OBSERVATIONS

- Markets traded largely flat last week, with the S&P 500 gaining +0.6% and small caps (Russell 2000) losing -0.1%. Meanwhile the yield on a 10-year Treasury barely changed, gaining 1 basis point last week to 3.75%.[1]
- The S&P/Case-Shiller National Housing Price Index showed that home prices increased by 5.0% year-over-year (YoY) in July, which was a smaller increase from June's 5.4% YoY figure. This was 18th consecutive month of incremental monthly increases in home prices, but the pace of monthly increases has slowed.[1]
- New home sales fell -4.7% month-over-month (MoM) in August to 716k (annualized rate) from July's 751k sales rate. The August decline, however, was less than expected and compared to last year (Aug-2023) new home sales were up +9.8% YoY.[1]
- The final estimate for Q2 real GDP growth remains at 3.0% (annualized rate). Q1's final estimate was 1.6%. However, real GDP growth has averaged 3.1% over the past four quarters, and the Atlanta Fed's GDPNow model—a real-time estimate of current economic activity—suggests that Q3 (which ends today) is likely to have experienced growth of about 3.1%.[1]
- Initial unemployment claims remain low falling to 218k from the previous weeks 222k revised claims figure.[1]
- Durable goods orders registered no increase (+0.0% MoM) in August, which was better than expectations (consensus was for -2.6% MoM). Excluding volatile transportation (planes and cars) orders, durable goods orders increased by +0.5% MoM which was also better than expectations.[1]
- Core-PCE—the Fed's preferred inflation measure—came in largely as expected in August, registering 2.7% YoY increase, which was a touch higher than July's 2.6% YoY reading. Headline PCE, also in line with expectations fell to 2.2% YoY down from July's 2.5% YoY figure.[1]

EXPECTATIONS

- The Chinese central bank (PBOC) announced a slew of measures designed to buttress growth and improve business sentiment last week. The PBOC lowered the reserve requirement ratio (RRR) for most banks by -50 basis points (bps)—which should unlock around $140 billion in new lending capital—and signaled it may lower the RRR again before the end of the year. The PBOC also cut the reverse repo rate—a key policy rate for short- and medium-term lending—by -20 bps to 1.5%. The PBOC also provided a new mechanism that will allow banks to lower interest rates of existing mortgages towards the rates of new mortgages by -50 bps. These measures are an effort to stimulate the economy and further stabilize the housing market, which has negatively weighed on consumer and business sentiment for the past three years.[2]
- The PBOC's actions were amplified by an unscheduled meeting of the Chinese Politburo—head by Xi Jinping—which announced a series of fiscal policies that will further stimulate the economy. The PBOC also announced several measures to support the stock market including a nearly $50 billion lending facility for funding corporate buy-backs and an asset swap facility to help large non-bank financial institutions to buy equities on leverage—as a result Chinese equities (MSCI China Index) gained +17.2% last week.[2]

ONE MORE THOUGHT: September Ends Solidly Higher and Caps Off a Strong Q3[1]

