

Another Atypical Rate-Cut Cycle

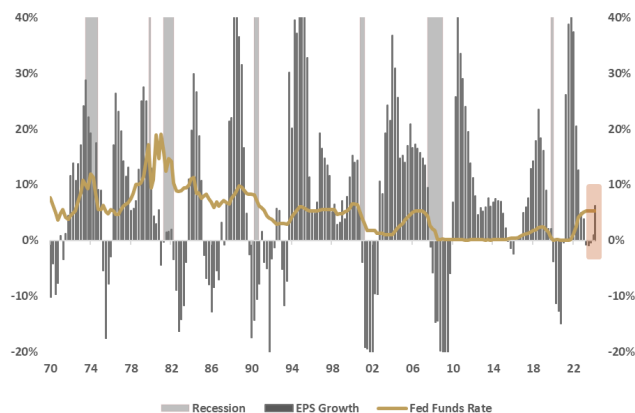
Periods in which the Federal Reserve lowers interest rates have typically been positive for equities. Moreover, defensive stocks, such as those found in the consumer-staples sector, have tended to outperform cyclical stocks during early phases of rate-cut cycles—cycles that have often begun as corporate earnings growth decelerate. However, the circumstances surrounding each rate-cut cycle are different, and this cycle is no exception.

First, corporate earnings have been on a positive trend this year as they recover from last year’s earnings recession. Analyst estimates point to earnings growth continuing. Second, the equity market seems to have already priced in a positive economic effect of rate cuts, evidenced by the market’s rotation from growth to value stocks and in cyclical stocks posting strong returns year-to-date. Equity market participants remain bullish, with the S&P 500 Index trading at 24x forward earnings, well ahead of the long-term average of 17x.

With equity market valuations leaving scant room for error—and with September economic reports arriving next week—this embedded optimism will be soon be put to the test.

CHART OF THE WEEK

Fed Funds Rate and S&P Trailing 12-Months ESP Growth



Source: Bloomberg, Bank of America Merrill Lynch, through August 31, 2024.

Index Returns (%)						
Equities	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.
S&P 500	5719	1.53	5.06	21.12	34.30	10.42
Russell 1000 Growth	3755	2.16	2.49	23.70	40.84	10.23
Russell 1000 Value	1857	1.00	8.60	15.80	25.60	7.94
FTSE High Dividend Yield*	450	1.16	8.25	16.73	25.76	10.18
S&P Small and Mid Cap	17439	2.08	7.65	11.97	26.67	5.64
MSCI EAFE	2429	0.60	5.42	11.51	21.48	4.63
MSCI EM	1111	2.29	3.20	11.09	18.54	-1.31

* Bloomberg U.S Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Fixed Income						
	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.
U.S. Aggregate	4.18	-0.57	5.40	4.65	10.71	-1.45
U.S. Int. Gov/Credit	3.87	-0.19	4.28	4.79	9.31	0.17
U.S. Corporates	4.68	-0.33	6.04	5.53	13.15	-1.38
High Yield	6.99	0.53	5.12	7.83	15.07	2.93
Municipals (1-10)	2.88	0.10	2.56	1.76	6.25	0.38

Levels (%)						
Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago
2-yr Treasury	3.59	3.61	4.76	4.25	5.13	0.27
10-yr Treasury	3.75	3.65	4.40	3.88	4.54	1.45
30-yr Treasury	4.09	3.96	4.56	4.03	4.65	1.99
3-mo. LIBOR	4.93	5.08	5.59	5.59	5.67	0.13
6-mo. CD rate	4.44	4.60	5.42	5.28	5.75	0.12
Prime Rate	8.00	8.50	8.50	8.50	8.50	3.25
30-yr fixed mortgage	6.67	6.58	7.26	6.99	7.75	3.04

Index Characteristics					
	NTM P/E	NTM P/E (20Y med)	NTM P/S	NTM P/S (20Y med)	Div. Yld
S&P 500	24.0	16.8	3.0	1.7	1.3
Russell 1000 Growth	32.0	19.8	5.5	2.0	0.6
Russell 1000 Value	18.8	14.9	1.9	1.4	2.0
FTSE High Dividend Yield*	14.2	14.2	1.6	1.6	3.9
S&P Small and Mid Cap	18.8	19.0	1.3	1.2	1.6
MSCI EAFE	14.9	14.7	1.5	1.1	3.0
MSCI EM	13.3	12.6	1.4	1.3	2.6

Levels				
Currencies	Last	1 Wk Ago	Prev YE	3 Yrs Ago
DXY	100.57	100.89	101.33	93.33
\$ per €	1.12	1.11	1.10	1.17
\$ per £	1.34	1.32	1.27	1.37
¥ per \$	143.53	142.41	141.04	110.73

Levels				
Commodities	Last	1 Wk Ago	Prev YE	3 Yrs Ago
Oil (WTI)	71.41	69.96	70.65	57.74
Gasoline	3.21	3.22	3.12	3.19
Natural Gas	2.61	2.32	2.51	5.14
Gold	2649	2570	2063	1750
Copper	9173	9238	8464	9344
Wheat	580	576	628	724
BBG Index	239.53	231.39	226.43	211.36

LAST WEEK IN REVIEW

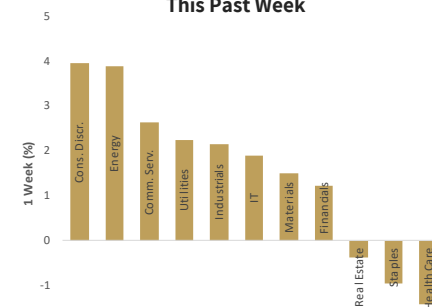
- **Retail Sales (Aug.):** 0.1% Headline / 0.3% Control. Upward revisions to July signals that consumer spending was stable during in the late summer.
- **Housing Starts & Permits (Aug.):** 9.6% Starts / 4.9% Permits (MoM). Better than expected
- **FOMC Rate Decision & Forecasts:** 0.50% reduction in Fed Funds target rate. Updated forecast (dot-plot) suggests another 0.50% reduction before year-end and another 1.0% reduction over the course of 2025.

THIS WEEK

- **S&P Flash PMIs (Sept.):** 9/23
- **S&P CL CS Hom Price Index (Jul.):** 9/24
- **Conf. Board Consumer Confidence (Aug.):** 9/24
- **GDP 2Q – Third Estimate:** 9/26
- **PCE & PCE Price Index (Aug.):** 9/27

S & P SECTOR RETURNS

This Past Week



Year-to-Date

