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September 2024

Market Update
(all values as of 08.30.2024)

Stock Indices:

Dow Jones	41,563
S&P 500	5,648
Nasdaq	17,713

Bond Sector Yields:

2 Yr Treasury	3.91%
10 Yr Treasury	3.91%
10 Yr Municipal	2.70%
High Yield	6.92%

YTD Market Returns:

Dow Jones	10.28%
S&P 500	18.42%
Nasdaq	18.00%
MSCI-EAFE	9.72%
MSCI-Europe	9.81%
MSCI-Pacific	9.34%
MSCI-Emg Mkt	7.44%
US Agg Bond	3.07%
US Corp Bond	3.49%
US Gov't Bond	2.95%

Commodity Prices:

Gold	2,535
Silver	29.24
Oil (WTI)	73.65

Currencies:

Dollar / Euro	1.10
Dollar / Pound	1.31
Yen / Dollar	144.79
Canadian /Dollar	0.74

Macro Overview

There is a growing concern that the Fed may not have been as responsive as it should have in responding to slowing economic data numbers, prompting some economists and analysts to increase the possibility of an economic slowdown or recession. Economic indicators released in August are starting to illustrate a slowing economy as consumers pull back and employers scale back on hiring.

The U.S. dollar is expected to decline versus other major currencies as rates start to decline, altering the financial dynamics of emerging markets, which can boost investor flows to emerging markets. A weakening dollar can also bring about indirect inflationary pressures as imported products and goods become more expensive for U.S. consumers. Concurrently, U.S exports become more competitive overseas as a weaker dollar makes U.S. exports less expensive.

China's economic slowdown is reducing demand for commodities worldwide which is deflationary and representative of slowing global demand for goods and products. The price of various commodities including copper, aluminum and lumber, which are indicative of economic conditions, have fallen over the past few months. China is a significant buyer of these commodities.

Federal Reserve Chair Jerome Powell indicated that the Fed is intent on starting to reduce interest rates in September, as a result of diminishing inflation and a weakening labor market. A slowing hiring rate along with an increasing unemployment rate have prompted the Fed to commence its rate reduction strategy with the possibly of a greater than expected initial rate reduction. Some economists and analysts are questioning whether the Fed is reducing rates due to lessening inflation or a slowing economic environment.

Federal debt as a percentage of Gross Domestic Product (GDP) is expected to exceed the record set 80 years ago as additional debt is issued and economic expansion slows. It is projected that government debt held by the public will rise above 100% of GDP by 2025.

The hiring rate by employers has now fallen to the point that of the 1.32 million people who have entered the labor market over the past year, only 57,000 have been able to obtain a job, resulting in 96% of those entering the workforce not having found a job. Companies have been reducing job openings and hiring, adding to a languished labor market.

Contrary to a generalized belief, corporate income tax receipts have actually been increasing. Federal taxes paid by U.S. corporations have increased over the past three presidential administrations. Corporate tax receipts have increased to over $409 billion in 2023, up from $311 billion in 2016.

The anticipation of lower rates in September as the Federal Reserve initiates its rate reduction strategy, has already begun to indirectly lower interest rates on some consumer loans and mortgages. The average rate on a 30 year conforming mortgage fell to 6.35% at the end of August, down from 7.79% in October 2023. Analysts expect rates to fall further once the Fed commences the reduction of the Fed Funds Rate. (Sources: FreddieMac, Federal Reserve, Dept. of Labor)

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THE YIELD ON THE 2 YEAR AND 10 YEAR TREASURY WERE THE SAME AT THE END OF AUGUST

Stocks Experience Volatility Spike In August – Domestic Equity Overview

Major indices experienced a spike in volatility during August, as a tumultuous sell off early in the month affected nearly every sector of the market. Equity prices recuperated later in the month with the S&P 500 Index advancing 2.4% for August and the Dow Jones Industrial Average gaining 1.76% for the month. The tech heavy Nasdaq Composite Index was up 0.7% in August, as technology sector companies saw the most volatility.

The arrival of lower rates initiated by the Federal Reserve in September is expected to alleviate interest debt loads for smaller capitalized companies as servicing on debt becomes less costly. Overall, a lower interest rate environment assists small to large capitalized companies with costs, debt, and expenses.

