

Rate Cut Continues Market Momentum

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After a wobbly start, September delivered positive returns with all major US indices up for the month around two percent. The monthly gains are particularly impressive given that September has delivered negative monthly returns going all the way back to 1926 and more recently, from 1980. Mid-month, the S&P 500 was on pace to finish down for a

fifth consecutive September decline before rising again.

The aggressive half-point mid-month rate cut obviously contributed to the month's gains, but at the end of the first trading day of the rate cut, the gains appeared uncertain as sobering economic news erased the initial

expensive, but not increasing at past rates. Inflation, while still somewhat elevated, has declined to more normal levels. Consumer spending is slipping, but not by a concerning amount. Pretty much everything appears to be good enough to support continued hopes for a soft landing, and investors continue to expect this outcome.

Yet not all the news is good. Looking at the recent data, a significant concern is that much of the growth in jobs is coming from the government, which accounted for half the new jobs created. Employers actually shed jobs in manufacturing (24,000), retail (11,100) and information (7,000). Another worrisome sign comes from rising teen unemployment which reached 14.1% in August, up from 12.4% in July and a recent low of 9.3% in April 2023.

Internationally, the news is also less than encouraging. China's economic plight is deepening and led to a weeklong blizzard of stimulus. While the actual impact

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enthusiasm. Stocks were already near record highs, and the unclear investment backdrop did not inspire confidence. With the economy losing steam, every major asset declined on the day.

Yet, like in many previous months, the market thrust aside potentially negative news and again focused on the many positives across the U.S. economy. Jobs growth was not particularly high at 142,000 jobs added in August but was high enough to not cause concern. Debt is growing, but at a "reasonable" rate. Housing is

will take time to unroll, China's stock market soared 25% since their central bank unleashed the first wave of easing measures last week, erasing the previous nearly 14 months' losses in only five trading sessions. The big question remains as to whether stock investors' euphoria will be matched by a durable turnaround in China's struggling economy.

In Europe, German companies are losing confidence and creating concerns that a moribund manufacturing sector could pull Europe's most important economy

back into recession. The Ifo Institute's business-climate index slipped for a fourth straight month, adding to signs of a sustained downswing in the German economy. While struggles overseas can help U.S. markets because money can flow to U.S. markets, longer-term it generally hurts the U.S. because of less demand for products and services.

Still, the U.S. continues to power forward and appears likely to have survived a period of high inflation fairly well, much to the delight of U.S. investors. The ongoing strength of U.S. markets has resulted in the U.S. global market capitalization doubling to 63% of the world's total from less than 30% about 35 years ago. The U.S. could continue on this path for a quite a while, or markets may demand more discipline by our government, possibly sooner than anticipated. The post-election period could be very interesting as investors adjust to a new administration.

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