Summary

Economic data for the week included stronger new and existing home sales reports, along with mixed PMI manufacturing and services sentiment, and a weaker month from the index of leading economic indicators.

Equities gained globally last week, along with further hints of easing central bank policy. Bonds similarly gained as yields fell. Commodities were mixed, with stronger metals and weaker crude oil prices.

Economic Notes

(0) The **S&P Global U.S. Manufacturing PMI** declined by -1.6 points to 48.0 in August, relative to expectations of little change. Under the hood, new orders and output both declined, but stayed at expansionary levels, as did employment, ending just above the 50 neutral level. Input prices rose another point further into expansion. The **S&P Global U.S. Services PMI** ticked up by 0.2 of a point to 55.2, a bit better than the forecasted 54.0 level. This included new orders rising a bit, staying in expansion, while employment fell several points, back into contraction. The story of these two primary segments of the economy continues to reiterate weaker contractionary conditions in manufacturing, while services continue to expand, with mixed dynamics under the hood, including employment weakening a bit.

(+) **Existing home sales** for July rose 1.3% to a seasonally-adjusted rate of 3.95 mil. units, on target with consensus expectations and partially reversing a substantial decline the prior month. By region, sales rose in the Northeast by 5%, with the West and South up just over a percent each. Over the past year, national sales have fallen -2.5%, along with low inventories and elevated mortgage rates. The median existing home sales price fell for the month but rose 4% from a year ago to $422,600, continuing a streak of year-over-year gains. Inventory ticked up to 4.0 months' supply, which represents a substantial improvement over the past year, but still falls below levels deemed normal by the industry. Conditions appear stable, with mortgage rates down over a half-percent from a year ago (to around 6.5%, still higher than many are used to), but few homes remain available with low-rate mortgage holders reluctant to sell, depressing activity.

(+) **New home sales** rose 10.6% in July to a seasonally-adjusted rate of 739k, above the 1.0% consensus increase expected, in addition to sizable upward revisions for June. Every region saw gains in July, led by the West (49k) and South (12k). Year-over-year, new home sales rose 6%, led by the Midwest, with the gains nationally were in significant contrast to the path of existing home sales. The median new home sales price has fallen 1.4% over the past year to $429,800, which continues to be tied to shrinking sizes to accommodate affordability (including the trend of 'Tetris'-inspired home designs). Inventory came in at 7.3 months' supply, down from the prior month but roughly the same level as a year ago.

(0) **Initial jobless claims** for the Aug. 17 ending week rose by 4k to 232k, matching the median forecast. Continuing claims for the Aug. 10 week also rose by 4k to 1.863 mil., short of the 1.870 mil. expected. Claims rose a total of 5k in CA and FL, each of which appeared to be weather-related, while normalizing in MI, after auto plant maintenance shutdown season. Similar to the pattern seen in 2023, claims rose during the summer (despite the data being seasonally-adjusted), pointing to some residual seasonality measurement issues. The coming months will be telling in terms of whether a more sustained weaker labor pattern unfolds or not.

(-) The Conference Board **Index of Leading Economic Indicators** fell by -0.6% in July, further down from -0.2% the prior month. Weakness in the month was led by the non-financial components, including ISM new orders, consumer expectations of business conditions, building permits, and average weekly hours worked, along with the still-inverted U.S. Treasury yield curve on the financial side. Over the past six months, the LEI fell by -2.1%, which was less dramatic than the -3.1% decline over the prior six-month period ending in Jan. 2024. The most recent semi-annual period was led downward by several of the same elements—expectations for business conditions, manufacturing orders, and the inverted yield curve—the latter of which continues to be one of the most popular recession predictors. All-in-all, The Conference Board expects the economy to continue to slow over the coming months, to 0.6% in Q3, and 1.0% in Q4, based on their estimates…but no recession call at this point considering the recent 'less bad' results.

(-) In a far less timely release, the U.S. Bureau of Labor Statistics released their annual seasonal adjustment, which reduced **total nonfarm employment** by -818k for the past year ending March 2024 (or -68k jobs/month, from 242k/mo. to 174k/mo.). This fell within the wide band of adjustment expected but was also assumed by some economists to be a possible overshoot. The largest decreases were in professional/business services (-358k), leisure/hospitality (-150k), retail trade (-129k), and manufacturing (-115k); jobs were added in private education/health (87k) and transportation/warehousing (56k). It's worth noting that the nonfarm payroll survey is quite volatile and is not only prone to sharp revisions from month to month (standard deviation of +/- 100k at the time of release), but even more so annually as we see here. Aside from the difficulty in measuring the number of undocumented workers (many likely missing from states' unemployment insurance systems), response rates to a variety of labor and sentiment surveys have also fallen, so data is getting harder to extrapolate more broadly from smaller samples, which negatively affects their accuracy. So, these are better used as a gauge of relative strength/weakness relative to other recent months as opposed to an exact measurement. Along with other labor data, this points to a continued slowing of the job market and provides more rationale for the Federal Reserve turning toward policy easing.

