Peapack Private

The Weekly
Economic & Market Recap

August 30, 2024

Recap

August is usually a low-volume trading month with little directional bias, but it was quite volatile this year. The month began with risk-off sentiment due to weaker-than-expected employment data, concerns of slowing growth, and the unraveling of yen carry trades that triggered a global selloff in equities and Treasury yields to plummet. The yen carry trades consisted of borrowing Japan's cheap currency to invest in other countries offering higher yields. This arbitrage opportunity was quickly undone when the Bank of Japan (BOJ) hiked rates, causing investors to close out positions to minimize losses as the value of the yen increased. Lower-than-expected jobless claims for the week ending August 3rd provided some initial relief to the kneejerk reaction, suggesting no significant risk in the pace of layoffs. Fedspeak later affirmed that an emergency cut was unlikely. July producer price index (PPI), consumer price index (CPI), and retail sales continued the positive momentum after demonstrating that the U.S. economy remained stable. CPI represented the third month of broadly slowing inflation, with important inflation categories heading in the right direction. This was reinforced by the July personal consumption price index (PCE) – the Fed's preferred inflation gauge – that aligned with expectations. The labor market has shown some softness, witnessed in the largest downward revision since 2009 to the preliminary annual payrolls benchmark, though still at healthy levels. Takeaways from Fedspeak this month included the Federal Open Market Committee (FOMC) minutes and Fed Chair Powell's speech at Jackson Hole favoring a September rate cut as the "time has come for a policy adjustment." The Fed has stated that its focus is now on the labor market in the wake of cooler inflation. August concluded with all major domestic equity indices slightly positive as Treasury yields declined across the curve.

Key Thought for The Week

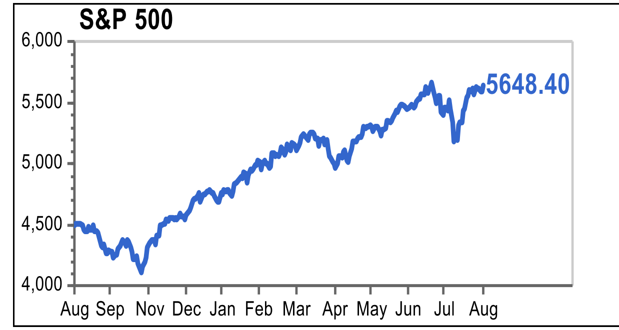
Federal Reserve Chair Jerome Powell indicated in his Jackson Hole speech that the initial rate cut in Fed funds in the upcoming rate-cutting cycle will come in September. We expect one or two more rate cuts in the fourth quarter. Second quarter real GDP was revised slightly higher to a solid 2.95% growth rate on the back of better consumer spending. The Fed is likely to reduce rates gradually over the next twelve months, with the pace determined by how quickly the economy slows. The lag in the transmission mechanism between the easing of monetary policy and its impact on the economy, and the likely temperate approach in rate reduction by the Fed, leads us to expect a negligible effect on the overall economy well into 2025. The Federal Reserve has other ways to influence economic growth, such as providing liquidity to the financial system. There are several methods to expand the money supply, encouraging economic activity with business investment and consumer spending. Over the last thirty years, the average annual growth rate of M2 has averaged 5.5%, but the growth rate of M2 since the start of 2023 has been 1% after reaching a record low of -4.5% in 2022. Some economists believe anemic money supply growth is the primary reason for the Fed's success in controlling inflation. The U.S. Treasury can also expand the money supply by reducing the $730 billion it holds at the Fed in its Treasury General Account (TGA). The federal government can quickly provide liquidity by spending money and reducing the TGA. We expect economic growth to moderate over the next few quarters. However, between lower rates and faster growth in the money supply, the Fed and the Treasury have the ability to provide some additional support to the economy.

