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August 19, 2024

OBSERVATIONS

- Better economic data sparks a rally across equity markets. The S&P 500 rose 4.0% while small cap stocks (Russell 2000) rose +3.0% last week. The 10-Year US Treasury yield was mostly unchanged and closed the week at 3.9%. Japan (Nikkei 225 Index) continues to recover from its recent -25.5% sell-off. The index jumped 7.7% last week and has now gained +21.0% from its August 5th lows.[1]
- The core Producer Price Index (excluding food and energy) rose less than expected in July. The index was unchanged month-over-month (MoM), as compared to expectations for a gain of +0.2%. On a year-over-year basis core PPI registered +2.4%, also below expectations of +2.6%.[1]
- Core consumer inflation (CPI excluding food and energy) rose +0.2% MoM in July, in line with expectations. While on a YoY basis core CPI came in at +3.2%, also in line with expectations.[1]
- Small business optimism reached the highest level in July since February 2022. The NFIB Small Business Optimism Index rose for the fourth consecutive month to 93.7, though marks the 31st straight month below the 50-year average of 98.[2]
- Jobless claims for the most recent week edged lower by 7k to 227k, less than expectations for 236k. This marks the second consecutive weekly decline since reaching an 11-month high of 250k in late July.[1]
- Retail Sales (excluding auto and gas) jumped +0.4% MoM in July, exceeding expectations of a gain of +0.2%. The retail sales 'control group'—which further excludes certain categories and feeds directly into GDP growth— registered a MoM gain of +0.3%, better than expectations of +0.1%.[1]
- August home builder sentiment (NAHB/Wells Fargo Housing Market (HMI) Index) fell to 44.0, the lowest level since December 2023 as mortgage rates and affordability remain a constraint. The decline was driven by weaker conditions for current sales and low buyer traffic—both components, which collectively account for 86% of the HMI index, experienced their weakest readings of 2024.[3]
- New home construction (housing starts) fell -6.8% MoM in July to a seasonally adjusted annualized rate of 1.24 million units, less than expectations and marks the fifth consecutive monthly decline. Activity in July was weighed down by a large decline in single-family homes, particularly in the South which was impacted by Hurricane Beryl.[1]

EXPECTATIONS

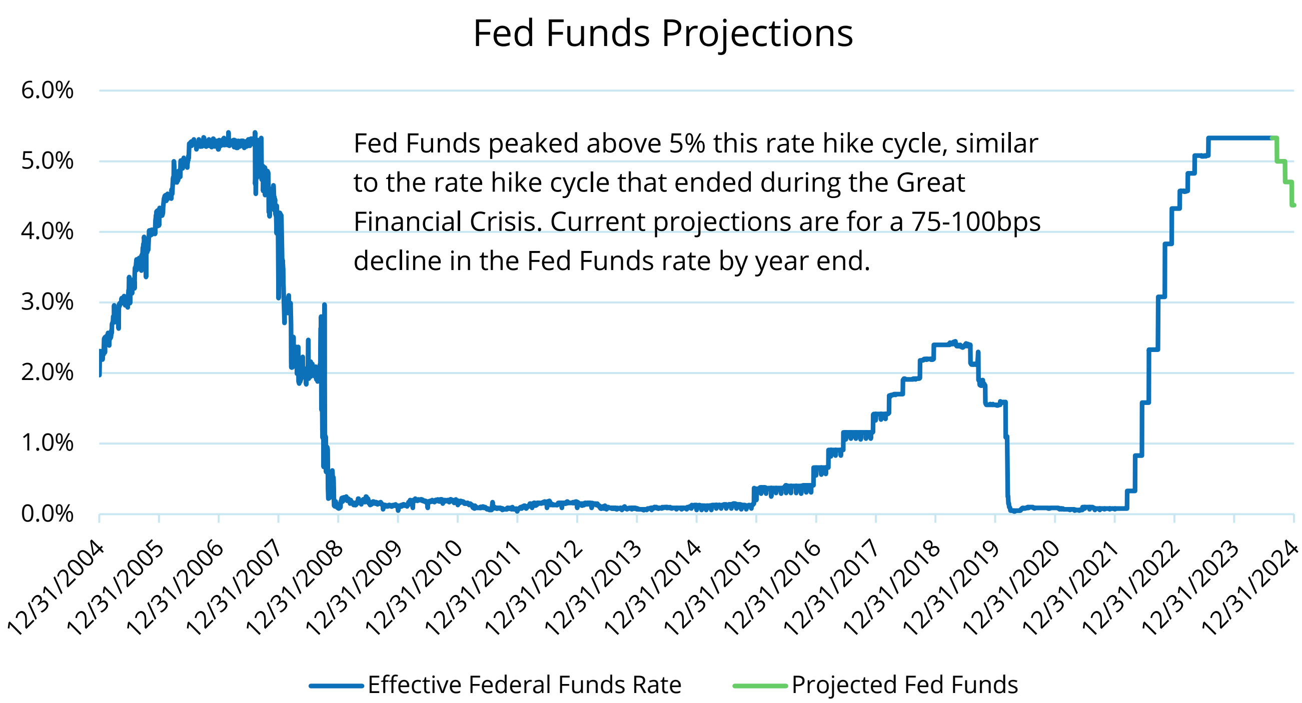
- With 93% of S&P 500 companies having reported financial results, Q2 earnings growth approaches nearly +11.0% as compared to one year ago. In a sign of policy uncertainty, during earnings conference calls 116 companies made reference to the word "elections" which compares to 65 in Q2 of 2020.[4]

ONE MORE THOUGHT: Getting ready for a rate cut.[1]
Recent inflation data continues to trend towards the Fed's 2% inflation objective cementing the likelihood that the Fed will cut its main policy interest rate by at least 25bps on September 18 (see Chart of the Week). As of last Friday, the market has assumed a 100% chance of a 25bps rate cut with the odds of a 50bps rate cut (30% probability as of last Friday) dropping over the course of last week amidst better-than-expected economic data. The soft-landing narrative continues to gain traction given the overall trends in the economy and the only things that could push the

[1] *Bloomberg LP*
[2] *https://www.nfib.com/surveys/small-business-economic-trends/, 8/13/2024*
[3] *https://www.nahb.org/news-and-economics/housing-economics/indices/housing-market-index, 8/15/2024*
[4] *Factset Earnings Insight, 8/16/2024*

Fed to react asymmetrically would be a financial market event that spills over into the real economy or the labor market abruptly rolling over (i.e. sudden and severe job losses). It is important to remember that the Fed has a dual mandate to promote both maximum employment and stable prices with the latter behaving with the central bank's expectations. For the former, all of the rise in the unemployment rate to date (from a low of 3.4% in Jan. 2023 to 4.3% as of July 2024) has resulted from increases in the labor force rather than outright job losses. That dynamic has complicated market expectations for broader Fed action as many have assumed the Fed to be 'behind the curve' as inflation trends lower and with unemployment rising. Expect to hear more on this from Fed officials as its annual economic symposium in Jackson Hole takes place this week under the heading of "Reassessing the Effectiveness and Transmission of Monetary Policy" (Aug. 22-24). For our part, given recent trends in the economy and a still healthy corporate profit backdrop, all signs still point to an economy that, while decelerating, is likely to avoid a severe slowdown in 2024. That said, the fog of uncertainty generally remains, and equity market volatility is likely to persist as investors contend with increased macro noise as we exit the slower summer months and head into the election season.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, Projected path as implied by Fed Funds Futures data as of 8/15/2024

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