Summary

Economic data for the week included producer price inflation continuing to decelerate, as did consumer price inflation to some degree, although rising shelter costs remain a persistent influence. Consumer sentiment came in a bit better than expected, although expectations for future inflation were mixed.

Stocks saw gains globally as markets digested central bank policy easing and the close U.S. Presidential election. Bonds fared positively across the board as yields fell. Commodities rose across the board, due to the strength in metals.

Economic Notes

(0/+) The **Consumer Price Index** for August rose 0.2% at a headline level and 0.3% for core, removing food and energy prices. The headline number was in line with expectations, while core came in about a tenth higher. A major driver for the headline figure was energy prices falling -0.8% for the month, while core price influences were mixed, including continued strength in shelter (accelerating a tenth from the prior month's pace at 0.5%), and transportation services (0.9%, mostly due to airline fares up 4%). Offsetting were declines in used cars/trucks (-1.0%).

Year-over-year, headline CPI increased 2.5%, celebrated as the smallest yearly increase since Feb. 2021, while core CPI rose 3.2%—unchanged from the prior month's pace. Energy commodity prices such as gasoline falling -10% over the year certainly helped on the headline side, along with food inflation slowing to just above 2%. Shelter inflation of over 5% for the year continued as the stickiest factor, although car insurance (17%) and medical care (3%) also contributed, offsetting the normalized impact of new cars (-1%), used cars (-10%), and airfares (-1%) for the year. Some of the Fed's preferred measures remove the impact of shelter, as a way to gauge 'most' inflation consumers experience and remove the problematic owners' equivalent rent that's tied to home prices (and is up 5.4% for the year). This seems worthwhile, as looking past housing rents as well, the modified 'all items less shelter' rose only 1.1% for the year, and a modified core version of 'all items less food, shelter, and energy' saw a mere 1.6% increase over the past 12 months. The story remains the same. Inflation has continued to decelerate in many areas, other than the problematic housing-related data, which frustratingly report prices with a substantial lag of anywhere from 6 to 18 months (relative to providers like Zillow, which already show a marked deceleration in housing rents). Overall, this CPI number shows progress but could keep the Fed skittish about easing too much at once, to avoid a policy mistake made by the Fed in the 1970s in declaring an inflation 'all clear' too soon.

(0/+) The **Producer Price Index** for August rose by 0.2% on a headline level, and 0.3% for core, removing food and energy prices; each were a tenth stronger than expectations. Services prices rose 0.4% in the month, accounting for the whole of the impact, as goods prices were unchanged, and pulled down by a -1% drop in energy prices. Year-over-year, headline PPI increased 1.7%, core rose 2.4%, while removing food, energy, and trade came in at a 3.3% increase. Over the year, goods prices were unchanged (due to declines in energy costs offsetting a rise of a percent in food costs), while services prices rose 2.6%. The contrast between PPI and CPI is highlighted by the impact of shelter, the stickiness of which was highlighted earlier. When that segment is removed, the two inflation indicators look far more aligned with a deceleration in goods and services inflation from peak levels of the past few years, in a multi-year (slow) unwind of the pandemic imbalances.

(+) The preliminary **Univ. of Michigan index of consumer sentiment** for September rose by 1.1 point to 69.0, above the expected 68.5 level. Assessments of current conditions rose 1.6 points, while expectations for the future rose under a point. Inflation expectations for the coming one year fell by a tenth of a percent to 2.7%, continuing a stretch of declines back toward normal, and could be related to recent lower gasoline prices, which consumers are closely watchful of. Conversely, expectations for the next 5-10 years rose a tenth to 3.0%. It appears the recent bout of inflation during the pandemic, and now higher price levels, with the difference between the two often causing some confusion, may be behind the longer-term pessimism. Also, the pre-election environment has created what the survey sponsor referred to as “substantial uncertainty” for consumers, with rising expectations for Vice President Harris (even before the recent debate).

(0) **Initial jobless claims** for the Sep. 7 ending week rose by 2k to 230k, above the 226k median forecast. Continuing claims for the Aug. 31 week rose by 5k to 1.850 mil., right in line with consensus expectations. After a few weeks of higher claims based likely on weather, seasonality, and planned manufacturing maintenance events, this metric continues to run at contained levels.

Market Notes

Period ending 9/13/2024	**1 Week %**	**YTD %**
DJIA	2.62	11.35
S&P 500	4.06	19.13
NASDAQ	5.98	18.43
Russell 2000	4.39	8.71
MSCI-EAFE	1.21	10.11
MSCI-EM	0.79	7.94
Bloomberg U.S. Aggregate	0.51	4.93

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
9/6/2024	5.13	3.66	3.50	3.72	4.03
9/13/2024	4.97	3.57	3.43	3.66	3.98

U.S. stocks saw gains last week, to reverse the negativity of the prior week. They also shook off mixed results mid-week that included the relief of decelerating CPI but perhaps not enough to fully satisfy the Fed, in addition to perhaps the strong debate performance by Vice President Harris, which Wall Street viewed as raising the odds of higher taxes and regulation, and a less corporate-friendly environment generally. The magnitude of the upcoming Federal Reserve rate cut (as in -0.25% or -0.50%) remained an open question by week’s end.

By sector, technology rebounded with gains of over 7% (led by a 16% gain for Nvidia after a positive outlook on AI, and strong returns from Microsoft), followed by consumer discretionary and communications. Energy lagged as the only sector to end the week with a minor decline, followed by financials with a sub-1% increase. Real estate also gained several percent along with falling yields.

Foreign stocks saw positive results, with gains in Japan, Europe, and emerging markets outpacing the U.K. by a bit, as the latter experienced weaker-than-expected economic growth results. The week in Europe was highlighted by the ECB cutting their key rate for the second time by -0.25% to a level of 3.50%, as expected, but did not provide much in terms of future guidance. In emerging markets, leadership from Mexico, Taiwan, and South Korea outpaced minimal changes in China.

Bonds experienced gains again, as U.S. Treasury yields fell across the curve, with returns similar across governments and corporates. International bonds rose along with ECB rate cuts, as did emerging market debt, perhaps due to rising chances of a Harris presidency deemed more favorable for lower-tariff global trade.

Commodities gained across the board for the week, led by precious metals and industrial metals, each up over 4%, followed by gains of a few percent in agriculture. Crude oil rose slightly to $69/barrel, after bouncing around in price during the week. Hurricane Francine in the Gulf of Mexico, with key producers shutting down about a quarter of output in the region in response. During the Presidential debate, promises to support fracking may have been negative for markets in the near-term, with current perceived oversupply relative to demand—which could be exacerbated by a flood of further production. Industrial metals tied to potential green energy initiatives also fared well.

Have a good week.

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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.

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