

July 8, 2024

Weekly Viewpoint

Mixed Payroll Report Suggests Rate Cuts Still in Play

Performance for Week Ending 7/5/2024

The Dow Jones Industrial Average (Dow) added 0.66%, the Standard & Poor's 500 Index (S&P 500) gained 1.95% and the Nasdaq Composite Index (NASDAQ) finished up 3.50%. Sector breadth was mixed with 6 of the S&P sector groups closing higher and 5 closing lower. The Communication Services sector (+3.91%) was the best performer while Energy (-1.27%) was the weakest.

Index*	Closing Price 7/5/2024	Percentage Change for Week Ending 7/5/2024	Year-to-Date Percentage Change Through 7/5/2024
Dow	39375.87	+0.66%	+4.47%
S&P 500	5567.19	+1.95%	+16.72%
Nasdaq	18352.76	+3.50%	+22.26%

Market Observations: 7/1/2024 – 7/5/2024

The S&P 500 finished the holiday interrupted week at a new record high and has now gained in 4 of the past 5 weeks. The gains were sparked by fresh commentary from Fed Chair Jerome Powell and signs the labor market continues to cool, and in turn, raises the likelihood of a cut in interest rate later this year. Speaking at a European Central Bank (ECB) conference in Portugal, Powell said that he is encouraged by cooler inflation but reinforced that the central bank will need to see more evidence before cutting interest rates. He noted the latest inflation readings from April and May "do suggest that we are getting back on a disinflationary path." The Fed chief however declined to give any specific guidance on the timing for the first-rate reduction. Meanwhile, the monthly jobs report on Friday suggested that labor market conditions continue to cool. The Labor Department reported that June nonfarm payrolls rose by a better-than-expected pace of 206K, however the prior two months were revised down by 111K. That put the three-month moving average on nonfarm payrolls at 177K, the slowest in over two years. In addition, the unemployment rate rose to 4.1% from 4.0% in the prior month. While the unemployment rate continues to hover near the lowest levels in 50-years, it's also at its highest level since November 2021. In a sign that wage inflation continues to moderate, average hourly earnings rose by 3.9% from a year ago, down from 4.1% during May, and matching the lowest level in three

years. According to the CME's FedWatch tool, as of Friday the probability of a 25-basis point rate reduction at the September Fed meeting rose to 72.5% from 57.9% a week ago.

Fedspeak: Chicago Fed President Austan Goolsbee said policymakers should cut interest rates if US inflation continues to fall back to the 2% target. Goolsbee, speaking on Bloomberg TV in Sintra, Portugal, said he feels "we are on a path to 2%" inflation and "if you just hold the rates where they are while inflation comes down, you are tightening — so you should do that by decision, not by default." New York Fed President John Williams said he is confident the US central bank will achieve its goal of bringing inflation down to 2%. "I'm confident that we at the Fed are on a path to achieving our 2% inflation goal on a sustained basis," Williams said in a recent panel hosted by the Bank for International Settlements. Williams said the Fed acted "decisively and rapidly" to address inflation when it appeared in the aftermath of the pandemic. An important part of the Fed's work is to keep "inflation expectations anchored to the target, and that's whether it's from below or above," he said.

June FOMC Meeting Minutes: According to the minutes from the June FOMC meeting, Fed officials continue to wait for additional evidence that inflation is cooling. The group, however, was divided on how long to keep interest rates at elevated levels. The minutes showed officials didn't expect it would be appropriate to lower borrowing costs "until additional information had emerged to give them greater confidence that inflation" is on track to their 2% goal. The Fed has held its key policy rate in a target range of 5.25% to 5.5% since last July. The number of projected rate cuts were dialed back, with officials seeing just one cut, down from three in the March Summary of Economic Projection (SEP) report. Four policymakers, however, penciled in no cuts for 2024, while eight officials forecast two. "Participants noted the uncertainty associated with the economic outlook and with how long it would be appropriate to maintain a restrictive policy stance."

Economic Roundup: Factory activity contracted for a third straight month in June, while a measure of prices fell by the most in more than a year. The ISM's manufacturing gauge fell slightly to 48.5 compared with 48.7 a month earlier. The group's measure of prices paid for materials fell 4.9 points, the most since May 2023. At 52.1, the index shows the slowest growth in costs this year. One positive sign for producers was a nearly 4-point pickup in the ISM's new orders gauge to 49.3, indicating bookings are getting closer to stabilizing. Meanwhile, the services sector contracted in June at the fastest pace in four years due to a sharp pullback in business activity and declining orders. The ISM's composite gauge of services slumped 5 points to 48.8. The group's business activity index plunged 11.6 points last month, the steepest slide since April 2020. A measure of prices paid by service providers for materials eased to a three-month low, indicating a gradual cooling in inflation. The employment gauge shrank for a fifth month, while inventories contracted at the fastest pace since October 2021. According to the ADP Research Institute, US companies added workers at a more moderate pace in June and wage growth cooled, consistent with a gradual cooling in labor demand. Private payrolls increased 150K last month, largely reflecting an increase in job gains within leisure and hospitality. The report also showed that wage growth slowed for a third month for workers who changed jobs to 7.7% from a year ago. Workers who stayed in their job saw a 4.9% annual increase, the smallest since mid-2021.

The Week Ahead: The focal points of this week's calendar will be the June consumer price index (CPI) report on Thursday and testimony by Fed Chair Powell to the Senate on Tuesday and the House on Wednesday. According to Bloomberg, the headline CPI is expected to dip to 3.1% on a year-over-year basis from 3.3% in the prior month. The core rate—which excludes food and energy prices—is forecast to hold steady at a 3.4% year-over-year pace. Other inflation reports of interest include the producer price index and the University of Michigan inflation expectations data – both due out on Friday. Away from Fed Chair Powell's two-day testimony, six other Fed officials are slated to speak during the week. Second quarter earnings season will kick off in earnest this week with 9 members of the S&P 500 scheduled to release results. Among this group are banking bellwethers Wells Fargo, JP Morgan, and Citigroup. Earnings reports will shift into high gear with 47 members expected to report next week and 142 members during the following week.

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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