

Equity Research
Economics

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Richard de Chazal, CFA

Weekly Market Monitor



Comment

We are prepared to raise rates further if appropriate, and intend to hold policy at a restrictive level until we are confident that inflation is moving sustainably down toward our objective. - Chair Jerome Powell, 25 August 2023

In a summer that has seen longer bond yields push higher on concerns about higher debt levels and shifting demand patterns, the market was looking to Chair Powell’s Jackson Hole speech this past Friday for some signs the Fed might at least signal a peak on short rates. Powell effectively told us that we are close, but it is too early to talk about pivoting just yet, and there may be another increase in the offing in the future. Fed funds futures market expectations nudged slightly higher on the news (chart of the week), though the long end of the curve was essentially unchanged.

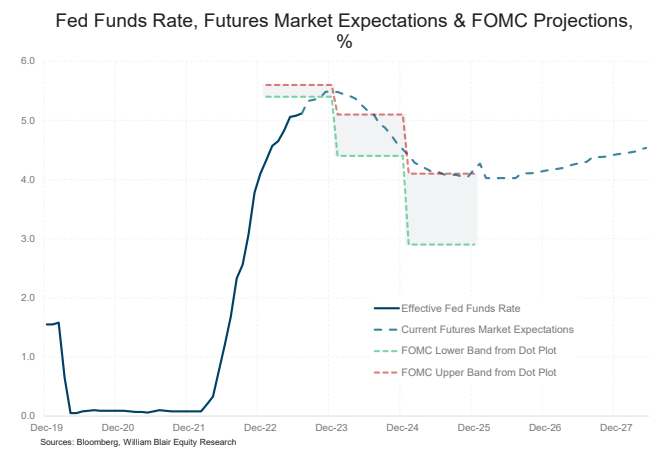
Powell’s speech was slightly longer than last year, but the message on inflation was that progress is being made, with much of the gain we have seen to date being the result of both supply chain improvements (better inventories, semiconductor chips, etc.) and tighter monetary policy (higher auto loan and mortgage rates). And while we have seen a steady improvement in core goods prices, and expect to see further progress in shelter prices, he felt that nonshelter services prices (which account for 50% of the PCE index) were still sticky enough to not merit a mission-accomplished banner just yet. Powell also made clear that the Fed has no intention of raising the inflation target—a topic that has been getting increased market attention lately.

With regard to the economic outlook, Powell still feels that growth in the real economy outside of manufacturing is not showing much in the way of slowing just yet. For example, the labor market is still just showing tentative signs of moderating. Importantly, Powell also reaffirmed his belief in the Phillips Curve, saying “*there is evidence that inflation has become more responsive to labor market tightness than was the case in recent decades,*” though he was cautious about its persistence.

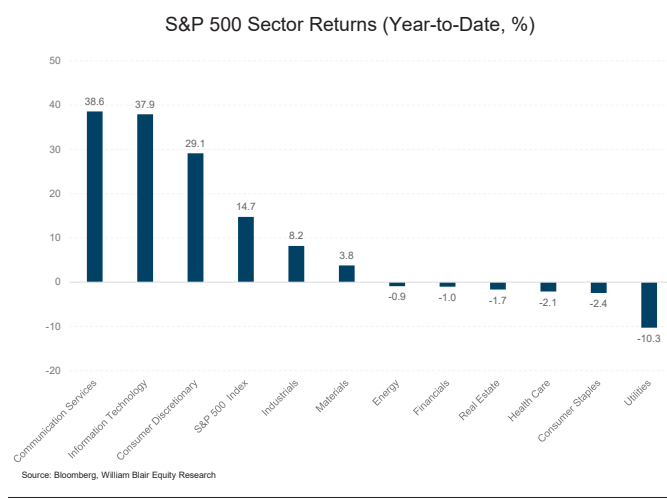
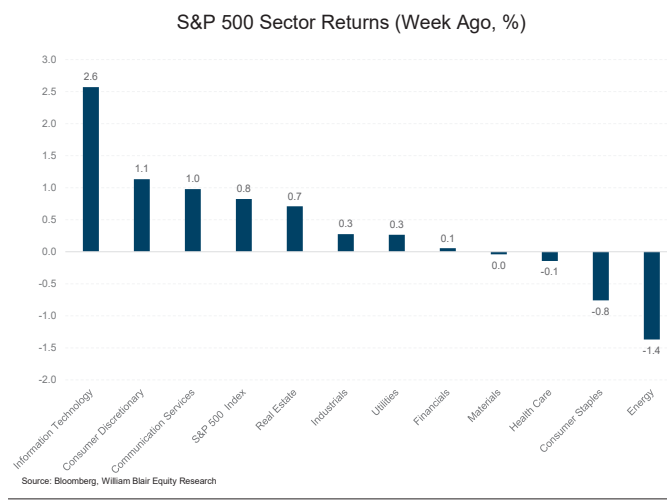
Powell feels policy is now in restrictive territory—i.e. the policy rate is well above the estimated neutral rate—even though it is unclear what that (r-star) neutral rate actually is. He stated, “*We are navigating by the stars under cloudy skies. In such circumstances, risk management considerations are critical.*”

The upshot here is there was not really much new in this speech. This was also a very two-handed economist’s speech. Powell noted the improvement on inflation, but is not fully convinced it is yet on a direct line to 2%. He is very wary about throwing in the towel too early, but then seeing inflation spike again, further damaging its credibility, and thereby potentially making inflation even stickier. The Fed chair also believes that further lagged effects from previous policy changes are still in the pipeline. The main message, however, is the Fed is clearly keeping every option on the table, and the goal of the speech was to promote maximum flexibility with regard to potentially raising again, or not.

