

Key Takeaways:

- FED day is upon us with announcement on Wednesday.
- The end is near for one of the most aggressive tightening cycles in history.
- Real rate offers the Fed some flexibility.
- History suggest S&P 500 rally has already priced in rate cuts.
- History can be a guide and a tool but all economic environments have been different.

FED Day is Here...A Look at Historical Easing and Tightening Cycles

The Federal Reserve meets this week with a rate announcement and press conference on Wednesday. By the time they make their announcement it will have been ~14 months since their last rate hike. Going back to 1945, it will be the fourth longest stretch that a Federal Reserve has remained on hold before starting a rate cutting cycle. We expect the Fed will cut their benchmark rate by 25 bps as opposed to the 50 bps that the futures market has priced in at a ~40% chance. In this weekly, we take a look at historical rate tightening cycles and compare them to the current cycle. In addition, what historically happens when the Fed starts cutting rates?

- **One of the most aggressive tightening cycles:** Going back to 1945, the median average of rate hikes in a tightening cycle has been 225 bps. However, by raising 525 bps in ~17 months (March 2022-July 2023), this tightening cycle has been one of the most aggressive by magnitude and length. The only two tightening cycles that were more aggressive were the 1973 and 1980 tightening cycles. Both resulted in deep recessions.

- **Real rate suggests it is time:** Historically, the median average real Fed Funds rate when the Fed starts raising interest rates in a tightening cycle is 0.55%. However, the Fed was late to hiking rates in this cycle with the real Fed Funds rate at -8.25% when they started hiking. However, by hiking aggressively and inflation slowing, they have raised the real Fed funds rate to 3.00% (using CPI year over year as of August 2024). This is above the historical average of the real Fed Funds rate at the peak of past tightening cycles (2.30%).
- **The Fed is typically too late:** The Fed tends to be late in cutting rates and has not had the best track record of orchestrating a soft landing for the economy. In fact, going back to 1945, 60% of the easing cycles started when the economy was already in recession or headed towards one.
- **Is rate cut priced into equities?** The S&P 500 tends to struggle in the time leading up to the first rate cut. This is typically because they are cutting rates because the economy is heading towards a recession. On average, the S&P

500 is negative in the 12 months leading up to the first rate cut. However, as of Friday, the S&P 500 has been up 28% in the trailing 12 months. That is the most the S&P 500 has ever been up in the 12 months leading to the first rate cut.

The Bottom Line:

While history can be a guide and an interesting exercise to examine, it is not an overriding factor when it comes to investing. Instead, we are focused on the macro outlook and specifically what is priced into the market. Every tightening and easing cycle that we monitored has also been accompanied by very different economic environments. Instead, we are looking at the current situation where the economy is slowing, select areas of inflation remain stubborn and equities at current levels may already be reflecting the Fed's actions this week. In fact, they may be too optimistic about what the Fed has the flexibility to do. We will be watching closely the Fed's new economic assumptions to see how many rate cuts they can deliver in the coming months and into 2025.

Weekly Economic Recap –

Inflation Opens Door For Fed

Small business optimism as measured by the NFIB Small Business Optimism Index fell for the first time in five months in August. The weakness was led by pessimism on the economy, future sales, and the expectation for future earnings.

Consumer credit jumped at the fastest pace in 10 months in July. Revolving credit (which includes credit card debt) rose at the fastest pace in five months.

Inflation as measured by the Consumer Price Index rose in line with expectations at the headline and core level. At the headline level, inflation is growing 2.5% on a year over year basis which is the slowest pace of annual growth seen since February 2021. At the core level, inflation is growing 3.2% (YoY) as service inflation and shelter continue to remain stubbornly high.

Inflation at the producer level also came in relatively in line with expectations in August. However, at the super core level, which excludes food, energy and trade, prices rose slightly more than expected. These prices are rising 3.3% (YoY) which is higher than the 3.2% rate seen in July.

The preliminary reading on the University of Michigan Consumer Confidence Index for September showed confidence improved for the second consecutive month. Both confidence on the current economic situation and future expectations rose for the month. In addition, one year ahead inflation expectations fell for the fourth consecutive month.

Key Takeaways:

- Small business optimism still weak.
- Inflation cooling; services and housing sticky.
- Consumers more confident.
- Global equities rally as tech resumes its leadership.
- Bonds rally on likely Fed rate cuts.
- Commodities rally on soft landing hopes.

