Published September 2024 | Mullaney on Markets

Powell signals that protecting jobs is now as important as fighting inflation

Michael A. Mullaney
Director of Global Markets Research

Despite a rough start to the month as investors around the globe unwound yen-funded levered trades, stocks rebounded after Federal Reserve Chair Jerome Powell gave the clearest indication yet that rate cuts were on the way. The S&P 500 Index finished the month of August up 2.43% after being down more than 6% in the first five days of the month.

Bonds posted positive results as well, helped by a CPI report that showed headline inflation falling below 3% for the first time since March 2021. The Bloomberg U.S. Aggregate Bond Index gained 1.44% as interest rates fell across the yield curve in anticipation of a Fed rate cut. Year to date, the S&P 500 has returned 19.53%, while the Bloomberg U.S. Aggregate Index has gained 3.04%.

SECTOR RETURNS

	AUGUST	YTD	
Consumer Staples	5.94%	27.14%	Technology
Real Estate	5.79	23.11%	Communication Services
Health Care	5.10	22.57%	Financials
Utilities	4.86	22.55%	Utilities
Financials	4.51	17.68%	Consumer Staples
Industrials	2.86	16.31%	Health Care
Materials	2.39	16.26%	Industrials
Technology	1.25	11.35%	Energy
Communication Services	1.24	11.21%	Materials
Consumer Discretionary	0.97	10.65%	Real Estate
Energy	1.70	6.37%	Consumer Discretionary

Source: Bloomberg, as of August 30, 2024. Past performance does not guarantee future results.

Defensive sectors led in August

Four defensive sectors—Consumer Staples, Real Estate, Health Care, and Utilities—led the way in August as investors became more wary amid signs of softening of U.S. labor market conditions. Two sectors produced losses. Consumer Discretionary was hurt by a 7.74% loss for Tesla and a 4.54% loss for Amazon (the two stocks together represent nearly half of the sector's overall market cap). Energy also saw a decline in August, as Saudi Arabia threatened to increase production (thereby lowering oil prices) to ward off perceived cheating by other OPEC+ countries on their production quotas.

RISK FACTOR RETURNS

	AUGUST	YTD
Quality		
S&P "B+" or Better	1.69%	10.81%
S&P "B" or Lower	-0.20	16.82
Beta		
S&P 500 Lowest Quintile	5.98	18.50
S&P 500 Highest Quintile	-0.12	33.36
Size		
Russell 1000	2.37	18.64
Russell 2000	-1.49	10.39

Source: Bloomberg, as of August 30, 2024. Past performance does not guarantee future results. It is not possible to invest directly in an index. See last page for index definitions.

STYLE RETURNS ACROSS MARKET CAPS

	AUGUST	YTD
Russell 1000 Value	2.68%	15.08%
Russell 1000 Growth	2.08	21.12
Russell Mid-Cap Value	1.89	12.85
Russell Mid-Cap Growth	2.48	9.27
Russell 2000 Value	-1.88	9.15
Russell 2000 Growth	-1.11	11.74

Source: Bloomberg, as of August 30, 2024. Past performance does not guarantee future results. It is not possible to invest directly in an index. See last page for index definitions.

U.S. VS. INTERNATIONAL RETURNS

	AUGUST	YTD
EAFE		
Local Currency	0.46%	12.87%
U.S. Dollars	3.26	12.42
Emerging markets		
Local Currency	0.44	12.44
U.S. Dollars	1.65	9.86
Currencies		
U.S. Dollar Index (DXY)	-2.74	0.36
MSCI EM Currecy Index	2.28	-1.27
United States		
S&P 500	2.43	19.53
S&P 500 Equal Weight	2.50	12.53

Source: MSCI Indices, Bloomberg, as of August 30, 2024. International markets are represented by MSCI indexes. Past performance does not guarantee future results. It is not possible to invest directly in an index. See last page for index definitions.

Magnificent 7 stocks continued their recent slump, collectively falling by 0.41% during the month. Losses for Microsoft and Alphabet had a negative impact on the return of the Technology and Communication Services sectors, respectively. A loss of nearly 28% for Intel also weighed on the Technology sector after the company announced disappointing second-quarter results and plans to cut 15,000 jobs and suspended its dividend.

Risk-off trade prevails in August

August was definitely a risk-off month with low quality, high beta, and small capitalization stocks lagging as investors took gains in what had been high-flying segments so far this year.

Year to date, risk-on factors continued to lead, except for the size factor. Small caps haven't kept up with the outsize gains in tech-related segments, while the influence of the sector is much less meaningful: Technology represents 29.8% of the Russell 1000 Index, but only 3.17% of the Russell 2000 Index.

Style returns were mixed in August and YTD

Large-cap value stocks beat large-cap growth stocks for the second month in a row, primarily due to a 2.60% decline in the Consumer Discretionary sector of the Russell 1000 Growth Index; Tesla and Amazon make up roughly 65% of the sector in the growth index.