(0) The **FOMC minutes** from the July meeting showed few surprises but did indicate that "several" committed members could have supported an interest rate cut at that meeting, considering that recent inflation and labor data had "provided a plausible case for reducing the target range 25 basis points." Moreover, a "vast majority" of members were supportive of a Sept. cut. Importantly, "some" participants expressed concern that "a further gradual easing in labor market conditions could transition to a more serious deterioration," including possible problems in easing policy too little or too late that too late that "could risk unduly weakening economic activity or employment."

The Fed's annual economic symposium at **Jackson Hole**, WY featured a keynote speech from Chair Powell on Fri. Highlights included "that the time has come for policy to adjust," which was cheered by markets immediately as a near-announcement for rate cuts. However, "the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks," which offered little color as to whether 0.25% or 0.50% was in the cards. Labor market softening, at least as far as the rising unemployment rate was concerned, was blamed on a higher supply of workers (as opposed to layoffs). On Friday, Fed funds futures markets continued to point to the highest odds being four rate cuts by Dec. This seems a bit excessive in the current benign environment and more in line with the cutting cycles of 2001 and 2008, unless labor market and growth conditions soften sharply in the next few months. The highest odds for rates lie at 3.00% or so by Dec. 2025, pointing to the long-expected quarterly pace.

Market Notes

Period ending 8/23/2024	1 Week %	YTD %
DJIA	1.29	10.56
S&P 500	1.47	19.20
NASDAQ	1.41	19.66
Russell 2000	3.62	10.41
MSCI-EAFE	2.76	11.28
MSCI-EM	0.70	9.60
Bloomberg U.S. Aggregate	0.67	3.60

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2023	5.40	4.23	3.84	3.88	4.03
8/16/2024	5.33	4.06	3.77	3.89	4.15
8/23/2024	5.25	3.90	3.65	3.81	4.10

U.S. stocks ended positively for the week, despite low summer trading volumes, with decent economic results and the dovish tone of the FOMC July minutes. Gains culminated on Fri. by the further dovish tone of Fed Chair Powell's Jackson Hole speech. Nearly every sector saw gains last week, led by materials, consumer discretionary (largely helped by Target and TJX), and industrials, while energy experienced a minor decline. Real estate also rose nearly 4% on the sentiment surrounding lower rates, which has been one of the primary drivers of that sector in the near-term. Small cap reacted especially strongly to the hints of upcoming rate cuts, as would be expected. Focus remains on the consumer, with added sensitivity to signs of potential weakness in corporate earnings commentary, as well as the mix of product type and purchaser demographic/income level.

Foreign stocks benefitted by the decline of over a percent in the value of the U.S. dollar for the week, with Japan, Europe, and the U.K. all outpacing the S&P 500. This went along with broader global hopes for rate cuts by the ECB as well as the U.S. Fed at their Sept. meetings, resulting in easier policy through the majority of the developed world. European PMI also gained a bit of a boost from this month's Paris Olympics, in addition to stronger activity in the U.K. Japanese sentiment was reassured after recent volatility, despite central bank commitments to normalizing policy rates higher—although it's assumed this will be done in a careful manner. Emerging market countries earned positive returns, but lagged developed for the week, as gains in India, Korea, and Taiwan outweighed declines in Mexico and Turkey, the latter continuing to lie in a quandary of inflation remaining sticky but short-term policy rates held steady at 50.0%, one of the highest rates in the world.

Bonds fared positively as yields fell, along with increased expectations for Fed policy easing in Sept., due to both the downgrade in last year's employment numbers and Powell's speech. Investment-grade and high yield corporates outperformed U.S. Treasuries slightly, and beat senior floating rate bank loans, although the latter also saw small gains. Unhedged foreign bonds benefitted from the sharp drop in the dollar.

Commodities were mixed, with sharp gains in industrial metals (mostly led by zinc), followed by lesser gains in precious metals and agriculture, while energy prices fell back. Crude oil prices fell a percent last week to $75/barrel.

Have a good week.

Ryan M. Long, CFA

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.