Convergence Commentary
September 2024 Market Recap

Quick Hits:

- The Federal Reserve lowers interest rates
- More record highs for stocks
- China unveils a stimulus plan

Market-Moving Highlights

Last month at the annual economic symposium in Jackson Hole, Wyoming, Federal Reserve Chair Jerome Powell set the stage for a September policy pivot. After that clear forward guidance, the question going into this month's FOMC meeting wasn't really when the Fed would cut rates, but by how much - would it be the standard 0.25% adjustment, or would Powell and his colleagues move more aggressively?

The latter option won out. In mid-September, the Federal Reserve lowered their target for overnight interest rates by half a percentage point to a range of 4.75% to 5.00%. In defending the move, Powell leaned on the Fed's dual mandate: maintaining price stability and achieving maximum employment. For the last 3 years, price stability has hogged the spotlight; inflation was far above the 2% annual target, and higher rates were the only tool available to bring price pressures down.

Today, the Fed has gained confidence that inflation is moving sustainably toward 2%, and they see the risks to achieving their employment and inflation goals as roughly in balance. That warranted a faster pace of rate cuts.

With two more opportunities for policy adjustments before the end of the year, Powell vowed to remain flexible and data dependent as the rest of the year unfolds.

Index Performance

Index	1 Month	YTD	1 Year	5 Year
S&P 500	2.1%	22.1%	36.4%	16.0%
Nasdaq Composite	2.8%	21.8%	38.6%	18.8%
Russell 2000	0.7%	11.2%	26.8%	9.4%
MSCI ACWI ex US	2.7%	14.7%	26.0%	8.1%
Bloomberg US Aggregate Bond	1.3%	4.4%	11.6%	0.3%

Stock prices continued to rise in September, led by strong performances from both the tech-heavy NASDAQ Composite (+2.8%) and international equities (+2.7%). The S&P 500 rose more than 2% as well, bringing the year-to-date gain for the benchmark index to an impressive 22.1%. Meanwhile, small cap stocks continued to lag, rising a more modest 0.7% in September as investors balance the impacts of a slowing economy against the prospect of lower borrowing costs. In any case, the breadth of stock price advances continues to be healthy.

It’s not just stocks that are seeing gains, either. Bond prices rose during the month, too, with the US Aggregate index climbing 1.3% on the back of falling rates.

S&P 500 Sector Highlights & Commentary

Best-Performing Sectors		Worst-Performing Sectors	
Consumer Discretionary	7.1%	Energy	-2.7%
Utilities	6.6%	Health Care	-1.7%
Communication Services	4.6%	Financials	-0.5%

The Consumer Discretionary sector was the leader over the last month, driven by double-digit gains in the automobile manufacturers, apparel, cruise lines, and leisure industries. Despite the strong September, though, the sector's year-to-date performance remains among the worst. Only the Energy sector has been worse in 2024, as oil hovers near its lowest level in 3 years. How 'bad' are Energy stocks? They're still up more than 8% for the year, a testament to the breadth that's underpinned this year's rally.

Energy and Consumer Discretionary are at the bottom of the year-to-date performance derby, but the biggest surprise is who's at the top. Typically considered a risk-off sector, the Utilities are up more than 30% through September. What's the catalyst? The AI revolution is partly responsible, since large amounts of computing power also means large amounts of electricity consumption. But there's an equally important (and less flashy) dynamic at play: no sector is more heavily indebted than the Utilities, which makes them a primary beneficiary of lower interest rates.

What to Watch in October

Click here to read our reference guide for economic indicators.

10/4 – Non-Farm Payrolls
The US economy added 142,000 jobs in August, and the unemployment rate retreated to 4.2%. Both readings were encouraging after weak July data pointed toward significant slowing in the labor market. With the Fed now taking a balanced approach to the dual mandate, Friday's jobs report may prove to be the single most important data release before the next rate decision.

10/10 – CPI Inflation
The Fed seems to believe inflation is well on its way to their 2% annual target, and last month's 3-year low CPI reading of 2.5% supported that view. This is the report to watch for continued progress on prices.

10/17 – Retail Sales
Retail sales in August were up just 2.1% from the prior year, and down on an inflation-adjusted basis. Some slowing in economic activity was necessary to bring inflation down. Further slowing from here might be cause for concern.

10/30 – GDP, Third Quarter Advance Estimate
We'll get our first look at how the US economy performed as a whole during the third quarter, after growth in the second quarter came in at 3.0%.

Q3 Earnings Season
When it comes to stock market performance, perhaps no data is more important than earnings of the companies in the index. The heart of earnings season kicks off midway through the month and will last through mid-November. S&P 500 profit growth is expected to slow to 4.6% in Q3, down from more than 11% in 2Q.

Market Wrap

Stocks in the US have already hit record highs 42 times this year - in the last 25 years, only 2021 posted a better mark through the end of September.

Things haven't been quite so rosy for investors in the world's second-largest economy.

China's market has been plagued by stiff pandemic-era policies, regulatory crackdowns on the technology sector, and a debilitating real estate crisis that won't seem to end. While stocks in much of the world were setting new highs earlier this year, the Shanghai Composite touched a 5-year low in February. And in late-September, Chinese stocks were on the verge of dropping even lower.

Then fiscal and monetary authorities stepped in.

Last week, China announced an array of stimulus measures to support the financial and real estate markets. The large, coordinated effort signaled a sense of urgency in Beijing to resurrect an economy at risk of missing the government's 5% economic growth target. Here's a summary from Bloomberg of everything they've delivered so far:

China's Announced/Reported Stimulus Measures

Sector	Measure	Status
Monetary	Seven-day reverse repurchase rate cuts	Delivered on Sept. 27
	Medium-term lending facility rate cuts	Delivered on Sept. 25
	Loan prime rate cuts	To be guided lower
	RRR cuts	Delivered on Sept. 27, more could come
Property	Outstanding mortgage rate cuts	Delivered on Sept. 29
	Cuts on minimum down-payment ratio on second-home purchases	Delivered on Sept. 29
	Expansion of PBOC re-lending program	Delivered on Sept. 29
	Megacities to relax curbs for non-local buyers	Delivered by Guangzhou on Sept. 29
	Scrapping of distinctions between first- and second-home purchases	Delivered by Guangzhou on Sept. 29
Stocks	Swap facility to tap PBOC money to purchase equities	Still to come
	Re-lending facility to buy back shares and raise holdings	Still to come
	A possible stabilization fund	Still to come
	New measures to encourage mergers and acquisitions	Delivered on Sept. 24
Finance	Addition of core tier 1 capital to six major commercial banks	Still to come
Fiscal	Potential issuance of special sovereign bonds	Still to come

Source: Government statements, media reports

Whether these actions are enough to stem the bleeding remains to be seen, but financial markets seem to think it's enough to turn the tide: The Shanghai Comp had its best week since 2008 following the news.

Sources

Bureau of Economic Analysis
Bureau of Labor Statistics
Census Bureau
FactSet
Bloomberg News
Market performance data sourced from Ycharts and Optuma

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