Year to date, growth continued to lead value in both the large- and small-cap space, but in mid-caps, value remained ahead of growth. Much of this difference was due to performance within Health Care: The sector posted a loss of 2.71% to date in the growth index versus a 4.36% gain in the value index—moreover, Health Care has more than double the weight in the Russell Mid-Cap Growth Index compared with the Russell Mid-Cap Value Index.

Non-U.S. stock returns remained a mixed bag

Returns for developed-market international stocks lagged the S&P 500 Index in August in local currency terms, but beat the S&P in U.S. dollar (USD) terms, as the greenback gave up ground during the month amid lower interest rates and the anticipated commencement of a new Fed easing cycle. The same was true for emerging market stocks, though the currency gains for EM were shy of those generated by the six major currencies represented in the U.S. Dollar Index (DXY).

While still lagging the S&P on a year-to-date basis, it is interesting to note that the MSCI EAFE Index in USD terms is now roughly on par with the local currency return. This is the result of the DXY giving back nearly all of its gains for the year, which at one point neared 5%. The race between EM stocks and EAFE stocks in local currency terms is now neck-and-neck for 2024.

Powell all but guarantees a September rate cut

Federal Reserve Chair Jerome Powell's keynote speech at the conclusion of the Fed's Jackson Hole Economic Symposium alluded more than once to the progress made in the inflation fight but noted that the cooling job market had become a growing concern. Some of Powell's more cogent statements included:

> **Inflation**
> "All told, the healing from pandemic distortions, our efforts to moderate aggregate demand, and the anchoring of expectations have worked together to put inflation on what increasingly appears to be a sustainable path to our 2 percent objective."
>
> **Employment**
> "It seems unlikely that the labor market will be a source of elevated inflationary pressures anytime soon. We do not seek or welcome further cooling in labor market conditions."
>
> **Policy**
> "The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks. We will do everything we can to support a strong labor market as we make further progress toward price stability."

As of this writing, fed funds futures were pricing in a 100% probability of a 25 basis point cut after the September 18 meeting of the Federal Open Market Committee and a 42% chance of a 50 basis point cut. This raises the question of how stocks have reacted historically to an initial rate cut by the Fed. The bottom line is that it depends on whether the economy is on solid footing or is in (or about to be in) a recession. An analysis of data since 1980 revealed the following:

S&P 500 TOTAL RETURNS POST INITIAL FED RATE CUTS

1st Rate Cut	Recession	1-Month	3-Months	6-Months	12-Months
4/1/1980	Yes*	3.71%	14.07%	27.79%	40.56%
6/1/1981	Yes	-1.58%	-5.87%	-2.16%	-10.77%
4/1/1982	Yes	2.84%	-2.96%	10.52%	41.95%
10/2/1984	No	2.74%	2.38%	12.86%	17.52%
10/19/1987	No	7.07%	12.01%	16.87%	27.90%
7/6/1989	No	7.20%	11.93%	1.52%	15.84%
7/6/1995	No	1.04%	5.72%	12.64%	21.42%
9/29/1998	No	3.62%	18.80%	25.73%	22.52%
1/3/2001	Yes	0.22%	-17.66%	-7.84%	-12.38%
9/18/2007	Yes	1.47%	-3.72%	-11.44%	-18.85%
7/31/2019	Yes**	-1.58%	2.43%	9.29%	11.94%

AVERAGE RETURNS WITH NO RECESSION

1-Month	3-Months	6-Months	12-Months
4.18%	5.82%	10.88%	24.93%

* This recession was short-lived, but "double dipped" quickly in 1981.
** This "COVID recession" lasted barely two quarters due to massive fiscal and monetary stimulus.

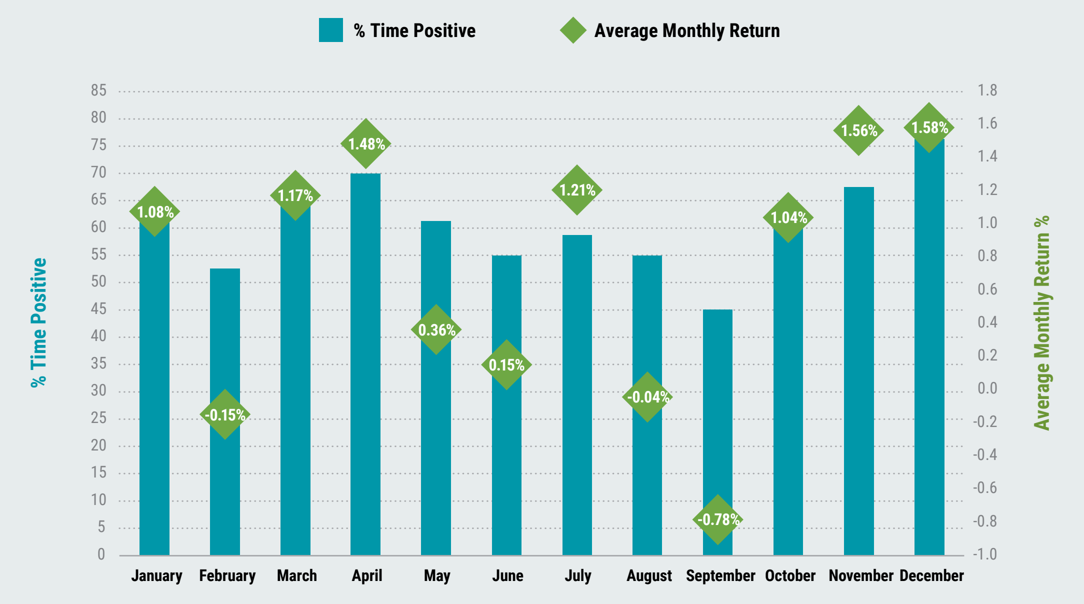
Source: Bloomberg, as of August 30, 2024. Past performance does not guarantee future results.

