VERDENCE CAPITAL ADVISORS

Key **Takeaways:**

- September is historically the weakest month of the year for equity returns.
- Fed to cut rates by 25 bps but growth expectations may concern investors.
- Fed should not ignore recent inflation data.
- Investors may be pulling money to bonds before rate cuts.
- We expect more downside ahead.

Is the "September Effect" Already Taking Hold in Equity Markets

Going back to 1945, September has historically been the worst month of the year for equity returns. The S&P 500 declines, on average, ~1.0% and has only been positive 44% of the time. If last week was any indication, the negative "September Effect" may already be taking hold in the markets. There are many different opinions/theories on why this takes place, including money managers coming back from vacations, investors locking in gains before year end, and an increase in bond issuance. It is important for investors to realize, the "September Effect" is a theory not a fact. In this weekly insights we address the risks that we see this month that may contribute to the "September Effect" assumption.

- **The tone of the Fed meeting:** The employment report we received last week suggested a slowing labor market but not slowing enough to justify a 50-bps rate cut at the next meeting. What will be important at the meeting is the Fed's comments on future actions. In addition, we will receive updated dot plots, and estimates for GDP, employment and inflation. Last week we received the Fed's Beige Book which is a report on the current economic conditions in the 12 Federal Reserve Districts. There were nine districts that reported growth as flat or declining (up from five in the past report). If this negative outlook for growth is reflected in the Fed's official forecasts, this can fuel the hard landing scenario for the economy.

- **Will inflation derail Fed hopes?** The only major economic data that we will get before the Fed meeting on Sept. 17/18th is on inflation. The Fed needs to be conscious of some of the recent inflation data we have seen. Average hourly earnings rose more than expected last week. The prices paid component in both the ISM Services and ISM Manufacturing Index moved higher in August. We are not saying we are in for an inflation scare but if any of the inflation data is hotter than expected that could limit the Fed's flexibility.

- **Record bond issuance last week:** According to data compiled by Bloomberg, Tuesday, September 3rd, 2024, was the busiest single sales day (by number of issuers) for the corporate bond market on record.[1] It was the third-busiest day by dollar volume on record ($43.3 bn). The high volume of issuance comes as investors are looking to lock in higher yielding securities before the Fed cuts rates. This may be pulling capital from equity markets to bonds.

- **Budget deficit back in focus.** The Federal government's fiscal year ends at the end of September and the deficit is expected to climb to $1.9 trillion. While the debt ceiling has been suspended until early 2025, the debate around the fiscal health in the U.S. should increase.

The Bottom Line:

While history can be a guide, it is not an overriding factor when it comes to investing. Instead, we are focused on the macro outlook and what is priced into the market. While the S&P 500 posted its worst one week decline since March 2023 last week, we are concerned there is more downside ahead. The economy is weakening quickly, the Fed may not have as much flexibility as investors are expecting and we have not seen earnings revised lower to reflect the economic weakness.

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Past performance is not indicative of future returns.

Weekly Economic Recap –

Labor Market Cools Further

The ISM Manufacturing Index rose modestly in August but has been in contraction territory (a level below 50) for 21 out of the past 22 months. Nearly every category remains in contraction territory. However, prices paid jumped for the second consecutive month.

The number of job openings in the U.S. dropped to the lowest level since January 2021. There are now ~550K more job openings than those looking for work. This is well below the peak of over 6 million job openings reached in March 2022.

The ISM Services Index was relatively unchanged in August and remains in expansion territory. Sharp declines in the backlog of orders, inventory sentiment and export orders overshadowed strength in delivery times and prices paid.

The U.S. economy added 142K jobs in August which was weaker than anticipated (estimate was 165K). In addition, the prior two months were revised lower by 86K jobs. The unemployment rate ticked modestly lower (from 4.3% to 4.2%) due to a reversal of temporary layoffs. Average hourly earnings rose more than expected on an annual basis (3.8% compared to 3.7% estimate).

Key Takeaways:

- Manufacturing remains in contraction territory.
- Service sector resilient.
- Labor market cooling further.
- Global equities fall sharply on growth scare.
- Bond yields fall on growth fears.
- Commodities drop led by oil.

