MV CAPITAL MANAGEMENT

Weekly Market Flash

September, True to Form

September 6, 2024

You may have noticed that markets have been a tad jittery lately. The S&P 500 is down around 2.6 percent from the beginning of the month, and about 2.9 percent off its last record high set on July 16. There are lots of plausible explanations out there in the crossroads and roundabouts of financial media chatter. Uncertainty about the upcoming election, fears of a potential recession, doubts about whether the Fed is moving fast enough on interest rate cuts – all of these and many more fill up the pages of the Wall Street Journal and the talking heads panels on CNBC.

Wake Me Up When September Ends

Or, it could simply be that we're in September, the cruelest month when it comes to markets. Last year – which, if you remember, was a pretty good year for US stocks overall – the S&P 500 was down 4.9 percent from the beginning to the end of the year's ninth month. In 2022, September served up a near-ten percent decline. The story was the same for 2021 and 2020, with September losses of 4.6 percent and 3.9 percent respectively.

In fact, September is historically the worst month of the year going all the way back to 1928, with an average return of minus one percent for the month's thirty days and a slightly better than 50/50 chance of being down on any given year. Why is this? As with any of the vagaries that challenge the theory of efficient markets, there are debates as to whether the "September effect" is somehow structural or just an anomaly that has no particularly convincing explanation. Maybe investors decide to lock in gains as they come back into the swing of things after the summer. Maybe individuals sell off some of their holdings to pay for school expenses and salt away a bit for the upcoming holidays. If those don't sound like compelling reasons, well, most economists would agree with you that they're not. Behavioral economists might say that the putative existence of the September effect creates its own reality – traders sell into the month because they assume everyone else will. Perhaps, or perhaps not.

Jobs, Prices and the Fed

Of course, every September has its own set of circumstances. This year, the market's attention has turned rather quickly from inflation, which seems to be steadily moving along towards its target level of two percent, to jobs. This week came with another series of reports showing that conditions in the labor market are slowing, but not going into reverse. Today's report from the Bureau of Labor Statistics had a slight improvement in the unemployment rate – to 4.2 percent from 4.3 percent last month – and about 142,000 payroll gains. The rise in nonfarm payrolls was a bit lower than the consensus forecast of 160,000, but close enough for the market to take it in stride (S&P 500 futures are more or less flat as we are writing this on Friday morning). An earlier report this week on job openings and a payroll survey from ADP also validated the cooling – but not reversing – trend.

That leaves investors uncertain as to whether the Fed will stick to a traditional rate cut of 0.25 percent when the Federal Open Market Committee meets on September 18, or whether it will opt for a larger 0.5 percent cut. Putting on our behavioral economics hats for a moment, we think the larger cut could be counterproductive for stock prices, as it would suggest that the Fed messed up by not cutting rates in July, and is scrambling to catch up to the slowing economic conditions. The job numbers suggest to us that a

jumbo rate cut is not necessary. The economy is still creating jobs, inflation is trending down, corporate earnings are on track to grow by more than ten percent for the year, consumer confidence is at a six-month high and households are still spending. It's time for monetary policy to turn accommodative, but it's not time for panicky moves. The stock market has managed to survive the past two years without a bailout by the Fed (the renowned "Fed put" of the Greenspan, Bernanke and Yellen years). It can likely continue to thrive in a period of measured easing without the need for extraordinary measures.

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