October 2, 2023

Weekly Viewpoint

September Lives up to Its Name of the Worst Month of the Year

Performance for Week Ending 9/29/2023

The Dow Jones Industrial Average (Dow) finished off 1.34%, the Standard & Poor's 500 Index (S&P 500) lost 0.74% and the Nasdaq Composite Index (NASDAQ) gained 0.06%. Sector breadth was negative with 9 of the 11 S&P sector groups closing lower. The Utilities (-6.99%) sector was the worst performer followed by Consumer Staples (-2.09%) and Real Estate (-1.59%).

Index*	Closing Price 9/29/2023	Percentage Change for Week Ending 9/29/2023	Year-to-Date Percentage Change Through 9/29/2023
Dow	33507.50	-1.34%	+1.09%
S&P 500	4288.05	-0.74%	+11.68%
Nasdaq	13219.32	+0.06%	+26.30%

Market Observations: 9/25/23 – 9/29/23

Stocks finished the week mixed with the Nasdaq Composite outperforming the broader market. As is often the case, the month of September was a tough month for the markets, and this year was no exception, with the Dow falling 3.50%, the S&P 500 shedding 4.87%, and the Nasdaq Composite declining by 5.81%. All three of the major indices also posted losses for the third quarter, their first quarterly loss this year. Weighing on the markets has been the surge in interest rates, with the yield on the 10-year Treasury up over 126 basis points since the trough reached in early April. Soaring oil prices, the strength in the US dollar, the threat of a temporary government shutdown and the expansion of the autoworkers strike have also weighed on investor sentiment in recent weeks.

The rise in yields provides competition to stocks, raises funding cost for corporations, and puts downward pressure on valuation multiples. Driving the gain in yields has been the Fed's higher for longer mantra, a sharp increase in issuance, the recent credit rating downgrade (and potentially another from Moody's, who last week said that the ongoing risk of a government shutdown may force it to lower the U.S.'s triple-A credit rating), and still sticky levels of inflation. On the latter, while inflation remains well above the Fed's 2.0%

target, it continues to trend in the right direction. Last week, the core PCE—the Fed's preferred gauge of inflation—fell to 3.9% on a year-over-year basis, the lowest level in two years. On a month over month basis, core PCE rose 0.1%, putting the 3-month annualized rate at just 2.2%. Despite the Fed penciling in one more rate hike at the recent FOMC meeting, the futures markets are saying that the Fed will remain on hold until next summer, and then begin reducing rates at the July meeting, according to the CME FedWatch tool.

Economic Roundup: Headline durable goods orders rose 0.2% in August, well ahead of the -0.5% decline expected by economists. Core durable goods orders—which are viewed as a proxy for business spending—jumped 0.9%, also well ahead of consensus expectations of a 0.1% gain. The Mortgage Bankers Association reported that US mortgage rates jumped last week to the highest level since 2000, taking a toll on already depressed home-purchase applications. The contract rate on a 30-year fixed mortgage rose 10 basis points to 7.41% in the week ended Sept. 22. US consumer confidence slumped to a four-month low in September, dampened by a deteriorating outlook for the economy and labor market. The Conference Board's index declined to 103 this month from an upwardly revised 108.7 in August (consensus estimate was 105.5). US new-home sales fell in August to a five-month low as still-high prices and historically elevated mortgage rates took a toll on the housing market. Purchases of new single-family homes fell 8.7% to a 675K annualized pace following an upward revision to July's figures, marking the largest drop in nearly a year. The median sales price of a new home edged lower to $430,300, according to the Census Bureau's report.

Fed Heads: Chicago Fed President Austan Goolsbee said low unemployment could exist with lower inflation and central bank officials should be wary of making mistakes that trigger a recession. "Believing too strongly in the inevitability of a large trade-off between inflation and unemployment comes with the serious risk of a near-term policy error," he said in a speech at a think tank in Washington. A US government shutdown or prolonged strike by automotive workers could slow the economy, meaning the Federal Reserve wouldn't have to use its tools to ease price growth, Minneapolis Fed President Neel Kashkari said. "If these downside scenarios hit the US economy, we might then have to do less with our monetary policy to bring inflation back down to 2% because the government shutdown or the auto strike may slow the economy for us," he told CNN. "I'm not hoping for that, but there's an interaction there." Late in the week, NY Fed President John Williams suggested that the US central bank may be done raising interest rates, though he said policymakers would keep them high for "some time" to bring inflation down to the central bank's 2% goal. "My current assessment is that we are at, or near, the peak level of the target range for the federal funds rate," Williams said Friday in remarks prepared for an event in Long Island, New York. "I expect we will need to maintain a restrictive stance of monetary policy for some time."

Will Seasonal Weakness Set the Stage for Better Times Ahead? As noted last edition, the month of September has often been a tough month for the market and that was again the case this year, with the S&P 500 falling 4.87% for the month. Over the past 25 years, September has produced an average loss of 1.26%, that's more than double August, the second worst month of the year. Over the prior 3-years September has been a really tough month, losing over 9% last year, in 2021 it fell 4.8% and was down 3.9% in 2020.

The good news is that September typically sets the stage for better performance during the fourth quarter. In fact, the October through December period has been the best three-month window of the year, with the fourth quarter delivering average gains of 5.1% over the past 25 years (with positive performance 80% of the time).

The Week Ahead: The focal point of the data calendar will be the monthly payroll report on Friday. According to Bloomberg, September nonfarm payrolls are expected to grow by 165K while the unemployment rate is forecast to dip to 3.7% from 3.8%. Other economic reports of interest include the ISM Manufacturing report, the ADP employment change data, monthly auto sales, and the ISM Services Index. It will be another slow week in terms of earnings reports with just 5 members of the S&P 500 scheduled to release results. The unofficial kick-off to third quarter earnings season will begin in earnest during the week of October 16. It will be a busy week for the Fed speaking calendar with nearly a dozen events scheduled, including Fed Chair Powell on Monday. Powell is scheduled to participate in a roundtable discussion with Philly Fed President Patrick Harker at an event in York, PA.

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.