Weekly Market Recap –

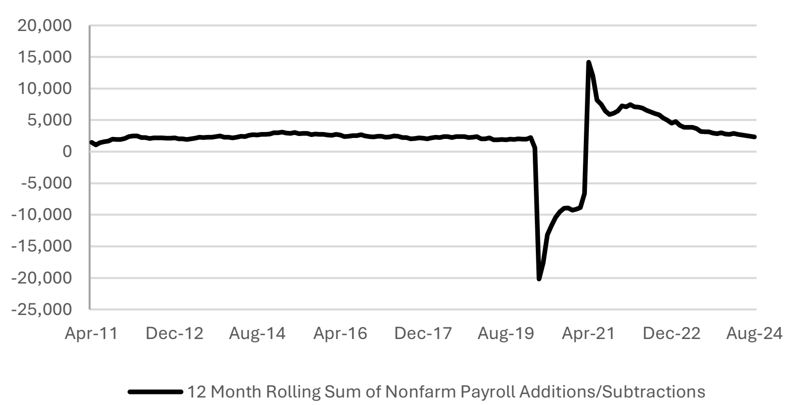
Global Equities Fall Sharply on Growth Concerns

Equities: The MSCI AC World Index posted its worst one week of performance since September 2022 as soft economic data has investors concerned the Fed may be behind the curve in cutting rates. The U.S. led the global weakness specifically in small cap stocks and the technology and growth sectors.

Fixed Income: The Bloomberg Barclays Aggregate Index posted its best one week gain in five weeks. Weak economic growth is pushing bond yields lower. Every major fixed income sector we monitor rallied for the week but the gains were led by Treasuries and investment grade credit.

Commodities/FX: The Bloomberg Commodity Index dropped for the second consecutive week and posted its worst one week decline in two months. Every major commodity sector declined with the exception of grains. Crude oil saw the worst of the declines as concern about weakening demand overshadowed OPEC's decision to not increase production.

Rolling Payroll Gains at Lowest Level Since Pandemic



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

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Global Equities Fall on Growth Concerns

U.S. Equities	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	40,345	-2.9%	3.8%	4.2%	19.5%	8.5%
S&P 500	5,408	-4.2%	3.4%	1.4%	22.9%	14.5%
Russell 1000 Growth	3,480	-5.4%	2.9%	-1.4%	24.8%	14.6%
Russell 1000 Value	1,791	-3.1%	4.0%	4.3%	18.5%	11.6%
Russell Midcap	3,325	-3.7%	3.1%	2.9%	16.9%	8.0%
Russell 2000	2,091	-5.7%	1.5%	2.4%	13.2%	4.1%
Nasdaq	16,691	-5.8%	2.1%	-2.6%	21.3%	11.8%

International Equities	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	803	-3.7%	4.3%	1.1%	19.9%	11.7%
MSCI EAFE (USD)	2,383	-2.8%	6.5%	0.3%	17.5%	8.8%
MSCI Europe ex UK (USD)	2,655	-3.5%	5.3%	-2.3%	17.8%	7.7%
MSCI Japan (USD)	4,027	-2.7%	7.8%	2.3%	15.0%	10.0%
MSCI UK (USD)	1,285	-2.1%	6.5%	3.0%	21.3%	12.7%
MSCI EM (USD)	1,075	-2.2%	4.5%	1.2%	12.4%	7.1%
MSCI Asia ex Japan (USD)	688	-2.3%	4.9%	0.9%	12.5%	9.2%

Fixed Income	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	4.2%	1.3%	1.8%	4.8%	9.9%	4.4%
U.S. Govt/Credit	4.1%	1.3%	1.9%	4.7%	9.8%	4.3%
U.S. 10 Year Treasury	3.7%	1.8%	1.9%	5.7%	9.0%	4.0%
U.S. TIPS (1-10YR)	3.7%	0.4%	0.9%	2.8%	7.5%	4.0%
U.S. High Yield	7.2%	0.2%	2.4%	4.2%	13.3%	6.5%
EM Bonds (USD)	6.4%	0.5%	2.6%	4.7%	13.8%	6.8%
Municipal Bonds	3.4%	0.5%	0.1%	2.5%	6.8%	1.8%

Commodities	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	223	-2.4%	0.0%	-8.2%	-7.1%	-1.4%
Crude Oil (USD/bbl)	$68.4	-7.0%	-8.5%	-7.1%	-19.1%	-3.3%
Gold ($/oz)	$2,497.4	0.1%	3.0%	9.1%	30.4%	21.3%
Copper	$401.5	-1.6%	2.1%	-9.0%	10.8%	4.8%
Wheat	$567.0	2.4%	-0.1%	-16.5%	-16.3%	-15.5%
U.S. Dollar	101	-0.1%	-1.5%	-3.1%	-3.3%	0.3%
VIX Index	22.4	49.2%	-19.2%	77.9%	54.9%	79.8%

Footnotes: Data is as of September 6, 2024.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

[1]: https://www.bloomberg.com/news/articles/2024-09-03/corporations-stampede-into-bond-market-in-busiest-day-on-record?srnd=homepage-americas

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