Summary

Economic data for the week included U.S. GDP growth for Q2 revised upward, along with higher durable goods orders and consumer confidence, in addition to gains in personal income and spending. Home prices remain strong on a trailing annual basis, although the pace has decelerated.

Equities were mixed, with value outperforming growth sectors and foreign stocks. Bonds generally fell back as yields ticked up a bit across the curve. Commodities were mixed, with energy and metals prices down for the week on demand concerns.

Economic Notes

(+/0) The second release of U.S. **GDP growth** for the 2nd quarter was revised up slightly to 3.0% from the first estimate of 2.8%. Per the BEA, the upgrade primarily reflected an increase in consumer spending (from 2.3% to 2.9% annualized growth), while detracting from growth were downward revisions to non-residential fixed investment, residential investment, and government spending. The PCE headline and core price indexes were revised down by a tenth of a percent each to 2.5% and 2.8%, respectively, for the quarter, showing continued downward progress.

In looking at the Atlanta Fed's quantitative GDPNow measure, the most recent estimate for 3rd quarter GDP growth has risen back up a half-percent to 2.5%, but still down from earlier estimates during much of August that ran near 3.0%. Estimates have come down the most in residential investment, inventories, and net exports, while those for personal consumption have stayed consistently high. This is despite spending coming under some stress in recent months, in keeping with closer investor scrutiny on comments about the strength of the consumer in Q2 earnings calls. As the Fed prepares to cut interest rates, the status of the 'soft landing' continues to hinge on the balance of how fast this easing policy makes its way into consumer situations, being the key pillar of recent above-trend GDP.

(+) **Durable goods orders** rose by 9.9% in July, exceeding the 5.0% expected, and obviously an extreme result led by a surge in aircraft orders. Removing the transportation sector, goods fell back by -0.2% on the month, with core capital goods orders falling -0.1%, with declines in autos, metals, and computers/electronics. Total shipments were up 1.1%, while core capital goods shipments declined -0.4%. Total orders are up just over 1% over the past 12 months, below the rate of inflation on a 'real' basis, with strength in transportation products and computer equipment.

(+) **Personal income** rose 0.3% in July, beating the median forecast by a tenth of a percent, led by larger gains in proprietors' income and rental income, and up over 4% in the past year. **Personal spending** rose 0.5%, on par with expectations, and led by goods more than services for the month, and up over 5% for the trailing 12 months, with services leading for that time period. The personal saving rate fell a few tenths from a downward revision to 2.9%, to the lowest rate in two years. Of special interest to financial markets, both headline and core **PCE inflation** rose just under 0.2% for the month, on par with expectations. On a year-over-year basis, headline PCE was little changed at 2.5%, as was core PCE at 2.6%—the latter remaining sticky but not getting worse.

(+) The **S&P/Case-Shiller 20-city home price index** rose 0.4% in June, a tenth better than expected, led by Detroit and Chicago seeing gains of over a percent. Year-over-year, the national index gain decelerated by nearly a half-percent to 6.5% on a non-seasonally-adjusted basis. For the full year, New York led with a 9% gain, followed by San Diego and Las Vegas with gains just short of that; Portland was the laggard earning an increase of under 1% for the year.

(+) The **FHFA house price index** for June declined by -0.1% from the prior month, short of the 0.1% increase expected, while the quarter rose 0.9%. For the quarter, this was the 7th straight gain, with only one negative quarter experienced since mid-2011. For the trailing year, prices rose 5.7% on a seasonally-adjusted basis. Areas seeing the highest growth over the year were generally in the upper Midwest and New England, all with gains in the 5-10% range for the most part. Per the FHFA, the slowdown over the quarterly growth pace in Q2 "was likely due to higher inventory of homes for sale and elevated mortgage rates."

(-) **Pending home sales** for July fell -5.5%, reversing the gain of the prior month and below the 0.2% increase expected. The index fell in all four U.S. regions for the month, while the Northeast was the only region to register an increase year-over-year. As noted by the NAR, “A sales recovery did not occur in midsummer,” as “The positive impact of job growth and higher inventory could not overcome affordability challenges and some degree of wait-and-see related to the upcoming U.S. presidential election.” This remains a consistent story in the housing market, at least until one or more variables starts to budge.