Weekly Market Recap –

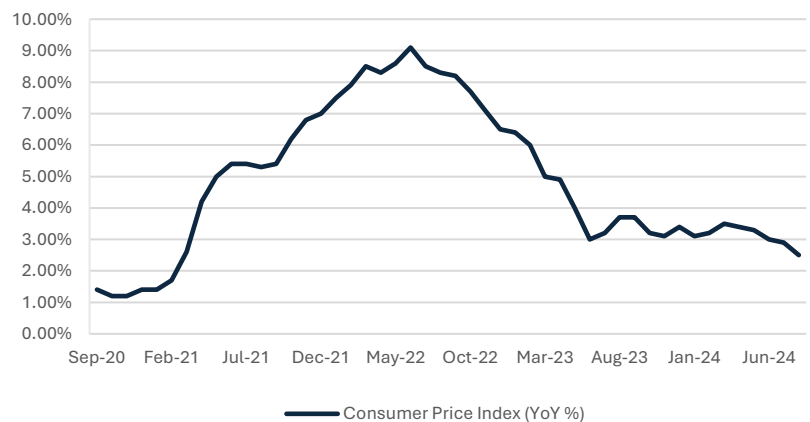
Global Equities Rise on Rate Cut Hopes

Equities: The MSCI AC World Index posted its best one week rally in the past four weeks. Cooling inflation data in the U.S., an ECB rate cut and optimism around Fed rate cuts this week fueled the global rally. In addition, technology resumed its leadership with the NASDAQ in the U.S. posting its best one week rally since November 2023. Large cap growth outperformed large cap value by 400 bps.

Fixed Income: The Bloomberg Barclays Aggregate Index rallied for the second consecutive week as investors are anticipating at least a 25 bps rate cut at the Fed meeting this week. All sectors in fixed income were higher but it was led by TIPS and investment grade credit.

Commodities/FX: The Bloomberg Commodity Index rallied the most in 17 weeks last week. All the major commodity categories rallied as slowing inflation and global central bank rate cuts are fueling hopes for a global soft landing.

Inflation Growing at Slowest Pace in Three Years



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

Global Equities Rally on Rate Cut Hopes

U.S. Equities								International Equities							
	Current	1WK	1MO	3MO	1YR	YTD		Current	1WK	1MO	3MO	1YR	YTD		
Dow Jones Industrial Average	41,394	2.6%	4.4%	7.6%	22.1%	11.4%	MSCI AC World (USD)	827	3.1%	3.7%	3.8%	23.6%	15.1%		
S&P 500	5,626	4.1%	3.7%	3.9%	27.8%	19.1%	MSCI EAFE (USD)	2,411	1.2%	4.5%	3.7%	19.0%	10.1%		
Russell 1000 Growth	3,690	6.0%	3.4%	1.4%	32.5%	21.5%	MSCI Europe ex UK (USD)	2,702	1.8%	4.4%	2.4%	20.1%	9.6%		
Russell 1000 Value	1,825	2.0%	4.1%	7.1%	20.6%	13.8%	MSCI Japan (USD)	4,035	0.2%	4.6%	4.1%	15.9%	10.2%		
Russell Midcap	3,429	3.2%	4.1%	6.0%	21.9%	11.4%	MSCI UK (USD)	1,294	0.8%	3.4%	5.4%	20.3%	13.6%		
Russell 2000	2,182	4.4%	4.3%	7.4%	20.3%	8.7%	MSCI EM (USD)	1,082	0.8%	1.3%	1.6%	13.9%	7.9%		
Nasdaq	17,684	6.0%	3.0%	0.3%	29.1%	18.4%	MSCI Asia ex Japan (USD)	693	0.9%	1.8%	0.9%	14.7%	10.1%		

Fixed Income								Commodities							
	Current Yield	1WK	1MO	3MO	1YR	YTD		Current	1WK	1MO	3MO	1YR	YTD		
U.S. Aggregate	4.1%	0.5%	1.9%	5.0%	10.0%	4.9%	Bloomberg Commodity Index	229	2.7%	1.1%	-5.2%	-5.1%	1.2%		
U.S. Govt/Credit	4.0%	0.5%	1.9%	4.8%	10.0%	4.8%	Crude Oil (USD/bbl)	\$70.2	2.1%	-6.5%	-8.3%	-20.6%	-1.5%		
U.S. 10 Year Treasury	3.7%	0.5%	1.9%	5.8%	9.1%	4.6%	Gold (\$/oz)	\$2,577.7	3.1%	3.1%	10.8%	34.3%	25.3%		
U.S. TIPS (1-10YR)	3.7%	0.7%	1.3%	3.6%	7.7%	4.8%	Copper	\$417.5	3.1%	1.7%	-6.3%	11.9%	8.3%		
U.S. High Yield	7.2%	0.4%	2.1%	4.3%	13.4%	7.0%	Wheat	\$594.8	3.1%	6.1%	-9.8%	-13.3%	-12.4%		
EM Bonds (USD)	6.4%	0.6%	2.3%	4.7%	14.2%	7.4%	U.S. Dollar	101	-0.8%	-1.7%	-4.6%	-4.4%	-0.6%		
Municipal Bonds	3.3%	0.2%	0.8%	2.4%	7.1%	2.0%	VIX Index	16.6	-26.0%	-8.6%	38.7%	22.8%	33.0%		

