

Market Powers Forward as Rate Cuts Expected

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The market has risen every month this summer, adding to the year's already solid returns. With the S&P 500 up nearly 20% for the year and nearly 50% since the beginning of 2023, the market has delivered impressive performance after its pullback in 2022, particularly given repeated predictions for a recession that still has not materialized.

Given recent comments by the Federal Reserve regarding future interest rate reductions, it appears that the market could be poised for more growth based on expectations that lower interest rates will be good for stocks. In addition, hopes for a soft landing continue to

months, we are in the early stages of a recession. This rule-of-thumb has identified all recessions since 1953, but Ms. Sahn rightly emphasizes that the rule is nothing more than an empirical regularity and predicts absolutely nothing. Still, the 0.6% increase in unemployment rattled markets and contributed to a mid-month pullback in stock prices.

This same jobs report showed the economy adding only 114,000 positions in July, well below economist's expectations. The low numbers revealed a potentially slowing economy and a labor market that could be on its way to weakness with the unemployment rate at its highest level in three years. The disappointing data stoked worries that the Federal Reserve waited too long to trim rates, and the economy could tip into a recession.

The flip side of growth concerns is Fed Chair Jerome

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rise despite obvious weakness in areas ranging from the job market slowdown to manufacturing and construction data to poor retail sales growth.

The slowing job market garners a lot of attention, particularly given the rise in the unemployment rate from 3.7% last December to its current reading of 4.3%. According to research completed by Claudia Sahn, if the unemployment rate climbs by half a percentage point or more relative to its low during the previous 12

Powell's recent comments that "The time has come for policy to adjust." Lowering rates marks a crucial milestone for the Federal Reserve's surprisingly successful inflation fight. In a keynote speech in Jackson Hole, Wyoming, he said, "We will do everything we can to support a strong labor market as we make further progress toward price stability." The strong Fed statement, not surprisingly, spurred markets higher on hopes of impending rate cuts and the Fed's resolve to help the economy.

*Alphabet Inc. (GOOG), Amazon.com Inc. (AMZN), Apple Inc. (AAPL), Meta Platforms Inc. (META) - Formerly Facebook (FB), Microsoft Corp. (MSFT), Nvidia Corp. (NVDA), Tesla Motors Inc. (TSLA).

The Fed's actions mark another significant step toward moving past the impacts of the COVID economic shutdowns into more normalized conditions. Lower rates are usually very positive for markets, and investor expectations are high. Yet today, various factors that have historically signaled both past recessions and economic expansions exist. As always, it is helpful to focus on the longer-term, bigger picture issues rather than the short-term challenges that inevitably arise. As we head into the fall – and the coming U.S. elections – the need to discern and focus on the important economic data remains even more true than usual.

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