(+) The Conference Board’s **index of consumer confidence** for August rose by 1.4 points to 103.3, above the expected decline to 100.7. The overall number was led by similar rises in assessments of present conditions as well as expectations for the future. The labor differential fell by nearly a point as the number of respondents saying jobs were plentiful fell a bit. The perceived likelihood of a recession over the next 12 months was stable at about 66%.

(0) **Initial jobless claims** for the Aug. 24 ending week fell by -2k to 231k, just below the 232k median forecast. Continuing claims for the Aug. 17 week rose by 13k to 1.868 mil., also just below the consensus estimate of 1.870 mil. Despite claims rising in a few northern states, claims fell in recent weather-affected areas, such as SC and FL.

Market Notes

Period ending 8/30/2024	**1 Week %**	**YTD %**
DJIA	1.07	11.75
S&P 500	0.27	19.53
NASDAQ	-0.91	18.57
Russell 2000	-0.01	10.39
MSCI-EAFE	0.60	11.96
MSCI-EM	-0.05	9.55
Bloomberg U.S. Aggregate	-0.51	3.07

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2023	5.40	4.23	3.84	3.88	4.03
8/23/2024	5.25	3.90	3.65	3.81	4.10
8/30/2024	5.21	3.91	3.71	3.91	4.20

U.S. stocks were mixed on the lower volume last week of summer, with ‘value’ seeing gains of over a percent, while ‘growth’ fell back. Sector results reflected this, with financials gaining 3% on the week, followed by industrials and materials; on the other hand, technology stocks fell back by over -1% (largely the impact of NVIDIA), along with lesser declines in consumer discretionary (Tesla and Target). Real estate saw minor gains, despite higher yields during the week.

The most heavily-watched market news item was the earnings report for NVIDIA, expected to show revenue growth of over 100% on a year-over-year basis, with profit margins over 50% (well above most other companies in the S&P). However, investors ended up disappointed that margins weren't continuing to expand at the same prior pace, and comments were optimistic, but not as much so as hoped—causing a stock decline. Representing nearly 7% of the S&P 500 and over 10% of the Nasdaq Composite indexes by market cap (as of the end of last week), the company represents a sizable weighting but also as a more recent bellwether of the artificial intelligence story, specifically due to demand for its specialized chips. It's also become an indicator for the sentiment behind artificial intelligence as a thematic story, and to some degree, stocks in general, although that is a large burden to place on one a single company. There has also been some negative sentiment surrounding the AI-related firm Super Micro Computer, where short-seller accusations (admittedly self-serving in many cases) and a delayed annual report release (often taken as a precursor for deeper accounting problems) caused the stock to drop by -20%.

Foreign stocks were mixed, impacted by a percent rise in the value of the U.S. dollar. In developed markets, gains in the U.K. were coupled with little change in Europe and Japan as investors continue to expect an ECB rate cut in September. These regions were offset by declines in emerging markets. With the exception of India, which saw gains, the index was led downward by drops in China, Brazil, Korea, and Mexico, with continued demand concerns for the former.

Bonds fell back last week, as interest rates ticked a bit higher along with PCE not decelerating and hopes for a -0.50% cut in September seeming to fade a bit. Senior floating rate loans were the only positive performers, while high yield saw little change. Foreign bonds fell back generally, impacted by the stronger U.S. dollar.

Commodities were mixed, with gains in agriculture offset by declines in energy and metals, more typical with a stronger dollar. Oil prices fell -2% last week to under $74/barrel, as demand concerns in China outweighed other near-term factors. The prior weekend missile exchange between Israel and Hezbollah pushed up prices a bit, while the government in the Eastern half of Libya (somewhat of a failed state) shut down oil production in the midst of a power struggle with the Western half of the country. However, prices have been held down by apparent spare capacity and potential for OPEC+ to reverse production cuts in 2025, all of which have kept geopolitical concerns at bay for now.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, National Association of Realtors, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.