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Weekly Market Flash

Not The Cruellest Month, Perhaps

September 1, 2023

April is the cruellest month, according to T.S. Eliot in the opening line of “The Waste Land.” Investors would beg to differ and point instead to September, which historically has been the worst-performing calendar month of the year for US equities. The S&P 500 posted losses in each of the past three Septembers: minus 9.3 percent in 2022, minus 4.8 percent in 2021 and minus 3.9 percent in 2020. Well, today being the first day of September, it seems like a good time to ponder what might happen in the month ahead. We think there are some good reasons to not fret too much about what the “average” September looks like and to focus more on the specific factors that may be at play this year.

Jobs and a Rate Reprieve

This past week saw US stocks recover a decent chunk of their August losses; the S&P 500 gained 2.3 percent from last Friday’s close through yesterday, leaving the index down by 1.8 percent for the full month. The big sentiment driver this week was moderation in the jobs market. A report on Tuesday showed job vacancies at their lowest level in two years. That was followed on Wednesday by the ADP Employment Survey posting payroll gains of 177,000, below the 200,000 expected. Finally, this morning’s employment report from the Bureau of Labor Statistics showed payroll gains of 187,000, a rise in the unemployment rate to 3.8 percent and an increase in the labor participation rate to 62.8 percent. That was the first meaningful rise in the participation rate since March, and probably explains much of the increase in the unemployment rate – more people as a percentage of the population at large are actively looking for jobs. That is a good thing.

What the market was looking for in the jobs data was some consistency in a pattern of slowing – but slowing at a pace that suggests “soft landing” rather than “recession.” All three of this week’s key reports showed precisely that, and the bond market responded with a significant drop in yields from recent highs. The 10-year Treasury yield just last week had reached its highest level since 2007. This week the 10-year basically gave up all its August gains and is currently at 4.08 percent, roughly where it started the month. Unsurprisingly, the reprieve in rates lit a fire under the growthier corners of the stock market, led once again by enthusiasm for anything AI.

No Two Septembers Are Alike

So is all this soft landing-supportive jobs data enough to not worry about another cruel September? Only time will tell – as we always say, the short term is essentially unknowable. But our base case outlook is pretty benign. We will get the August CPI report on September 13 and will be looking for month-on-month numbers for core CPI to be roughly commensurate with July’s 0.2 percent gain (which is also what the July PCE, a different inflation measure closely watched by the Fed, showed when that report came out earlier this week). That, plus the moderately slowing jobs data, should be enough to validate the current consensus expectation that the Fed will hold rates steady without a further increase when the FOMC meets on September 20. There are of course other factors out there to keep an eye on. The resilience of consumer spending has been called into question a bit this week with some equivocating forward guidance provided by retail companies in their quarterly earnings commentaries.

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On balance, though, we do not see too much in the way of red flags that would argue for a more defensive position in equities heading into the remaining months of the year. Three or four months ago we would not have been described as believers in the soft landing scenario, but the data today seem to be telling us differently. Remember – it's not what happens in the "average" September that matters, but what all the factors at play mean for what happens this particular September. So far, at least, so good.

Masood Vojdani
President & CEO

Katrina Lamb, CFA
Head of Investment Strategy & Research

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