



The Weekly Market Update – 8/21/23: Jackson Hole to Grab the Spotlight

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,369.71	-2.11%	-1.81%	13.81%	5.80%	4,796.56	9.8%
Dow Jones Industrial Average	34,500.66	-2.21%	0.27%	4.08%	5.04%	36,799.65	6.7%
NASDAQ Composite	13,290.78	-2.59%	-3.61%	26.98%	7.26%	16,057.44	20.8%
Russell 2000	1,859.42	-3.41%	-1.55%	5.57%	-1.37%	2,442.74	31.4%
MSCI EAFE (USD)	2,057.64	-3.36%	-3.48%	5.85%	6.21%	2,398.71	16.6%
MSCI Emerging Markets (USD)	964.44	-3.34%	-2.53%	0.84%	-2.95%	1,444.93	49.8%
Bloomberg Commodity Index	104.24	-1.27%	2.73%	-7.59%	-14.43%	237.95	128.3%
Barclays U.S. Aggregate Bond	87.72	-0.57%	-2.30%	-1.31%	-7.42%	112.07	27.8%

Source: FactSet

The U.S. Federal Reserve Bank (Fed) holds its annual Economic Symposium in Jackson Hole this week, with all eyes on Fed Chair Jerome Powell’s scheduled speech on Friday (8/25/23). The late summer event, sponsored by the Kansas City Fed, has been held since 1978 and is attended by central bankers, academics, and other financial professionals from around the world. The theme of the 3-day event (beginning on Thursday, 8/24) is “Structural Shifts in the Global Economy.” We have significant interest in Chair Powell’s opening remarks on Friday. One year ago, Mr. Powell delivered a clear message that the Fed intended to extend restrictive (higher rates) interest rate policy to combat inflation, even if that contributed to an economic slowdown. At the time of the 2022 Symposium, the Fed’s overnight bank lending fed funds interest rate target range was 2.25% to 2.50%. Since then, the Fed has increased the target at seven of eight Fed policy meetings, taking the fed funds target range to its current range of 5.25% to 5.50%. Higher interest rates have helped to bring down inflation; the July 2023 consumer price index, or CPI (a measure of consumer inflation reported by the Bureau of Labor Statistics), was +3.2% vs. +8.5% in July 2022. Inflation has cooled without broad labor market or economic weakness as the U.S. economy has grown more than expected. We doubt that Mr. Powell will take a victory lap, however, as inflation remains above the Fed’s long-term 2% target, and we believe the Fed will remain committed to restrictive monetary policy (higher rates for longer) until core inflation (CPI less energy and food prices) moves closer to 2% for more than one month. While we have no advance knowledge of Chair Powell’s planned speech, we would like to see some discussion of the Fed’s view on an appropriate “neutral” fed funds target (a level that is neither restrictive nor accommodative) as that will help set interest rate expectations for the year ahead. Given the theme of “Structural Change”, we believe that many of this year’s Jackson Hole speeches will address opportunities and threats inherent in artificial intelligence (AI) investment. The Fed must consider how technology investment will impact labor demand as these systems are adopted. Equity investors remember a sell-off in 2022 (the widely followed S&P 500 declined 3.4% on 8/26/22, the day of Chair Powell’s speech), and thus, will be watching closely on Friday.

Economic growth trends accelerated in July, a potential tailwind for second half earnings, but also drove interest rates higher. The Atlanta Federal Reserve Bank’s GDPNow estimate shows U.S. third quarter gross domestic product, or GDP (the value of goods and services produced), tracking at +5.8% as of 8/16/23, significantly above the +0.7% FactSet consensus (from Wall Street economists) estimate. The Atlanta model is not a forecast as it calculates the GDP trend from monthly data as reported; it reflects strong trends in consumer spending, business investment, and housing activity through July. While we expect data to cool in August and September, the solid start to the quarter makes expectations for the S&P 500 to resume year-over-year earnings growth in 3Q23, the first time in four quarters, more achievable. At the same time, the U.S. 10-year Treasury yield (a proxy for U.S. long-term interest rates) has moved to 4.34% on 8/21/23, the highest level since late 2007.

We see limited catalysts this week leading up to Thursday’s Jackson Hole Symposium, but an important earnings report is scheduled for Wednesday. Amid a slow week for economic data overall, investors will be intensely focused on Wednesday’s fiscal 2Q24 financial results from semiconductor leader Nvidia (NVDA). The company’s strong 1Q24 results in May launched market interest in AI-related stocks as the company confirmed huge levels of AI investment from its large-company customers.

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