Footnotes: Data is as of September 13, 2024.

Data Source: Bloomberg Finance LP, Verdenance Capital Advisors.

Disclaimer:

© 2024 Authored by Megan Horneman, Chief Investment Officer, Verdence Capital Advisors, LLC. Reproduction without permission is not permitted. The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index.

This material was prepared by Verdence Capital Advisors, LLC ("VCA" or "we", "our", "us"). VCA believes the information and data in this document were obtained from sources considered reliable and correct and cannot guarantee either their accuracy or completeness. VCA has not independently verified third-party sourced information and data. Any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur. These projections, market outlooks or estimates are subject to change without notice. This material is being provided for informational purposes only and is not intended to provide, and should not be relied upon for, investment, accounting, legal, or tax advice. Past performance is not a guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product or any non-investment related content, made reference to directly or indirectly in these materials will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. You should not assume that any discussion or information contained in this report serves as the receipt of, or as a substitute for, personalized investment advice from VCA. Alternative investments are designed only for sophisticated investors who are able to bear the risk of the loss of their entire investment. Investing in alternative investments should be viewed as illiquid and generally not readily marketable or transferable. Investors should be prepared to bear the financial risks of investing in an alternative investment for an indefinite period of time. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. All indexes are unmanaged, and you cannot invest directly in an index. Index returns do not include fees or expenses. Sector Watch Use of this website is intended for U.S. residents only. Any recommendation, opinion or advice regarding securities or markets contained in such material does not reflect the views of Verdence Capital, and Verdence Capital does not verify any information included in such material. Verdence Capital assumes no responsibility for any fact, recommendation, opinion, or advice contained in any such research material and expressly disclaims any responsibility for any decisions or for the suitability of any security or transaction based on it. Any decisions you may make to buy, sell, or hold a security based on this research will be entirely your own and not in any way deemed to be endorsed or influenced by or attributed to Verdence Capital. It is understood that, without exception, any order based on such research that is placed for execution is and will be treated as an UNRECOMMENDED AND UNSOLICITED ORDER. Further, Verdence Capital assumes no responsibility for the accuracy, completeness, or timeliness of any such research or for updating such research, which is subject to change without notice at any time. Verdence Capital does not provide tax, or legal advice. Under no circumstance is the information contained within this research to be used or considered as an offer to sell or a solicitation of an offer to buy any particular investment/security. Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Lower rated securities are subject to greater credit risk, default risk, and liquidity risk. Commodity-related products, including futures, carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by underlying commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions, regardless of the length of time shares are held. Data is provided for information purposes only and is not intended for trading purposes. Verdence Capital shall not be liable for any errors or delay in the content, or for any action taken in reliance on any content. Weekly Insights/Qtly & Annual Outlook The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index. Semi-Annual Chart Pack Where shown, performance information presented is that which has been calculated and presented by an unaffiliated third-party manager. We have no insight into the performance of the advisor/product/account or fund shown and do not attempt to determine whether the performance presented is accurate. Therefore, the performance could be incorrect, overstated or not reflective of actual trading of client funds. There is the potential that the performance shown is a back test and not the result of real investment advice and trading. As such, it could not be relied upon as indicative of future returns of a particular strategy. Where performance shown is that of a pooled account, limited partnership, or private equity fund, you should be aware that there is a significant lack of transparency into the operations and investment process and investment vehicles invested in. As a result, pricing and valuation of the underlying holdings which produced the stated performance could be incorrect, stale, or overstated and therefore the performance figures presented cannot be relied upon. Before investing, we encourage you to request additional information, particularly performance information, of any product that you are considering for your client. You should read, as applicable, the Prospectus, SAI, Composite Disclosure and/or performance disclosure associated with any product that you are considering for investment for your or your client's. Products shown may have minimum account sizes or minimum investments which may preclude retail and non-high net worth investors from being able to invest in these products. You should be aware that certain LPs may be closed to new investors and therefore your clients may be prevented from investing in these products. Portfolio Implementation and Rationales The SMA Asset Allocation Models do not represent a personalized recommendation of a particular investment strategy to you or your clients. You should not buy or sell an investment without first considering