Sources: Dow Jones, S&P, Nasdaq

Rates On Track To Continue Heading Lower – Fixed Income Overview

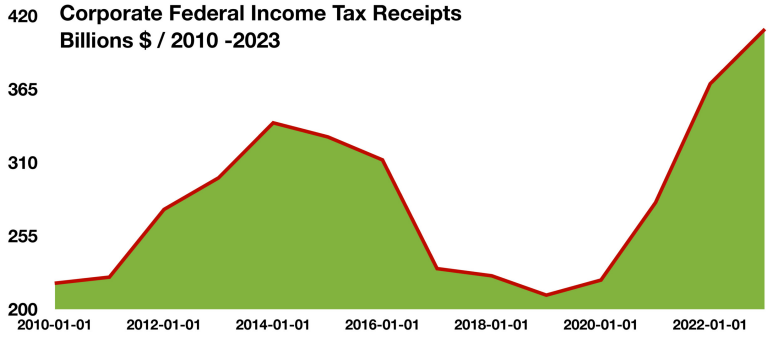
Interest rates on certain consumer loans including mortgages and auto loans began to gravitate lower in August in anticipation of the Fed's objective to begin lowering the Fed Funds Rate in September. Treasury and corporate bond yields fell in August as some analysts expected a larger initial rate cut by the Fed then originally expected.

The yield on the 10 year U.S. Treasury bond ended August at 3.91%, down from 4.09% at the end of July. Yields on shorter term and well as longer term Treasury bonds also fell, normalizing the yield curve from an inverted curve, when short term yields are higher than longer term yields. The yield on the 2 year Treasury bond ended August at 3.91%, the same as the 10 year Treasury bond yield.

Sources: U.S. Treasury, Federal Reserve

Corporate Income Taxes Have Actually Been Increasing – Taxation

An escalating debate surrounding taxes imposed on U.S. corporations has evolved as the presidential election approaches. The federal government receives taxes from both individuals and corporations based on taxation rates and income calculations. Contrary to popular believe, receipts on corporate income taxes have actually risen over the past three presidential administrations.



The primary factors affecting corporate tax revenue include corporate tax rates and economic conditions. Corporations tend to have larger profitability during periods of economic expansion thus paying more in corporate taxes regardless of the tax rate. A slowing economy as well as lower corporate tax rates can also reduce corporate tax receipts. Arguments have been made where lower corporate tax rates during slowing economic environments may help stimulate the economy whereas companies have been enticed to hire and invest more.

Sources: U.S. Treasury, IRS

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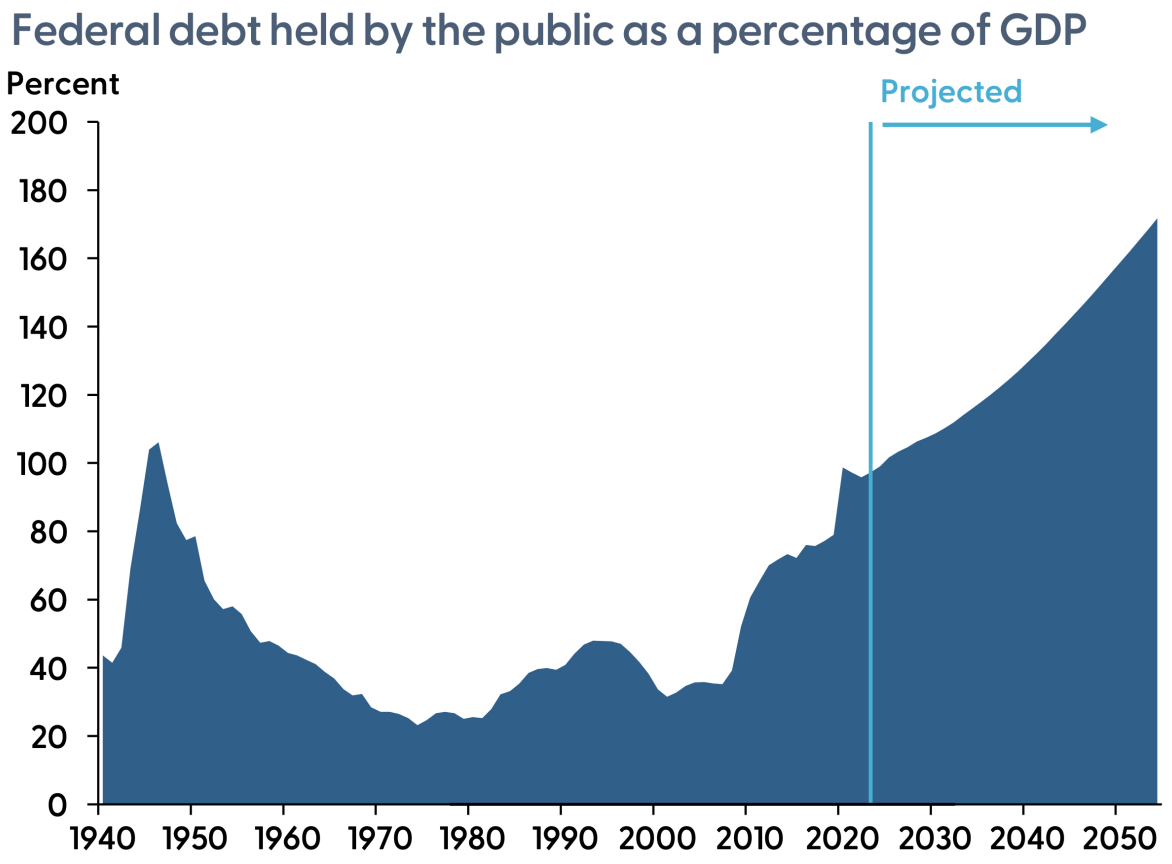
DEBT HELD BY THE PUBLIC WILL RISE ABOVE 100% OF GDP BY 2025

