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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **August 30, 2023**

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Last week's S&P 500 Index: +0.8%

Sticking to the script

Key takeaways

- We have no doubt the Federal Reserve (Fed) is focused on bringing inflation down and is willing to give up growth in order to do so.
- At the end of the day, stock and bond traders had little new information to trade on in the wake of last week's Jackson Hole symposium.

There is always a lot of financial media hype coming into the annual Kansas City Federal Reserve's Jackson Hole symposium. This is especially true when a tightening or easing cycle is underway. The hype is usually focused on whether the message will change and whether the fed funds rate adjustments are over or if there are more to go. In the case of last week's Fed get-together, the question was whether Chair Jay Powell was going to deliver a more "hawkish" or "dovish" message relative to the tune our central bankers have been singing for the bulk of this year. It would be tough not deem the Fed's message thus far as anything but hawkish.

In the end, neither the hawks or doves ended up satisfied as Chair Powell stuck to the well-worn script that the U.S. central bank was "data dependent" and he and the other voting Federal Open Market Committee (FOMC) members would "raise rates further if appropriate." We have no doubt the Fed is focused on bringing inflation down and is willing to give up growth in order to do so. As Chair Powell has repeated over and over, inflation harms consumers at the lower end of the wage scale more than those at the top end. Lower wage earners spend a much higher percentage of their income on food and energy than do those at the upper end of the wage scale.

The harm done by high inflation remains unacceptable to the Fed. We expect this means it is going to keep at it until it perceives the mission is accomplished. That time is not now. In our view, that doesn't mean inflation has to be at 2% before the rate-hike cycle stops; it doesn't. What it does mean is that inflation needs to be in the process of slowing toward that long-term average goal over time. But with the "core" (excluding food and energy) Consumer Price Index (CPI) and "core" Personal Consumption Expenditures (PCE) still showing year-over-year increases in the upper 4% area, we believe that inflation is too high for Chair Powell and his colleagues to take their foot off the brake. That is why we are calling for at least one more rate hike this year and not looking for any rate cuts until at least the middle of next year.

At the end of the day, and after numerous volatile trading sessions in stocks and bonds last week, the S&P 500 Index finished slightly higher on the week and the yield on the 10-year Treasury note finished slightly lower. Stock and bond traders had little new information to trade on in the wake of last week's symposium.

Chair Powell admitted that the Fed is trying to navigate the economic environment without having a clear view of the way forward or what lies ahead. That isn't exactly what we want to hear the Chair of the most powerful central bank on the planet tell us, but that is the current reality. We believe more equity downside lies ahead. Stay defensive for now.

Risk considerations

Forecasts are not guaranteed and based on certain assumptions and on views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates.

Definitions

Consumer Price Index (CPI) produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

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