The Weekly Market Update – 10/7/24: Jobs Slowdown Delayed For Now

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,751.07	0.22%	-0.20%	20.57%	34.12%	5,762.48	0.2%
Dow Jones Industrial Average	42,352.75	0.09%	0.05%	12.37%	26.40%	42,352.75	0.0%
NASDAQ Composite	18,137.85	0.10%	-0.28%	20.83%	37.21%	18,647.45	2.8%
Russell 2000	2,212.80	-0.54%	-0.77%	9.16%	23.96%	2,442.74	10.4%
MSCI EAFE (USD)	2,413.03	-3.74%	-2.25%	7.91%	18.79%	2,506.69	3.9%
MSCI Emerging Markets (USD)	1,179.34	0.41%	0.72%	15.20%	23.78%	1,444.93	22.5%
Bloomberg Commodity Index	102.08	1.81%	1.73%	3.48%	-2.63%	237.95	133.1%
Barclays U.S. Aggregate Bond	93.01	-1.36%	-1.09%	1.43%	7.74%	112.07	20.5%

Source: FactSet

The U.S. economy created more jobs than expected in September, easing fears of a near-term labor slowdown. According to the U.S. Bureau of Labor Statistics (BLS), September nonfarm payrolls (jobs) increased by +254 thousand (K), significantly above the +140K FactSet consensus estimate. The report reflected the highest monthly jobs increase in six months (since +310K in March 2024) and included upward revisions to the previous two months (July and August) that totaled +72K. Jobs gains spanned multiple industries with restaurants and bars (+60K), health care (+45K), government (+31K), and construction (+25K) leading. Other sectors saw muted gains including manufacturing, retail trade, transportation and warehousing, finance, and professional/business services. The unemployment rate dipped to 4.1% after rising to 4.3% in July, and wages (as measured by average hourly earnings) increased +4.0% year-over-year (Y/Y), up from +3.9% Y/Y in July. Monthly jobs gains had slowed in recent months, averaging +149K monthly from April through August (vs. +267K monthly in 1Q24), and contributed to the Federal Reserve Bank's (Fed) decision to reduce its overnight bank lending fed funds interest rate target by -0.50% in September. Over the past few months, the Fed has shifted its policy emphasis away from inflation (as the Fed sees monthly Y/Y inflation data easing lower) and toward supporting employment by making interest rate policy less economically restrictive (a goal of lower rates). Following the September report and prior positive jobs revisions, it appears that the labor market has firmed for now. The fed funds futures market has priced in additional interest rate cuts of -0.25% at each of the next two Fed meetings (November and December), and the potential for a larger -0.50% cut at one meeting has diminished, in our view. However, it should be noted that the six-month jobs gain trend remains lower in September than earlier in the year, and one month of strong jobs growth does not necessarily prove that the labor market is accelerating.

S&P 500 earnings estimates for 3Q24 are muted compared to 2Q24, but full-year estimates for both 2024 and 2025 remain robust. A few of the large banks will kick off the latest earnings reporting cycle on Friday, and the FactSet consensus growth estimate for the S&P 500 (weighted average contribution of the estimates for all constituents) is +3.9%, a slower pace than the +11.4% Y/Y growth reported in the previous quarter (2Q24). This would be the slowest Y/Y earnings growth of the past five quarters as the Y/Y comparisons become more challenging. One reason for the softer expectations is that Energy-sector earnings were likely hurt by lower oil prices, leading to negative estimates. Lower oil prices, however, can help other sectors. A few sectors are estimated to show Y/Y growth of +10% or higher, including Information Technology, Communication Services, and Health Care. Y/Y earnings growth is still expected to rebound in 4Q24 (+15%), and growth estimates for the full-year 2024 and 2025 remain at +10% and +15%, respectively.

As investors await earnings reports from large banks on Friday, inflation data will lead headlines on Thursday. September consumer inflation from the BLS (consumer price index, or CPI) is estimated (per FactSet consensus) to come in at +2.3% Y/Y. This would be the lowest Y/Y increase since February 2021, and lower month-to-month data could signal more improvement ahead. However, core CPI (excluding food and energy) is estimated to remain at +3.2% Y/Y, unchanged for the past three months and an indication that more work is needed to return to +2.0%.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The minutes from the most recent FOMC meeting is here. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. As of 10/7/24, the fed funds target range was 4.75% to 5.24%.

We compare future fed funds expectations from CME FedWatch (from CME Group), which tracks the probabilities of the Fed rate as implied by 30-day fed funds futures prices.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work. From the surveys, the BLS compiles average hourly earnings for workers, a measure of wages looked at both year-over-year, and month-to-month.

The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

S&P 500 earnings estimates are compiled by FactSet from earnings estimates submitted by Wall Street analysts. Estimates are compiled from the bottom up and are weighted by equity market capitalization, so that the most highly valued companies have a proportionate contribution to total sector and index estimates.