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Financial Week Newsletter

Summarized by Smith Shellnut Wilson

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"You cannot shake hands with a clenched fist." Indira Gandhi

MARKETS

Macro Recap: Economic data released last week reinforced expectations for monetary easing. August's nonfarm payrolls rose by just 22,000, well below the consensus estimate of 78,000, while private payrolls came in at 38,000 versus the expected 90,000. Wage growth remained modest, adding to the dovish tone. Meanwhile, ISM services, ADP employment, and productivity data painted a mixed picture of the labor and services sectors, adding nuance to overall market sentiment.

The monthly jobs report released Friday extended a recent trend of soft labor market data. The unemployment rate climbed to 4.3%, the highest level since 2021, and June's job figures were revised downward to show a loss of 13,000 jobs, the first monthly decline since 2020. These developments suggest a cooling labor market and have further increased expectations for policy accommodation.

Markets responded swiftly to the data. Gold futures surged for the third consecutive week, reaching a record high of $3,655 per ounce in Friday afternoon trading, up more than 36% year to date. Much of the week's gain was driven by the release of the weaker-than-expected jobs report, which bolstered demand for safe-haven assets amid growing uncertainty.

As of Friday afternoon, traders were pricing in a 100% probability of some form of easing at the Federal Reserve's September meeting, reflecting strong market confidence in a near-term policy shift. Futures markets currently imply an 86% chance of a quarter-point cut and a 14% chance of a half-point reduction.

The average 30-year mortgage rate also saw a sharp decline, falling from 6.45% on Thursday to 6.29% on Friday, the largest one-day drop since August 2024. Just four months ago, the average rate was above 7.00%, underscoring the impact of shifting rate expectations on consumer borrowing costs.

Equity Recap: The stock market posted modest gains this week as investors weighed a mix of corporate developments, economic data, and increasingly solid expectations for a September rate cut. The S&P 500 rose 0.3%, while the Nasdaq Composite outperformed with a 1.1% gain, driven by strength in mega-cap technology stocks.

In contrast, the Dow Jones Industrial Average lagged slightly, finishing the week down 0.3%. Broader participation was evident in smaller-cap indices, with the Russell 2000 climbing 1.0% and the S&P MidCap 400 advancing 1.3%, reflecting investor interest beyond the large-cap space.

Bond/Rate Recap: Shifting narratives around interest rates and tariffs led to a volatile week in fixed income markets. Despite the turbulence, U.S. government bond prices ultimately rose, driving yields lower. The 10-year Treasury yield briefly touched 4.31% on Tuesday before retreating to 4.09% by Friday's close.

Week Ahead: The Consumer Price Index report due Thursday will be one of the final key data points for the Federal Reserve ahead of its September 17 meeting, where a rate cut of either 25 or 50 basis points is under consideration. The previous CPI release in August showed inflation holding steady at an annual rate of 2.7% for July.

INDICES

	Sep 2 Open	Sep 5 Close	Weekly Change	Dec 31 2024	YTD Change
DJIA	45,545	45,401	-0.3%	42,544	6.7%
S&P 500	6,460	6,482	0.3%	5,882	10.2%
NASDAQ	21,456	21,700	1.1%	19,311	12.4%
Russell 2000	2,366	2,391	1.0%	2,230	7.2%
KBW Bank Indx	150.9	148.5	-1.6%	127.5	16.5%
Bitcoin	$108,337	$111,274	2.7%	$93,714	18.7%
Oil (WTI)	$64.01	$61.87	-3.3%	$71.72	-13.7%
Gold	$3,448	$3,587	4.0%	$2,625	36.7%
Prime	7.50	7.50	0.00	7.50	0.00
Effective Fed Funds	4.33	4.33	0.00	4.33	0.00
3m Tbill	4.14	4.00	-0.14	4.31	-0.31
2yr UST	3.62	3.51	-0.11	4.24	-0.73
10yr UST	4.23	4.07	-0.15	4.57	-0.50
2-10yr UST Spread	61	56	-5	33	24
2y AAA Muni/10y UST	61.0%	60.9%	-0.1%	66.5%	-5.6%
10y AAA Muni/10y UST	75.7%	75.0%	-0.7%	68.4%	6.6%
5yr Inflation Forecast	2.52	2.46	-0.07	2.42	0.04

Week Ahead

- **Monday:** Consumer credit
- **Tuesday:** Small Business Optimism Index
- **Wednesday:** PPI, Wholesale inventories
- **Thursday:** CPI, Federal Budget, Weekly unemployment
- **Friday:** U of M Consumer Sentiment

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