whether it is appropriate for your client's portfolio. Additionally, you should review and consider any recent market news. All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed. Supporting documentation for any claims or statistical information is available upon request. Examples provided are for illustrative purposes only and not intended to be reflective of results you can expect to achieve. Diversification and asset allocation do not ensure a profit and do not protect against losses in declining markets. Any forecasts contained herein are for illustrative purposes only, may be based upon proprietary research and are developed through analysis of historical public data. Investments in growth stocks may experience price volatility due to their sensitivity to market fluctuations and dependence on future earnings expectations. Sector allocation references to market capitalization ("smid cap" or "micro caps" etc.) may be subject to special risks given their characteristic narrow markets, limited financial resources, and less liquid stocks, all of which may cause price volatility. International/global investing can involve special risks, such as political changes and currency fluctuations. These risks are heightened in emerging markets. A significant percentage of the underlying investments in aggressive asset allocation portfolio investments have a higher-than-average risk exposure. You should consider your risk tolerance of each of your clients carefully before choosing such a strategy. An investment with multiple underlying investments (which may include asset-allocation or custom blended investments) may be subject to the expenses of those underlying investments in addition to those of the investment itself. Investments may reside in the specialty category due to 1) allowable investment flexibility that precludes classification in standard asset categories and/or 2) investment concentration in a limited group of securities or industry sectors. Investments in this category may be more volatile than less flexible and/or less concentrated investments and may be appropriate as only a minor component in an investor's overall portfolio. Investment Managers You and your clients should carefully consider investment objectives, risks, charges, and expenses of Funds discussed. This and other important information are contained in the respective Fund prospectuses and summary prospectuses, which should be read carefully before investing. Investment portfolio statistics change over time. Current performance may be lower or higher than return data quoted herein. The investment return and the principal value of an investment will fluctuate; so, an investor's shares/units, when redeemed, may be worth more or less than their original cost. Verdence relies heavily on unaudited third-party data. Data sources include public data, such as mutual fund data, and non-public data, such as information provided by other investment advisors and managers of limited partnership pooled accounts. Data and/or statistics included on this Portal, including references to performance, opinions, ratings, rankings, manager statistics and demographic information, product, or strategy descriptions, either quantitative or qualitative, are based upon information reasonably available to us as of the applicable date(s) then-published. Information has been obtained from sources that we believe to be reliable, but these sources cannot be guaranteed as to their accuracy or completeness. All data and information produced by a third party has the potential to be incorrect, incomplete, or otherwise misleading. No implication shall be created that the information contained on the Site is correct, including as of any time subsequent to the publish date, and Verdence does not undertake an obligation to update such information at any time after such date. Verdence makes no warranty or representation of the veracity of the data and information and its use of the information should not be implied as an endorsement of any material or statements made. Data, particularly non-public data, is subject to error and where the information is not audited, the potential for error is greater. Where shown, performance information presented is that which has been calculated and presented by an unaffiliated third-party manager. We have no insight into the performance of the advisor/product/account or fund shown and do not attempt to determine whether the performance presented is accurate. Therefore, the performance could be incorrect, overstated or not reflective of actual trading of client funds. There is the potential that the performance shown is a back test and not the result of real investment advice and trading. As such, it could not be relied upon as indicative of future returns of a particular strategy. Where performance shown is that of a pooled account, limited partnership, or private equity fund, you should be aware that there is a significant lack of transparency into the operations and investment process and investment vehicles invested in. As a result, pricing and valuation of the underlying holdings which produced the stated performance could be incorrect, stale, or overstated and therefore the performance figures presented cannot be relied upon. Before investing, we encourage you to request additional information, particularly performance information, of any product that you are considering for your client. You should read, as applicable, the Prospectus, SAI, Composite Disclosure and/or performance disclosure associated with any product that you are considering for investment for your or your client's. Certain products shown may have account minimums or minimum investment sizes that are unattainable for your clients and therefore they may not be eligible to invest in these products. Reference to registration with the Securities and Exchange Commission ("SEC") does not imply that the SEC has endorsed or approved the qualifications of Verdence or its respective representatives to provide any advisory services described on the Site.