

June 17, 2024

Weekly Viewpoint

Doves Shrug off Hawkish Fed

Performance for Week Ending 6/14/2024

The Dow Jones Industrial Average (Dow) dipped 0.54%, the Standard & Poor's 500 Index (S&P 500) gained 1.58% and the Nasdaq Composite Index (NASDAQ) tacked on 3.24%. Sector breadth was negative with 7 of the 11 S&P sector groups closing lower. The Technology sector (+6.42%) was the best performer while Energy (-2.32%) was the weakest.

Index*	Closing Price 6/14/2024	Percentage Change for Week Ending 6/14/2024	Year-to-Date Percentage Change Through 6/14/2024
Dow	38589.16	-0.54%	+2.39%
S&P 500	5431.60	+1.58%	+13.87%
Nasdaq	17688.88	+3.24%	+17.84%

Market Observations: 6/10/2024 – 6/14/2024

The S&P 500 finished the week solidly higher, the second straight weekly gain and the seventh in the past eight weeks. During the week, the S&P 500 setting a record intraday high of 5,447.25 on Wednesday and a record closing high of 5,433.74 on Thursday. The S&P is now up 13.87% year to date and up 51.85% from its October 12, 2022 closing low. Despite a hawkish shift in the Fed's forward rate cut projections (see below) the fed funds futures market continues to discount two rate cuts between now and the end of the year. Investors may be betting, as put by so -called 'Fed Whisperer' Nick Timiraos at the WSJ, that the Fed may be effectively trying to under promise but overdeliver if inflation data turns out to be placid in the coming months. The Fed has continually stressed that all rate decisions will be data dependent and there will be plenty of additional inflation data to evaluate between now and September, the point at which investors are betting the first-rate cut will be delivered. On Friday, Cleveland Fed President Loretta Mester said the trend of inflation moving lower is good news for the economy and the central bank.

FOMC Meeting: As widely expected the Federal Reserve kept interest rates unchanged at the conclusion of last week's FOMC meeting while the after-meeting statement noted that progress has been made on the inflation front. In what came as somewhat of a surprise, the Fed's latest rate projections showed the central bank now only seeing one rate cut taking place this year, down from three expected at the start of 2024. The Fed also penciled in four cuts in 2025, more than the three previously outlined. Collectively, the five projected cuts between now and the end of 2025 is the same as the March projections, although the mix has shifted to one this year and four next rather than two this year and three next. During the after-meeting press conference Chair Powell mostly stuck to his recent script. Powell said that considerable progress is being made towards its dual mandate as recent inflation data has eased somewhat while labor markets move to pre-pandemic levels. Powell said policy is well positioned to deal with risks and uncertainties. The Chair also reminded that the Summary of Economic Projections (SEP) is a range of plausible outcomes and sometimes reflects very close calls.

Economic Roundup: Inflation data last week signaled that pricing pressure continues to moderate. The Labor Department reported that the headline consumer price index (CPI) was flat during May, a tenth below expectations, while the increase from a year-ago increase ticked down to 3.3%. The core CPI, which strips out food and energy, increased 0.2%, also a tenth below expectations, but going out two decimal places, the unrounded core rate increased 0.16%, the softest since August 2021. The year-over year pace fell two-tenths to 3.4%. Producer price data reported on Thursday reaffirmed the positive inflation news provided by the consumer price index. Producer prices during May unexpectedly declined by the most in seven months, a welcome development that should strengthen the Federal Reserve's confidence in moderating inflation. On the labor front, applications for initial jobless claims jumped by 13K to 242K — the highest level in nine months. The four-week moving average, which helps smooth week-to-week volatility, increased to 227K, the highest since September. Meanwhile, small-business optimism edged up in May to the highest level this year as firms grew less downbeat about the economy's prospects. The NFIB sentiment index rose 0.8 point to 90.5 yet remained below the long-term average of 98. Five of the 10 components that make up the sentiment gauge increased in May, led by a 7-point improvement in the share of owners who expect the economy to improve.

The Week Ahead: The focal point of this week's data calendar will be Tuesday's report on May retail sales. According to Bloomberg, headline retail sales are forecast to grow by 0.3% compared to a flat (0.0%) reading during April. Other economic reports of interest include the Empire Manufacturing Index for June, the May industrial production report, housing starts and building permits for May, the June Philly Fed Index, the S&P Manufacturing and Services PMIs, the Leading Economic Indicators report for May, and May existing home sales. It will be a busy week for Fed Heads with nearly a dozen presentations scheduled throughout the week. The earnings calendar will be relatively quiet with just 6 members of the S&P 500 expected to release results. Lastly, markets will be closed on Wednesday in observance of the Juneteenth holiday. In addition, Friday will mark quarterly options expiration, which could result in an uptick in market volatility.

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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