Weekly Market Flash

The Noisiest Ten Days of the Year

November 1, 2024

Here is what has happened, is happening and will happen between this past Tuesday, October 29, and next Thursday, November 7: the third quarter US Gross Domestic Product (GDP) report; the September Personal Consumption Expenditure (PCE) inflation report – the one the Fed pays the most attention to – the September jobs report from the Bureau of Labor Statistics; the highly consequential US election; and the Federal Open Market Committee (FOMC) meeting that is expected to end with another cut to the Fed funds target rate. Not to mention a bevy of quarterly earnings reports from companies including tech behemoths Google, Apple, Microsoft, Amazon and Meta. All this furor, in a span of just ten days.

Not Much To Change the Script

So far, at least, there hasn't been much to alter the longstanding market narrative of a soft landing with the continuation of the growth cycle at a more moderate pace. In the realm of corporate earnings reports, much was made of a "disappointing" report from Microsoft on Wednesday. Disappointing in the sense that the forward guidance for sales in the company's Azure segment (cloud services) was "only" 31-32 percent, at the lower end of analysts' expectations. Meta took a hit in the market over concerns about AI-related capital expenditures, while Google and Amazon got a tailwind from upbeat AI commentary. All told, the main takeaway from the AI debate seems to be that nothing much changed. If you are in the camp that sees this as just the latest iteration of tech bubble mania, you can make your case. If you think it is a productivity-enhancing game changer, you can likewise make your case. The debate goes on.

Likewise with the macro data. PCE came in right about where expected, and the headline number (which the Fed doesn't care as much about but which is more important for actual households) is now at 2.1 percent. Jobs data was noisy, with a survey from ADP showing better than expected job gains, while today's BLS report showed a much lower number of nonfarm payroll gains, due in no small part to the twin effects of the Boeing strike (adding to an overall decrease of 46,000 jobs in manufacturing) and the late September / early October damage caused by hurricanes Helene and Milton. The unemployment rate remains unchanged at 4.1 percent. Real GDP in the third quarter grew at a healthy pace of 2.8 percent, slightly more than expected and in line with recent quarters. Net-net, the soft landing narrative remains intact.

Votes and Rates

Much of America has already voted; turnout at early voting sites across the country has reached record numbers. By Tuesday evening all the votes will be in, though in many places including some of the most consequential battleground states (ahem, Pennsylvania) the counting is likely to go on for several more days at least. Whether or not we know anything definitive by Wednesday morning about who will be occupying the White House and the two chambers of Congress, we should at least have a sense as to the likelihood or not of a sweeping mandate in one direction or the other. Wall Street, in time-honored fashion, would likely be in its sunniest frame of mind if it looks like a split decision, with both parties claiming at least one of the three prizes on hand. That could put a restraint on the recent upward trend of intermediate-term interest rates.

More voting happens on Thursday, when the FOMC is likely to decide that another cut of 0.25 percent is warranted for the Fed funds target rate. That was the base case coming out of the FOMC's Summary Economic Projections in September, and there really hasn't been much since then that would seem to argue for a change of mind. We could always get a surprise, of course, but this Fed has managed to stay pretty surprise-free while engineering the two years of monetary tightening and then easing back into deliberative rate cuts. We don't expect that to change.

There is plenty at stake for us as a country, and a lot that we will have to navigate through regardless of how the election turns out. The good news is that we have a strong economy that appears well positioned to continue delivering healthy results as we head into 2025. The Economist magazine – as sober-minded a journal as there is – was not wrong when its cover last week featured a wad of dollar bills blasting into space alongside the heading "The Envy of the World." We have our problems, but a weak economy is not one of them.

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