



The Weekly Market Update – 8/12/24: Equities Lower In August, But Rallied Off Lows

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,344.16	-0.04%	-2.13%	12.04%	16.46%	5,667.20	6.0%
Dow Jones Industrial Average	39,497.54	-0.60%	0.97%	4.80%	11.07%	41,198.08	4.3%
NASDAQ Composite	16,745.30	-0.18%	-5.57%	11.55%	16.72%	18,647.45	11.4%
Russell 2000	2,080.92	-1.35%	1.62%	2.66%	3.88%	2,442.74	17.4%
MSCI EAFE (USD)	2,283.63	-0.34%	-1.34%	2.12%	3.83%	2,418.31	5.9%
MSCI Emerging Markets (USD)	1,063.43	0.21%	-2.10%	3.88%	1.58%	1,444.93	35.9%
Bloomberg Commodity Index	95.51	0.83%	-5.42%	-3.18%	-11.02%	237.95	149.1%
Barclays U.S. Aggregate Bond	92.46	-0.90%	2.79%	0.83%	3.26%	112.07	21.2%

Source: FactSet

U.S. equities markets mounted a solid comeback after a large percentage decline on 8/5/24, but still closed the week modestly lower.

After posting its largest one-day drop of the year (down -3.0% on 8/5/24), the widely followed S&P 500 equity index battled back with sizable gains on Tuesday and Thursday, ultimately ending the week (as of 8/9/24) down -0.04%. We attribute early August equity market weakness to a weak July labor report (Bureau of Labor Statistics, BLS), which reflected slower-than-expected monthly new jobs and an unemployment rate of 4.3% (up from 4.1% in June and the highest level since October 2021). This enhanced fears of slowing U.S. economic growth, driving interest rates lower as the U.S. 10-year Treasury yield was 3.78% on 8/5/24 after closing at 4.29% just two weeks prior on 7/24/24. In our view, markets navigate a fine line for interest rate expectations as, for months, investors have positively anticipated a gradual decline in rates as inflation data improves, but a rapid interest rate decline could signal fears of deteriorating economic conditions. This could prompt the Federal Reserve Bank (Fed) to reduce overnight interest rate targets more than expected. The drop in U.S. interest rates coincided with an interest rate hike by the Bank of Japan (BOJ, Japan's central bank), causing a big decline in Japan's equity markets as many investors were on the wrong side of that trade. Another factor weighing on global equities in early August, in our opinion, was rising geopolitical uncertainty in the Middle East. The ongoing Israel-Hamas war increasingly involves Iran, who has threatened to attack Israel. As August began, the U.S. moved warships to the region to protect U.S. interests and support Israel. As the week progressed, however, tensions receded, a broader war appeared less imminent, and equities recovered. Japanese markets rebounded as well as the BOJ said additional rate hikes would be measured, calming market fears. While the S&P 500 mostly recovered the one-day (8/5/24) decline by the end of the week, the index (as of 8/9/24) was down -3.2% in August, and the technology-centric Nasdaq Composite index was down -4.9%. This reflects August underperformance of the S&P Technology sector as investors rotate portfolio exposure, but many other sectors are lower as well, indicating a market pullback that could continue, in our opinion.

Consumer data is likely slowing but could still contribute to positive economic growth. Over the past 18 months, pockets of slowing consumer outlays were followed by resilient spending strength driving better-than-expected U.S. economic data (gross domestic product, or GDP, as reported by the Bureau of Economic Analysis). Weak consumer data in the first half of 2023 was followed by a surge in both the third and fourth quarters (3Q23 and 4Q23), and this year, 1Q24 consumer spending weakness turned to better-than-expected levels in 2Q24. Recently, companies in several consumer-facing industries, including travel (airlines, hotels, reservations, etc.), vehicles, apparel and footwear, and theme parks have discussed moderating consumer demand. But monthly income and spending data has remained positive, indicating that slower growth is unlikely to derail expected GDP growth in 3Q24 and 4Q24. However, we believe that slowing consumer data remains a risk for equity markets.

Financial markets await key inflation data this week as the Fed prepares to lower interest rates in September. The BLS' report on July consumer inflation (consumer price index, CPI) is expected to show an increase of +3.0% year-over-year (Y/Y), flat with June's increase, and core CPI (excludes food and energy) is estimated at +3.2%. Although still above the Fed's +2% target, we expect a Fed rate cut in September.

James D. Ragan, CFA
Director of WM Research
(206) 389-4070
jragan@dadco.com

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The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

U.S. economic growth: Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. The most recent GDP report can be found at www.bea.gov. It is reported by the U.S. Bureau of Economic Analysis (BEA). Personal consumption expenditures (PCE) measure consumer spending on goods and services during the period and is a component of GDP.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The minutes from the most recent FOMC meeting is [here](#).

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

Personal Income and Outlays is reported monthly by the BEA. Personal income is the income received by, or on behalf of, all persons from all sources: from participation as laborers in production, from owning a home or business, from the ownership of financial assets, and from government and business in the form of transfers.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

On 7/31/24, the Bank of Japan, Japan's Central Bank, raised its short-term policy rate by 0.25%, the largest increase at one meeting since 2007. Further information can be found [here](#).

On 8/2/24, ABC News reported that the U.S. was sending warships to the Middle East, remaining on high alert if Iran were to attack Israel. The ABC story can be found [here](#).