

Beacon Weekly Investment Insights

There were several important economic data releases this week however all were overshadowed by the September FOMC meeting. Heading into Wednesday the market was confident that Fed Chair Powell would announce the first-rate decline in 4 years however the unknown was 25 or 50 basis points. The futures markets tightened prior to the meeting signaling a coin toss for either to take place. A half point decline has historically equated to something worrisome happening in the economy such as a recession and typically a quarter point is viewed as slow and steady allowing for optionality. In the end, the announcement was 50 basis points, with only one member favoring 25, and markets waited patiently for the Chair's press conference to understand the FOMC's collective thinking as to why?

Powell was clear that the US economy is in a solid place emphasizing that the labor market has cooled from an overheated state, inflation has eased substantially but remains above the 2% target, economic activity is strong, and the consumer remains resilient and though unemployment has ticked up it remains low. He used the word "recalibrating" frequently to characterize the larger than expected 50 basis point decision to better reflect the current environment and was adamant that the criticism that they were behind the curve was unwarranted given their dual mandate. In short, he spoke to the relative resilience that the FOMC sees in the US economy.

Once the decision was announced the focus quickly pivoted to the future path which he said was unpredictable presumably to give them flexibility to react to developments in inflation and employment. Their projection is unemployment of 4.4% by year end and inflation of 2.1% in 2025 and 2% in 2026. That said, the indication was that another 100 basis points seemed likely by year end: 25 at the November and December meetings and another full percentage point in 2025. Post the conference call bonds yields rose and stocks ended mixed. For the week, the Dow was up 1.6%, the S&P 500 rose 1.4%, and the Nasdaq increased 1.6%. The Russell 2000, encompassing small caps, rose 2.08% indicative of our broadening thesis. The 10-year yield ended @ 3.74%.

Other news during the week was supportive of the economic backdrop Powell was referring to. August retail sales increased 0.1% vs -0.2 expected. The July revision rose to 1.1% vs the previously reported 1.0%. Housing starts for August increased 15.8% to a seasonally adjusted annual rate of 992,000 units. July was revised to 857,000 an increase of 6000 units. Existing home sales fell 2.5% in August. Permits for future construction of single-family homes increased 2.8%. Mortgage rates are currently at levels not seen in a year and a half with the 30-year fixed rate @ 6.10% down 14 basis points in a week having peaked at 8% 11 months ago. Unfortunately, new housing supply is near levels last seen in 2008 and homeowners with 3% mortgages need further incentives in the form of lower rates to see overall supply improve. We would expect the housing market to strengthen as rates decline further stimulating activity on both sides. Finally, jobless claims are at the lowest level in 4 months declining 12,000 to 219,000 vs 230,000 estimated. In summation, the data appears to confirm that overall, the economy is doing reasonably well. Housing has been challenged but by all indications should show signs of improvement. Further weakening in employment will be closely monitored as that will affect consumer spending and confidence.

Upcoming this week we will get the Manufacturing and Services Purchasing Manager's Indices for September, Durable Goods for August and PCE, the Fed's preferred measure of inflation. Costco will report Thursday which is a bell weather of consumer sentiment. Otherwise, corporate earnings are largely over and will begin in earnest the second week of October.

Market Scorecard:	9/20/2024	YTD Price Change
Dow Jones Industrial Average	42,063.36	11.60%
S&P 500 Index	5,702.55	19.55%
NASDAQ Composite	17,948.32	19.56%
Russell 1000 Growth Index	3,748.73	22.84%
Russell 1000 Value Index	1,849.58	13.51%
Russell 2000 Small Cap Index	2,227.89	9.91%
MSCI EAFE Index	2,420.93	9.25%
US 10 Year Treasury Yield	3.74%	-21 basis points
WTI Crude Oil	\$71.65	0.30%
Gold \$/Oz.	\$2,605.85	26.05%



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