With the Atlanta Fed's GDPNow model currently forecasting 2.1% GDP growth for the third quarter and a survey of 67 economists by Bloomberg assigning a 31.5% probability of a recession occurring within the next year, it seems likely that stocks will respond favorably to the highly anticipated rate cut on September 18.

Seasonal pattern for September historically presents headwinds

The potential catalyst of a rate cut notwithstanding, one needs to be cognizant of a challenging historical pattern for the S&P 500 for September.

S&P 500 MONTHLY PERFORMANCE SINCE WWII



Source: Bloomberg, Boston Partners as of August 30, 2024. See last page for index definitions.

While many investors are under the impression that October is the worst month of the year for stock returns due to the meltdowns that occurred in 1929 and in 1987, September is actually the month that has produced the weakest returns for the S&P 500 since WWII, with an average loss of 0.78% and a positive return just 45% of the time. Buyer beware.

Boston Partners Global Investors, Inc. ("Boston Partners") is an investment adviser registered with the SEC under the Investment Advisers Act of 1940. The views expressed in this commentary reflect those of the author as of the date of this commentary. Any such views are subject to change at any time based on market and other conditions and Boston Partners disclaims any responsibility to update such views. Past performance is not an indication of future results. Discussions of securities, market returns, and trends are not intended to be a forecast of future events or returns. You should not assume that investments in the securities identified and discussed were or will be profitable.

The views and opinions expressed reflect those of Boston Partners as of the date of publication and may change based on market and other conditions. There can be no assurance that developments will transpire as forecasted.

Terms and definitions:

Beta is a measure of a portfolio's market risk relative to its benchmark. In general, a beta higher than 1.00 indicates a more volatile portfolio and beta lower than 1.00 indicates a less volatile portfolio in relation to its benchmark.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas. Average price data for select utility, automotive fuel, and food items are also available.

GDPNow is a running real-time estimate of U.S. GDP growth produced by the Federal Reserve Bank of Atlanta.

The Magnificent Seven stocks are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

The Organization of the Petroleum Exporting Countries (OPEC) is an alliance of 12 oil-producing and exporting countries designed to influence the global supply of petroleum and maximize profits. The plus designation includes an additional 10 countries that also follow OPEC policies.

The U.S. Dollar Index (DXY) is used to measure the value of the dollar against a basket of six foreign currencies. The value of the index is a fair indication of the dollar's value in global markets.

The Bloomberg U.S. Aggregate Bond Index tracks the performance of intermediate-term investment-grade bonds traded in the United States. **The MSCI EAFE Index** tracks the performance of large- and mid-cap equities traded across global developed markets, excluding the United States and Canada. **The MSCI Emerging Markets Index** tracks the performance of large- and mid-cap equities traded in global emerging markets. **The Russell 1000 Index** tracks the performance of the 1,000 largest companies traded in the United States. **The Russell 2000 Index** tracks the performance of the 2,000 smallest companies traded in the United States. **The Russell 1000 Growth and Value Indexes** track the performance of those large-cap U.S. equities in the Russell 1000 Index with growth and value style characteristics, respectively. **The Russell 2000 Growth and Value Indexes** track the performance of those small-cap U.S. equities in the Russell 2000 Index with growth and value style characteristics, respectively. **The Russell Midcap Index** tracks the performance of the roughly 800 smallest U.S. companies in the Russell 1000 Index. **The Russell Midcap Growth and Value Indexes** track the performance of those mid-cap U.S. companies in the Russell 1000 Index with growth and value style characteristics, respectively. **The S&P 500 Index** tracks the performance of the 500 largest companies traded in the United States. It is not possible to invest directly in an index.

6992324.1

BostonPartners

One Beacon Street | Boston, MA 02108 | tel: 617-832-8200 | www.bostonpartners.com