Total U.S. Debt as % of GDP Projected to Surpass 100% By 2025 – Fiscal Policy

Federal debt held by the public as a percentage of GDP is projected to exceed 100% in the next year or two. The Congressional Budget Office (CBO) projects that debt held by the public will rise above 100% of GDP by 2025. Debt held by the public was 97% of GDP at the end of fiscal year 2023, and is projected to exceed GDP by 100% or greater in 2025.



The federal government issues debt on an ongoing basis for operating expenses and to meet obligations such as social security benefits and medicare payments. A rapidly growing expense has been interest payments on debt including Treasury bonds and notes. Slowing economic growth reduces tax revenue from individuals and corporations as income drops and tax receipts fall.

The debt-to-GDP ratio is a key economic indicator that measures a country's government debt in relation to its gross domestic product (GDP). The debt-to-GDP ratio is calculated by dividing a country's total government debt by its gross domestic product.

After peaking at over 100% in 1945 and 1946, the debt-to-GDP ratio gradually fell over the next three decades to only around 25% by 1975. The United States was able to reduce its post-WWII debt ratio from a historic high of over 100% in 1946 to a historic low of roughly 25% in 1975 by a combination of a balanced primary budget and economic growth that surpassed the interest rate on debt.

Sources: CBO, U.S. Treasury, Federal Reserve

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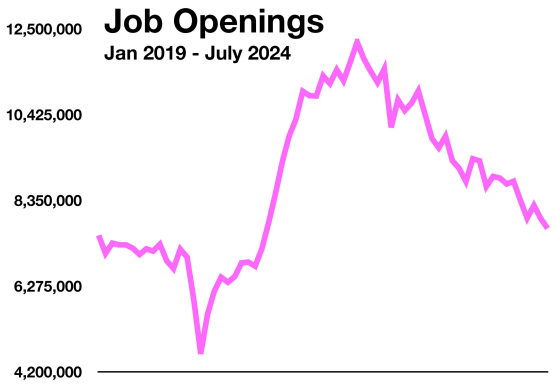
JOB OPENINGS FELL TO 7.7 MILLION

Job Openings Are Falling – Labor Market Overview

U.S. job openings fell to the lowest level in three and a half years and returned to pre-pandemic levels in another sign the labor market has softened and that people can't find work as easily. Job openings fell to 7.7 million in July from a downwardly revised 7.9 million in June, the Labor Department reported at the end of August. New openings have fallen steadily from a record 12 million in 2022 following the pandemic with fewer industries hiring and jobs becoming harder to obtain.



All age groups as well full time and part time positions have become increasingly challenged as companies scale back and curtail workforce size and previous expansion plans. Department of Labor data has also revealed that some companies are increasingly laying off workers as well as curtailing hiring. Slowing economic conditions and shrinking profitability margins for numerous companies have intensified the growing lack of employment opportunities. (Sources: Dept. of Labor, Federal Reserve)

How A Weak Dollar Affects The U.S. Economy – Currency Overview

With the anticipation of the Fed initiating its rate reduction objective in September, expectations are that the U.S. dollar will also begin to fall as well. Historically, nearly ever time that interest rates have fallen in the U.S., the dollar has also fallen relative to other country currencies.

A weaker dollar can trigger numerous dynamics for the U.S. economy, as the nation's currency theoretically becomes less valuable yet offering some benefits to the economy. Since an enormous amount of what U.S. consumers buy is imported, a weaker dollar makes these imports more expensive because a weaker dollar is able to purchase less. The higher import costs can also lead to inflationary pressures for consumers.

Fortunately, a weaker dollar makes U.S. products and goods more competitive globally as the price of U.S. exports fall. A weak dollar has historically stimulated U.S. exports over the decades, yet has also created a challenge for consumers and companies reliant on imports which in-turn become more expensive. (Sources:Fed, U.S. Treasury, Commerce Dept.)

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