Weekly Market Flash

The Tailwinds of September

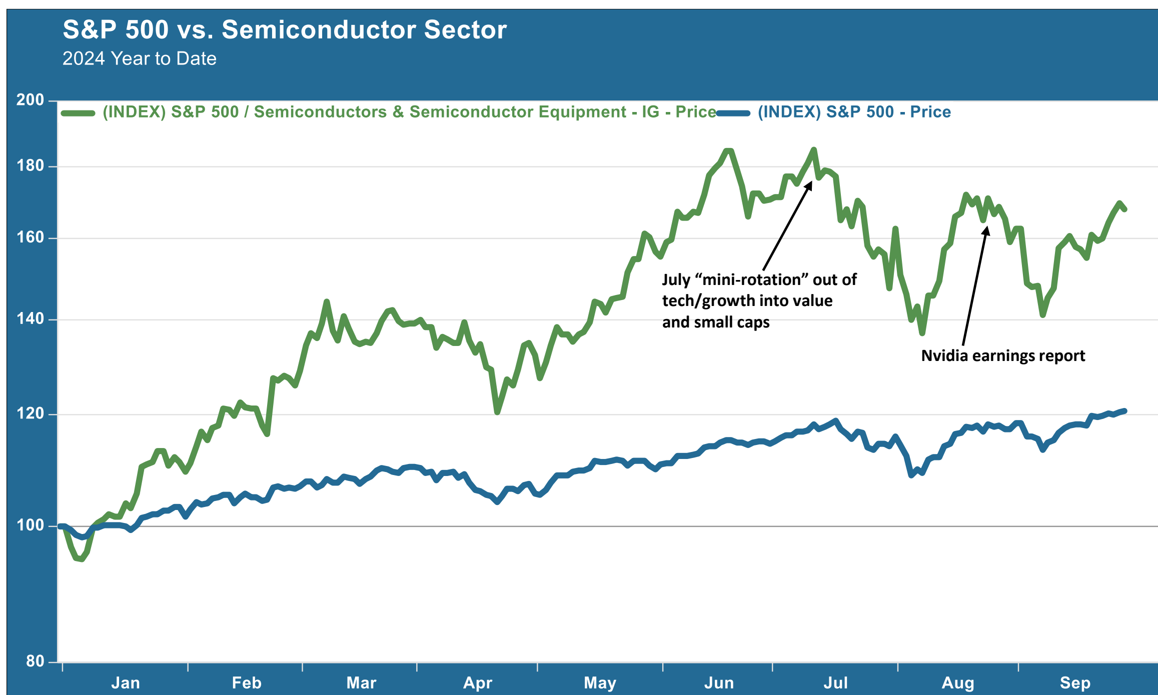
September 27, 2024

As we noted in one of our commentaries earlier this month, September has a history of bad vibes for equity markets. For a while there, it seemed like this was going to be one of those glass-half-empty years with sagging share prices and lots of volatility. But, as we also observed in that earlier commentary, every September has its own story. In the end, this year has been the story of three tailwinds that combined to take the edge off seasonal negativity and deliver unto us a pleasantly sustainable rally through the second half of the month.

The Return of AI

The first tailwind might not have been expected back in those early, volatile September days. As the final days of August ticked down, leading AI chipmaker Nvidia reported sales and earnings that, notwithstanding triple digit growth at both the top line and bottom line, disappointed the sell-side analysts who walked away from that earnings call apparently convinced that all the chatter about the "end of AI" was right, that the glory days of this narrative were over. Shares in Nvidia and other prominent AI-related names outpaced overall market declines in that first nasty week of September.

Sometimes, though, hard data wins out over Mr. Market's fuzzy feelings. A series of subsequent earnings reports seemed to suggest that demand for AI-related products and services was not abating at all (which, in fact, one could have surmised from the Nvidia report itself with the 122 percent year-on-year sales growth). The turn towards a glass-half-full read on things got further validation this week when leading memory chipmaker Micron Technologies reported its sales and earnings, exceeding forecasts and raising its forward guidance largely due to robust demand for its AI-related products.



Source: MVF Research, FactSet

Easing Everywhere

The second tailwind arrived on September 18 courtesy of Jay Powell and his colleagues on the Federal Open Market Committee, in the form of a jumbo rate cut. For once (as we noted in our commentary last week) the bond market got it right and the cut came in at 0.5 percent rather than the usual 0.25 percent. We're in a world of rate cuts now, not just here in the US but in the Eurozone and, probably soon, the UK. Inflation continues to trend lower. Today's PCE report, which is the Fed's preferred inflation metric, showed headline prices returning to just a 2.2 percent increase year-over-year, while the more consequential (for the Fed) core PCE number grew just 0.13 percent in August (lower than economists' expectations) and 2.7 percent from the same month last year.

The jumbo rate cut was a statement that, with a high level of confidence in the deceleration trend of inflation, the Fed can focus on measures to support labor market conditions. The market has been very attentive to jobs data in determining the likelihood of achieving, for once and for all, that hoped for soft landing. At least for now, most of the data we are seeing continue to support that outcome as a base case assumption. We are starting to see indications from retailers that suggest a strong season for holiday spending, which would provide further assurance that a downturn is not in the immediate future.

China Joins the Fun

It is not clear what finally pushed Chinese economic policymakers to unleash a blizzard of stimulus measures aimed at pulling the economy out of its longstanding funk, but they finally managed to put together a package bold enough to capture investors' attention. Now, as we have observed on a number of occasions on these pages, China has some serious structural problems with its domestic economy that will take more than the conventional tools of monetary policy to solve. The measures announced by Beijing this week, including reductions in benchmark interest rates, cuts to reserve requirements and easing of medium-term lending facilities (which can have a direct positive effect on mortgage prices) are likely to fall short of the scope needed to provide long-term structural solutions to the beleaguered current rate of household spending.

But what really caused heads to turn in the capital markets was the announcement of a war chest of around $114 billion for the sole purpose of supporting domestic asset markets. That money would be funneled into the financial system to buy shares of Chinese companies. Little wonder, then, that the CSI 300 index, a benchmark comprised of companies trading on the Shanghai and Shenzhen exchanges, soared more than 15 percent this week. The happy talk in China reverberated to share exchanges in Europe and the US, where companies with significant China exposure got an extra boost in an already-good week.

As always, we have to keep an eye on what's next, and what could throw another wet blanket on the positive sentiments of the moment. For now, though, we'll take a September that ends in positive territory as a win. Let the tailwinds blow.

Masood Vojdani
President & CEO

Arian Vojdani
Principal & Investment Adviser

Katrina Lamb, CFA
Head of Investment Strategy & Research

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