Chart of the Week: Futures Market Expectations



S&P 500 Sector Returns



Market Data

Fixed Income

U.S. Interest Rates	25-Aug-23	Levels (%)		
		1 Week Ago	1 Month Ago	1 Year Ago
3-mth T-Bill	5.48	5.44	5.42	2.81
2-yr U.S. T-Note	5.08	4.95	4.88	3.37
5-yr U.S. T-Note	4.44	4.39	4.17	3.15
10-yr U.S. T-Note	4.24	4.26	3.89	3.03
30-yr U.S. T-Bond	4.29	4.38	3.93	3.24
30-yr Fixed Mtge	7.61	7.55	7.28	5.83
Prime Rate	8.50	8.50	8.25	5.50
SOFR	5.30	5.30	5.06	2.28

Foreign Interest Rates	25-Aug-23	1 Week	1 Month	1 Year
		Ago	Ago	Ago
2-Year Canadian	4.78	4.75	4.71	3.49
2-Year German	3.03	3.04	3.05	0.86
2-Year Japanese	0.01	0.02	-0.05	-0.09
2-Year U.K.	5.00	5.17	4.94	2.78
10-Year Canadian	3.70	3.72	3.51	3.01
10-Year German	2.56	2.62	2.42	1.31
10-Year Japanese	0.65	0.63	0.46	0.23
10-Year U.K.	4.44	4.67	4.26	2.61

Equities

	Level		% Change:		
	25-Aug-23	Week Ago	Month Ago	Quarter-to-Date	Year-to-Date
S&P 500	4,405.7	0.8	-3.5	-1.0	14.7
Dow Jones Industrials	34,346.9	-0.4	-3.1	-0.2	3.6
Nasdaq Composite	13,590.7	2.3	-3.9	-1.4	29.8
Russell 2000	1,853.6	-0.3	-5.7	-1.9	5.2
Russell 1000 Growth	2,741.4	1.7	-3.3	-1.0	27.0
Russell 1000 Value	1,539.4	-0.2	-4.1	-1.0	2.8
MSCI EAFE	2,053.5	-0.2	-6.0	-3.7	5.6
MSCI EM	971.0	0.7	-5.9	-1.9	1.5

Foreign Exchange Rates

	25-Aug-23	1 Week	1 Month	1 Year
		Ago	Ago	Ago
Euro (\$/€)	1.080	1.087	1.106	0.998
British Pound (\$/£)	1.258	1.273	1.290	1.183
Japanese Yen (¥/\$)	146.440	145.390	140.900	136.490
Canadian Dollar (C\$/)\$)	1.360	1.355	1.317	1.292
Swiss Franc (CHF/\$)	0.885	0.882	0.864	0.964
Australian Dollar (US\$/A\$)	0.640	0.641	0.679	0.698
Mexican Peso (MXN/\$)	16.748	17.056	16.933	19.928
Chinese Yuan (CNH/\$)	7.295	7.306	7.137	6.852
Brazilian Real (BRL/\$)	4.874	4.970	4.753	5.110
Indian Rupee (INR/\$)	82.655	83.105	81.873	79.884
DXY U.S. Dollar Index	104.077	103.375	101.349	108.470

Commodity Prices

	25-Aug-23	1 Week	1 Month	1 Year
		Ago	Ago	Ago
WTI Crude (\$/bl)	79.8	81.3	79.6	92.5
Brent Crude (\$/bl)	84.5	84.8	83.6	99.3
Gold (\$/Oz)	1915.0	1889.3	1965.0	1758.7
Silver (\$/Oz)	24.2	22.8	24.7	19.2
Copper (¢/lb)	376.2	370.6	390.2	369.9
Soybeans (\$/Bshl)	1381.0	1362.8	1515.5	1552.5
Natural Gas (\$/MMBTU)	2.5	2.6	2.7	9.4
Gasoline (\$/gallon)	287.6	282.3	285.3	281.2
CRB Spot Industrials	556.0	551.6	562.2	608.9

Source: Bloomberg, William Blair Equity Research

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DOW JONES: 34346.90

S&P 500: 4405.71

NASDAQ: 13590.70

Additional information is available upon request.

Current Rating Distribution (as of August 28, 2023):

Coverage Universe	Percent	Inv. Banking Relationships *	Percent
Outperform (Buy)	72	Outperform (Buy)	7
Market Perform (Hold)	27	Market Perform (Hold)	4
Underperform (Sell)	1	Underperform (Sell)	50

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