,108	0.3%	7.1%	4.8%	18.3%	12.2%
MSCI UK (USD)	1,310	0.1%	5.8%	5.6%	21.9%	14.9%
MSCI EM (USD)	1,096	-0.7%	3.5%	5.6%	14.1%	9.2%
MSCI Asia ex Japan (USD)	702	-0.5%	3.7%	5.7%	14.7%	11.3%

Fixed Income	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	4.4%	-0.4%	-0.1%	4.9%	7.9%	3.1%
U.S. Govt/Credit	4.3%	-0.5%	1.4%	4.6%	7.7%	3.0%
U.S. 10 Year Treasury	3.9%	-0.7%	-0.7%	5.6%	6.2%	2.2%
U.S. TIPS (1-10YR)	4.0%	-0.2%	0.7%	3.0%	6.8%	3.6%
U.S. High Yield	7.3%	0.2%	1.6%	4.6%	12.5%	6.3%
EM Bonds (USD)	6.6%	-0.1%	1.5%	4.6%	12.5%	6.3%
Municipal Bonds	3.4%	0.0%	0.8%	3.3%	6.1%	1.3%

Commodities	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	229	-0.3%	0.0%	-5.5%	-4.4%	0.9%
Crude Oil (USD/bbl)	$71.2	-8.1%	-2.4%	-3.1%	-14.4%	-0.5%
Gold ($/oz)	$2,499.5	-1.3%	2.0%	6.0%	28.5%	20.8%
Copper	$414.5	-4.4%	-1.7%	-13.6%	5.8%	3.6%
Wheat	$551.5	4.7%	-2.3%	-23.5%	-18.3%	-17.9%
U.S. Dollar	102	0.8%	-1.5%	-2.4%	-2.5%	0.3%
VIX Index	15.6	-5.4%	-8.3%	16.1%	10.5%	20.5%

Footnotes: Data is as of September 2, 2024. International and some commodity markets trade on Labor Day.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

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Past performance is not indicative of future returns.