

October 14, 2024

Weekly Viewpoint

S&P 500 Extends Win Streak to Fifth Week

Performance for Week Ending 10/11/2024

The Dow Jones Industrial Average (Dow) gained 1.21%, the Standard & Poor's 500 Index (S&P 500) added 1.11% and the Nasdaq Composite Index (Nasdaq) finished up 1.13%. Sector breadth was mixed with 6 of the S&P sector groups closing higher and 5 closing lower. The technology sector (+2.50%) was the best performer while the utilities sector (-2.57%) was the weakest.

Index*	Closing Price 10/11/2024	Percentage Change for Week Ending 10/11/2024	Year-to-Date Percentage Change Through 10/11/2024
Dow	42863.86	+1.21%	+13.73%
S&P 500	5815.03	+1.11%	+21.91%
Nasdaq	18342.94	+1.13%	+22.19%

Market Observations: 10/7/2024 – 10/11/2024

The S&P 500 extended its weekly winning streak to five, the longest since May, and closed the week at a fresh all-time high as investors turned their attention to the kickoff of third quarter earnings season. Investors shrugged off a mildly hotter than expected report on consumer inflation as the uptick was driven by transitory factors like airfares and car insurance. Chicago Fed President Austan Goolsbee downplayed the report saying he wasn't overly concerned with the higher-than-forecast September inflation, and he stuck by his view that the US central bank has moved past its singular focus on price pressures. "The overall trend over 12 to 18 months is clearly that inflation has come down a lot and the job market has cooled to a level which is around where we think full employment is." Markets continued tempering their Fed rate cut expectations for the November FOMC meeting, a move that was triggered by the recent stronger-than-expected payrolls report. According to the CME FedWatch tool, markets are now discounting an 89.2% probability of a 25-basis point (bp) reduction and 10.8% odds they will leave rates unchanged.

FOMC Meeting Minutes: Fresh minutes from the Federal Reserve's September meeting released last week revealed that support among Fed officials for kicking off the loosening cycle with a bigger 50bp rate cut was a little weaker than the lone dissent on the vote from Governor Michelle Bowman might have suggested. According to the minutes "A substantial majority of participants supported" a 50bp cut, but "some participants" preferred a smaller 25bp reduction and "a few others" indicated that they could have supported a decision in favor of that smaller rate cut. The minutes however revealed that all participants thought it was appropriate to reduce borrowing costs. One issue for a number of officials was that such a large move was out of step with their intent to lower interest rates gradually. "Several participants noted that a 25-basis point reduction would be in line with a gradual path of policy normalization that would allow policymakers time to assess the degree of policy restrictiveness as the economy evolved," according to the minutes.

Q3 Earnings – It's Early But So Far, So Good: Third quarter earnings season kicked off in earnest last Friday when banking giants JP Morgan and Wells Fargo released results. According to Bloomberg, analysts see third quarter earnings growth for the S&P 500 of +4.3%, but that has been revised lower from +8.3% in late June. A look at the so-called "early reporters" suggests expectations could prove a tad conservative. Through last Friday, a total of 30 members of the S&P 500 have released fiscal quarter results with 70% beating expectations. Aggregate growth for this group is up +7.3 percent. While the sample size is too small to draw any firm conclusions, the bar has certainly been lowered, which in turn, may leave room for upside surprises. Earnings season will shift into high gear over the next two weeks when 156 members of the S&P are scheduled to report.

Fed Speak: The recent round of Fed speeches included many references to a gradual or measured approach, in what appears to be Fed jargon for moving in 25 basis point increments versus the 50-basis point cut delivered at the September meeting. Fed President Lorie Logan said the central bank should lower interest rates at a slower pace following an unusually large rate cut last month. Logan said she remains focused on both lowering inflation and supporting the labor market and outlined several risks to the economy that justify a more measured approach to rate reductions. Meanwhile, Atlanta Fed President Raphael Bostic said he was open to cutting interest rates by a quarter percentage point or standing pat at the central bank's meeting next month depending on how the economic outlook develops. "I am totally comfortable with skipping a meeting if the data suggests that's appropriate," Bostic said. Elsewhere, Richmond Fed President Thomas Barkin expressed optimism about inflation's progress, but said the fight wasn't over, citing potential risks that could stoke price pressures. "We're definitely headed in the right direction," Barkin said at an event in Norfolk, Va. hosted by the Virginia Maritime Association. "I wouldn't declare victory on it," he added. Asked about factors that could cause inflation to be sticky, Barkin cited conflicts in the Middle East and a possible rise in housing demand that could outstrip supply as the Fed lowers interest rates. Fed Vice Chair Philip Jefferson said risks to the central bank's employment and inflation goals are now closer to equal. "The balance of risks to our two mandates has changed — as risks to inflation have diminished and risks to employment have risen, these risks have been brought roughly into balance," Jefferson said. Boston Fed President Susan Collins said policymakers should use a careful, data-dependent approach as they lower interest rates to help preserve the strength of the US economy. Recent data, including the blockbuster

September jobs report released last week, show the US labor market is in a “good place overall,” Collins said. Minneapolis Fed President Neel Kashkari reiterated that he supported the decision to lower interest rates by a half point at the central bank’s September meeting. “I supported the decision because we made a lot of progress on inflation and because the labor market is showing some signs of weakening,” Kashkari said. Lastly, Federal Reserve Bank of St. Louis President Alberto Musalem said he supported the US central bank’s decision last month to lower interest rates by a half point, but emphasized he’d prefer further reductions to be gradual.

Economic Roundup: Underlying US inflation rose more than forecast in September, representing a pause in the recent progress toward moderating price pressures. The so-called core consumer price index — which excludes food and energy costs — increased 0.3% for a second month, disrupting a string of lower readings. The three-month annualized rate advanced 3.1%, the most since May, according to Bloomberg data. Meanwhile, applications for unemployment benefits rose to the highest in over a year, reflecting large increases in Michigan, as well as states affected by Hurricane Helene. Initial claims increased by 33K to 258K in the week ended Oct. 5, the highest since August 2023. The four-week moving average of new applications, a metric that helps smooth out volatility, rose to 231K.

The Week Ahead: The focal point of the data calendar will be the September Retail Sales report on Thursday. According to Bloomberg, economists expect headline retail sales to grow by +0.3% on a month over month basis. Other economic reports of interest include, the October Empire Manufacturing survey, the Philly Fed Business survey for October, September Industrial Production, and September Housing Starts and Building Permits. On the Fed front, it will be a relatively busy week for Fed officials with 9 appearances on the calendar, including two updates from closely watched Fed Governor Chris Waller. Earnings reports will move to the front burner with 44 members of the S&P 500 scheduled to release results. Amongst this group are 6 members of the Dow Jones Industrial Average (Johnson & Johnson, UnitedHealth, Goldman Sachs, Travelers, Procter & Gamble, and American Express).

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Standard and Poor’s 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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