

Week in Review

Equity Markets:

The markets were relatively flat last week. The S&P 500 ended the week down 0.1%. A reversal of the year-to-date style trend occurred last week. Large-Cap Value finished the week up 0.5% as investors moved to more defensive sectors, and Large-Cap Growth sold off 0.7%¹. Concerns about the inflation outlook increased as energy prices have moved higher recently. WTI Oil closed last week at \$90.16 per barrel. Last week was the first week since November of 2022 that oil exceeded the \$90 level.

Quarterly earnings growth sits at -2.9% with only a few companies still needing to report². The focus has shifted to the final quarterly earnings reports for the year. As of Friday, third-quarter earnings are expected to grow 1.9%. This is a slight improvement from the 1.3% growth that was expected on July 1st.

Fixed Income Markets:

Following the inflation reports, bonds sold off on fears that the Fed will have to continue increasing rates. The 2-year treasury yield ended the week at 5.03%. The 10-year Treasury finished near the year-to-date high at 4.33%. Despite the bond market sell-off, the yield curve inversion remained consistent at -0.7%.

Despite the hotter-than-expected inflation reports, the Fed Funds Futures Market still has a 98% probability the Fed will not increase rates this week³.

Economic:

Inflation ticked up in August. Headline CPI rose 3.7% year-over-year, greater than the 3.6% expected from economists surveyed by Dow Jones⁴. Core CPI, which excludes food and energy, rose 4.3% year-over-year which was in line with expectations. The Producer Price Index, which is seen as a leading indicator for inflation, rose 0.7% in August, higher than the 0.4% expectation.

Looking Ahead

Equity Markets:

The S&P 500 remains on the expensive side, currently trading at 19.3x forward earnings⁵. The multiple is on the higher end of the historical range, but valuations can remain on the expensive side for long periods of time. Investors should remain disciplined in these environments because higher valuations can be accompanied by volatility. Developing an appropriate asset allocation is key during times of market uncertainty. The ability for investors to remain committed to their long-term plan increases the odds of achieving their goals and avoids making sometimes costly mistakes by avoiding emotional overreactions to an ever-changing market environment.

Dollar-cost-averaging is an effective tool for investors who could have concerns about the current environment. A collaboratively planned investment schedule is helpful in removing the emotion out of the process. Establishing the timeframe, percentage to invest, and any triggering factors to increase the pace of investment, such as market sell-offs, are the key factors to begin with.

Fixed Income Markets:

The focus for the week will be on Fed Chairman Powell's policy announcement at the press conference on Wednesday. We expect to see some volatility throughout the week as investors try to position themselves for the announcement. We could see rates push incrementally higher and we could see the 10-year Treasury Yield challenge the intraday high of 4.36% which occurred last month.

For fixed-income investors, bond market sell-offs present attractive long-term opportunities. In the short term, we could see rates push higher but this will likely be short-lived and we believe rates will quickly retreat from the cycle highs we are currently at.

Economic:

The Fed meeting will take center stage this week but there will be important readings on the housing market and economic growth as well. The Housing Market Index from the National Association of Home Builders will start the week off, followed by housing starts on Tuesday and Existing Home Sales on Thursday. The Conference Board Leading Economic Index will be released on Thursday. The Index has fallen for 16 consecutive months.

**** See Important Disclosures on following page

Sources:

1)JP Morgan
https://am.jpmorgan.com/content/dam/jpm-am-aem/americas/us/en/insights/market-insights/wmr/weekly_market_recap.pdf

2)I/B/E/S Refinitiv
https://lipperalpha.refinitiv.com/wp-content/uploads/2023/09/TRPR_82221_715.pdf

3)CME Group
<https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

4)CNBC
<https://www.cnbc.com/2023/09/13/cpi-inflation-report-august-2023-.html>

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