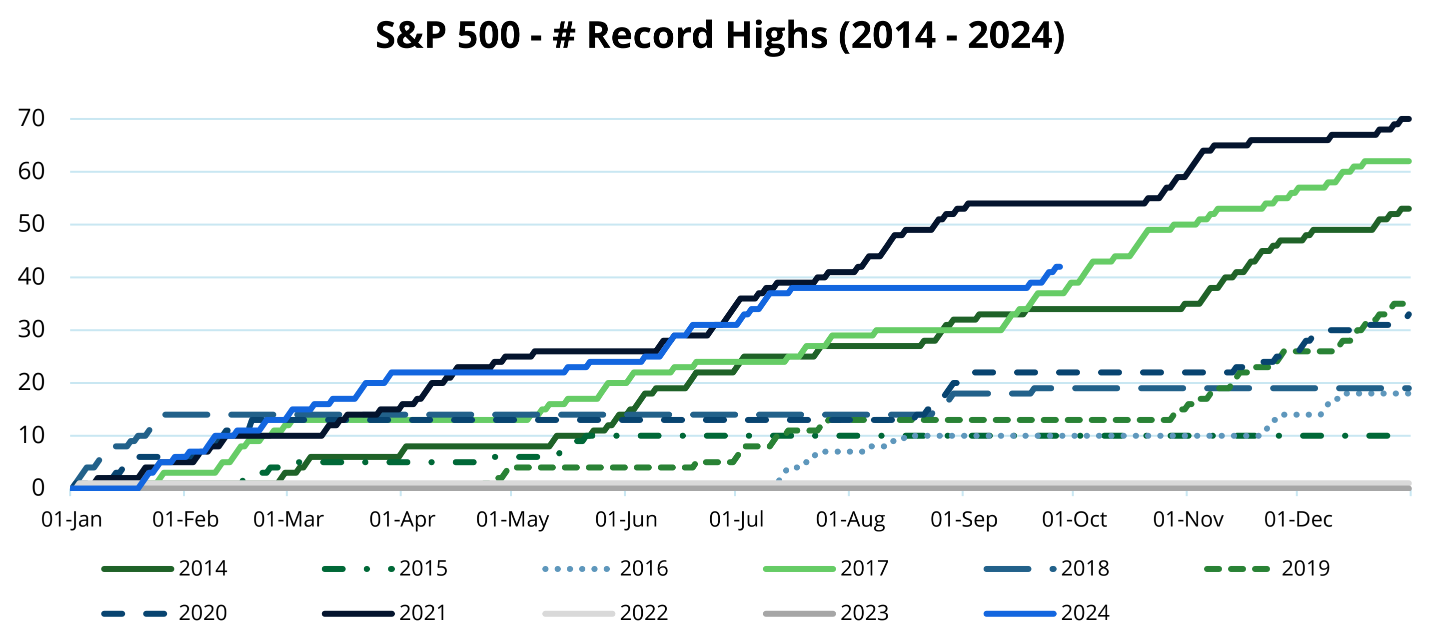
September was dominated by the mid-month Fed meeting which ushered in a -50 bps rate cut (see Research Corner 23-Sep) after nearly a 15 month policy rate pause by the Federal Reserve. The result was four new record

[1] *Bloomberg LP, 9/27/2024*

[2] *China: PBOC announced a combination of policy easing steps to support the real economy" GS Economic Research 9/24/2024*

high closes on the S&P 500 in the days following the Fed's policy announcement. In short, markets gave the Fed the benefit of the doubt that they were likely to achieve a soft landing for the economy and that the Fed's inclination to "recalibrate" its policy towards the state of the labor market (versus being solely focused on reducing inflation) would likely mean more aggressive cutting in the year ahead. And it wasn't just equity markets that were enjoying the current state of the economy. The US Aggregate Bond Index also gained in September over +1.6% so far in September. In fact, over the course of Q3, amid a stable economy, easing inflationary pressures, and solid corporate earnings, equities and bonds gained a similar amount. The S&P 500 gained +5.4% through last Friday, while the US Aggregate Bond Index also gained +5.4% as yields fell steadily throughout the quarter in anticipation of the Fed's September rate cut. In equity markets, the gains were broad-based for the quarter with every sector gaining except Energy. Choppier trading days may lay ahead in October as the US election approaches. The outcome of the US election may not be known for several days or even weeks after election day Tuesday 5-November due to mandatory recounts, litigation, and absentee ballot counting, which suggests that volatility may persist through much of November. Nonetheless, at present, the S&P 500 is riding high on a stable economy, positive momentum, and the prospect that the Fed—like most other global central banks—is poised to further ease financial conditions over the next several months, which may keep the party going well into Q4.

CHART OF THE WEEK



Source: Clearstead, Bloomberg 9/27/2024

Aneet Deshpande, CFA
Chief Investment Officer

Dan Meges
Chief Economist & Head of Global Equity

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