OBSERVATIONS

- In a week dominated by NVIDIA's earnings (see Expectations), markets traded close to flat with the S&P 500 gaining +0.2%, while small caps (Russell 2000) losing -1 basis point and the yield on a 10-year Treasury increased by +10 basis points to 3.90%.[1]
- Durable goods orders increased sharply in July, jumping by +9.9% month-over-month (MoM), however, much of that increase was due to aircraft shipments. Excluding transportation—primarily cars and planes—durable goods orders were down -0.2% MoM, which was just a touch softer than consensus expectations at (-0.1%).[1]
- The S&P CoreLogic Housing Price Index showed that national housing prices increased +5.4% year-over-year (YoY) in June—the most recent data available—which was down from May's +5.9% YoY figure.[1]
- The US housing market is still seeing weak activity as pending home sales fell in July by -5.5% MoM from June, and compared to July-2023, pending home sales are down -4.6% YoY.[1]
- Initial unemployment claims were nearly unchanged last week falling to 231k initial claims—a -2k decline in claims from the previous week's revised figure of 233k initial claims.[1]
- The second estimate of Q2-GDP was revised higher to +3.0% (annualized rate) from the initial estimate of 2.8%. The upward revision was largely due to higher estimates of consumer spending. The final estimate will be released in late September.[1]
- The PCE and core-PCE price indices—the Fed's preferred measure of inflation—both were unchanged in July from June. The PCE Index showed prices increased +2.5% YoY, while core-PCE, which excludes food and energy, showed prices increased by +2.6% YoY—a touch below (better than) expectations.[1]

EXPECTATIONS

- NVIDIA announced earnings last week and beat on both its revenues and earnings estimates, but noted profit margins had slipped in the quarter, in part, due to redesigns related to its newest chip. Despite the earnings beats, investors focused on the challenges in the production of NVIDIA's newest chips and the stock closed last week -4% lower than before its latest earnings release.[2] Nonetheless, NVIDIA's earnings figures are likely to result in the S&P 500 gaining more than +11% YoY for overall Q2 earnings.[3]
- Markets are still anticipating four -25 basis point Fed rate cuts by year-end, but at the next Fed meeting (September 17-18) the Fed will release new dot plot estimates that show Fed officials' anticipated path of rate cuts for the final three months of the year, which may reset market expectations for the pace and magnitude of Fed rate policy for Q4 as well as into next year.[1]

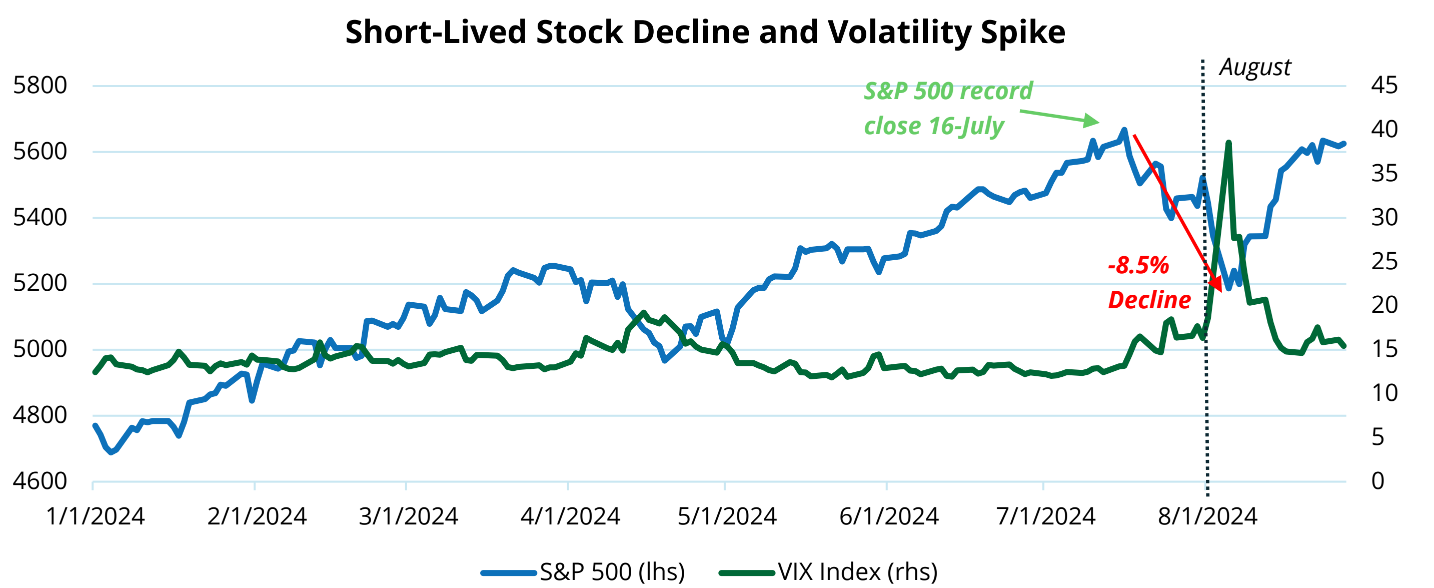
ONE MORE THOUGHT: S&P 500 ends August higher; recovers nearly all of early month sell-off[1]

August started out volatile with the S&P 500 selling off nearly -8.5% from its historic peak on July 16th. The S&P 500 troughed on 5-August and volatility began to ease and the index gained steadily in each week thereafter for the final three weeks of the month. The sell-off began as profit taking, but then fears began to creep in regarding the overall health of the US economy. However, more data came in during August that suggested the economy, while slowing, still remains healthy. As recession fears abated, investors began buying the dip. By the end of the month, the S&P 500 was only -33 basis points off of its mid-July historic high. Nearly every S&P 500 sector gained in the month

[1] *Bloomberg, LP 8/30/2024*
[2] *https://investor.nvidia.com/events-and-presentations/events-and-presentations/default.aspx*
[3] *FactSet Earnings Insight 8/16/2024*

except for the Energy and Consumer Discretionary sectors. The Energy sector was dragged down by falling oil prices reflecting, in part, a bit of sluggish global demand. Whereas the Consumer Discretionary sector was weighed down by shares of Tesla and Amazon that both declined after hitting YTD highs in mid-July. August was marked by falling bond yields as the yield on a 10-year Treasury started the month just over 4% but yields fell as low as 3.78% before rebounding and ending August at about 3.90%. The fall in the 10-year Treasury yield was spurred in large part by softer inflation data in August and capped off by Fed Chairman Powell's speech at the annual central bank symposium where he signaled that the Fed was ready to begin cutting rates in September. As we head into September, we would expect trading volume to build from the thinner volumes associated with the late summer weeks and investors will begin to look in earnest at the evolving political landscape as we head into the November Presidential election. Seasonally, September is the trickiest for equities to navigate and it is the month most likely to see a decline in risk assets—the S&P has registered a negative monthly return in 50% of Septembers since 1970, which is the highest occurrence rate for a negative monthly return. Since the end of WWII, the average return for September is -0.3%. Typically, October, unlike September, is positive for stocks on average, but in Presidential election years October also sees declines on average—typically about-0.3%. All this suggests that volatility will increase as traders begin to focus on the outlook for next year and the polls likely tighten in several key battleground states.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP 8/30/2024

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