8/30/2024 STOCKS	Close	Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
DJIA	41,563.08	388.00	0.94	1.90	10.28	19.13
S&P 500	5,648.40	13.79	0.24	1.38	18.42	25.11
NASDAQ	17,713.63	-164.17	-0.92	0.80	18.00	26.35
S&P MidCap 400	3,091.52	-4.73	-0.15	1.58	11.14	16.89
EAFE	82.98	0.16	0.19	3.27	10.13	15.55
Emerging Market	54.46	-0.57	-1.04	2.90	7.67	9.69

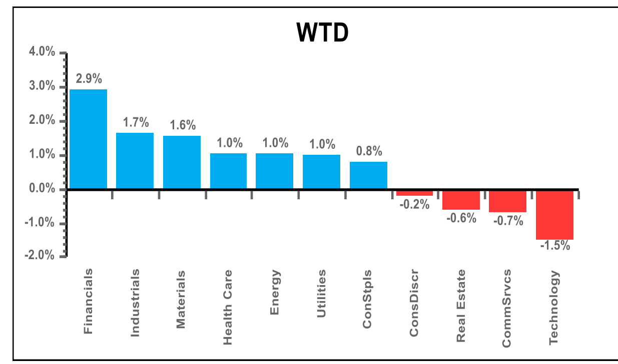
TREASURIES	Yield
1-Year	4.41
2-Year	3.92
5-Year	3.71
10-Year	3.92
30-Year	4.21

FOREX	Price	Wk % Change
EUR/USD	1.11	-0.98
USD/JPY	145.61	0.31
GBP/USD	1.31	-0.36
USD/CAD	1.35	-0.31

Source: FactSet



Sector - Large Cap	Close	Wk Net Change	WTD	MTD	QTD	YTD
Defensive						
Staples	882.60	6.97	0.8%	5.8%	7.7%	15.8%
Health Care	1,829.71	18.99	1.0%	5.0%	7.6%	15.0%
CommServices	300.95	-2.12	(0.7%)	1.2%	(3.0%)	22.3%
Eco Sensitive						
Consumer Disc	1,500.16	-3.41	(0.2%)	(1.1%)	0.5%	5.8%
Energy	695.86	7.05	1.0%	(2.3%)	(0.3%)	8.7%
Industrials	1,110.78	18.10	1.7%	2.7%	7.6%	15.1%
Info Tech	4,298.51	-64.44	(1.5%)	1.2%	(1.0%)	26.5%
Materials	593.39	9.22	1.6%	2.2%	6.6%	10.0%
Interest Rate Sensitive						
Financials	759.21	21.58	2.9%	4.4%	11.0%	21.2%
Utilities	385.51	3.87	1.0%	4.3%	11.3%	19.8%
REIT	270.22	-1.63	(0.6%)	4.9%	11.8%	7.7%



COMING UP NEXT WEEK		Consensus	Prior
09/03 Markit PMI Manufacturing SA (Final)	(Aug)	48.0	48.0
09/03 ISM Manufacturing SA	(Aug)	47.5	46.8
09/04 Durable Orders SA M/M (Final)	(Jul)	9.9%	9.9%
09/04 Factory Orders SA M/M	(Jul)	4.4%	-3.3%
09/04 JOLTS Job Openings	(Jul)	8,100K	8,184K
09/05 Productivity SAAR Q/Q (Final)	(Q2)	2.3%	2.3%
09/05 Markit PMI Services SA (Final)	(Aug)	55.2	55.2
09/05 ISM Services PMI SA	(Aug)	51.0	51.4
09/06 Hourly Earnings SA M/M (Preliminary)	(Aug)	0.30%	0.20%
09/06 Nonfarm Payrolls SA	(Aug)	155.0K	114.0K
09/06 Unemployment Rate	(Aug)	4.2%	4.3%

Russell Style Return

WTD	Value	Blend	Growth
Large	1.32%	0.30%	-0.72%
Medium	0.70%	0.31%	-0.58%
Small	0.10%	-0.14%	-0.15%

YTD	Value	Blend	Growth
Large	14.92%	18.50%	20.84%
Medium	12.85%	11.99%	9.14%
Small	8.86%	10.23%	11.64%

For more information about our solutions: http://peapackprivate.com