The Weekly Market Update – 8/28/23: No Surprises at Jackson Hole

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,405.71	0.82%	-1.00%	14.75%	6.67%	4,796.56	8.9%
Dow Jones Industrial Average	34,346.90	-0.45%	-0.18%	3.62%	4.57%	36,799.65	7.1%
NASDAQ Composite	13,590.65	2.26%	-1.43%	29.85%	9.68%	16,057.44	18.2%
Russell 2000	1,853.63	-0.31%	-1.86%	5.25%	-1.68%	2,442.74	31.8%
MSCI EAFE (USD)	2,053.48	-0.20%	-3.67%	5.64%	6.00%	2,398.71	16.8%
MSCI Emerging Markets (USD)	971.04	0.68%	-1.86%	1.53%	-2.29%	1,444.93	48.8%
Bloomberg Commodity Index	105.48	1.18%	3.94%	-6.50%	-13.42%	237.95	125.6%
Barclays U.S. Aggregate Bond	87.97	0.29%	-2.02%	-1.02%	-7.16%	112.07	27.4%

Source: FactSet

Jerome Powell played it safe at Jackson Hole. U.S. equities rallied on Friday (8/25/23) but for the full-week financial markets were mixed. Last week we discussed investor anticipation leading up to Mr. Powell's (leader of the U.S. Federal Reserve Bank, or Fed) appearance at the Jackson Hole Economic Symposium (sponsored by the Kansas City Fed branch). In our view, Chair Powell's speech leaned hawkish (supporting higher interest rates) but included dovish (a case for lower interest rates) points as well. Ultimately, most investors heard something that was expected, and the speech did not change a prevailing view (in our opinion) that, while the Fed's interest rate hiking cycle is close to running its course, solid U.S. economic data will likely keep interest rates elevated well in to 2024. For the week ended 8/25/23, the widely-followed large company S&P 500 equity index gained 0.8%, but the Dow Jones Industrial Average (also large company) decreased 0.3%. In the bond market, the yield on the U.S. 2-year Treasury note (a proxy for short-term interest rates) closed Friday at 5.10%, up from 4.93% one week earlier (8/18/23), while the 10-year Treasury yield (a proxy for U.S. long-term interest rates) was unchanged at 4.25%. Chair Powell stated that the Fed's 2.0% inflation remains firmly in place and meeting that goal "is expected to require a period of below-trend economic growth." At the same time, he said U.S. economic activity "has come in above expectations and recent readings on consumer spending have been especially robust." Mr. Powell also acknowledged that some recent economic data has weakened (industrial production) and previous increases to the Fed's overnight bank lending fed funds target (currently at 5.25% to 5.50%) require time to work through the economy (higher interest rates are considered a drag on growth, but often with considerable lag from when the rates first move higher). Our view is that the Fed will pause (no change to the interest rate target) at the next Open Market Committee (FOMC) meeting on 9/20/23, setting up the following meeting on 11/1/23 as a potential rate hike event. There was no discussion of a potential cuts in interest rate targets this year (at some point we expect the Fed to consider cutting rates to address either slower growth, or simply to maintain a less restrictive (neutral) monetary policy. While interest rates other than the fed funds target are largely market driven, we expect interest rates to remain elevated over the near-term, creating headwinds for equity valuations.

An August pullback in equities lacks leadership as all 11 macro sectors are lower. All S&P 500 constituents are categorized in to one of eleven Global Industry Classification Standards (GICS) sectors, which we monitor to examine market moves and sometimes identify reflection points. Through 8/25/23 the S&P 500 was up 14.8% (no dividends) year-to-date (YTD), with most of the gains from three sectors, Technology, Communication Services, and Consumer Discretionary. Also, through 8/25/23 in August, the S&P 500 declined 4.0%. Those three sectors have lagged, but other sectors have declined as well. To us, August appears to reflect profit taking from YTD gains, and not due to changes in the earnings or economic outlook. We look to remain diversified across sectors.

With August coming to a close right before the Labor Day Holiday, trading volume is expected to be light but the calendar includes some important economic data. Friday's (9/1/23) August jobs report (from the Bureau of Labor Statistics, BLS) is expected to show 175 thousand new jobs, while Wednesday's BLS report on job openings should reflect more job openings than those unemployed. On Thursday the Bureau of Economic Analysis will revise its second quarters U.S. economic growth estimate, but the consensus estimate is for no change to the 2.0% growth previously reported.

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

Important Disclosure: The information contained herein has been obtained by sources we consider reliable, but is not guaranteed and we are not soliciting any action based upon it. Any opinions expressed are based on our interpretation of data available to us at the time of the original publication of the report. Assumptions, opinions, and estimates constitute our judgment as of the date of this report and are subject to change without notice. Investors must bear in mind that inherent in investments are the risks of fluctuating prices and the uncertainties of dividends, rates of return and yield, as well as broader market and macroeconomic fluctuations and unforeseen changes in the fundamentals or business trends affecting the securities referred to in this report. Investors should also remember that past performance is not indicative of future performance and D.A. Davidson & Co. makes no guarantee, express or implied, as to future performance. The information is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor. It is not a representation by us, or an offer, or the solicitation of an offer, to sell or buy any security. Further, a security described in a report may not be eligible for solicitation in the states in which a client resides. D.A. Davidson & Co. does not provide tax advice and investors should consult with their tax professional before investing. Further information and elaboration is available upon request.

Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.