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Market Watch

September 18, 2023

Primary Market Drivers

Inflation

August CPI came in at +0.6% m/m, which was in line with expectations. The y/y figure was +3.7%, which was slightly higher than expectations of +3.6%. Expectations aside, the spike in CPI represented the largest m/m increase in CPI this year, though this was almost entirely attributed to a spike in energy prices. August PPI told a similar story, coming in at +0.7% m/m vs expectations of +0.4%. This was the largest monthly gain since June 2022, but once again came with an asterisk. Excluding food and energy, Core PPI rose just +0.2%, in line with expectations. All eyes will be on August Core PCE on 9/29 to confirm if August's data is simply a spike in oil or a more worrisome emerging trend.

Fed Policy

Powell's recent speech at the Jackson Hole Economic Symposium was mostly a non-event, predictably maintaining a hawkish tone but offering little in the way of surprises. Currently, the fed funds rate is 5.25% - 5.50%, while the terminal rate sits slightly higher at 5.6%. Fedspeak remains hawkish week-to-week, though the FOMC no longer expects a recession in 2023. All eyes will be on the Fed's next policy decision, which takes place this Wendesday (9/20). CME's FedWatch tool has the market forecasting a "no change" to the target rate with a 99.0% probability. With this month's decision essentially a foregone conclusion, traders will be looking ahead to the November 1st policy decision, which currently sits at a 69.8% probability of no change and a 29.9% probability of a 25bps hike.

Economic Data

Last week was something of a roller coaster as far as economic data goes. Early in the week, CPI underwhelmed and PPI followed up with a similar collective shrug. The following day, Retail Sales came in much stronger than expected. Then on Friday, Empire Manufacturing and Industrial production came in well ahead of expectations before Michigan Consumer Sentiment lagged and killed the mood. All in all, data has been relatively stable and is holding up well in recent weeks, reinforcing the Fed's expectation for "no recession" this year. This week brings a handful of significant data points, including Housing Starts and Building Permits (9/19), Philadelphia Fed Index (9/21), Existing Home Sales (9/21), Leading Economic Indicators (9/21), Flash Manufacturing PMI (9/22), and Flash Services PMI (9/22).

Market Returns — 9/15/23 (Close)

Category	*Ticker*	*YTD%*
Domestic Equity		
S&P 500	SPY	17.23%
Dow Jones	DIA	6.05%
Large-Cap Growth	QQQ	39.66%
Large-Cap Value	IVE	12.02%
Mid Caps	MDY	6.80%
Small Caps	IWM	5.98%
International Equity		
Developed Intl	EFA	10.76%
Emerging Markets	EEM	4.06%
Fixed Income		
Core Bonds	AGG	0.50%
Corporate Bonds	LQD	1.67%
High Yield Bonds	HYG	5.44%
ST Treasuries	IEI	0.43%
LT Treasuries	TLT	-4.62%
International Bonds	BNDX	2.90%

Performance data and stock chart were gathered from eSignal, a paid market screening application provided by Intercontinental Exchange, Inc.

Current Environment Summary

What's Working	What's Not	What's Next
Disinflation	Economic Worries Still Present	**Fed Policy Decision (9/20)**
Fed Cycle End is Near	Core Inflation Remains Elevated	**Philly Fed Index & LEIs (9/21)**
Strong Labor Market / Consumer	Yield Curve Inversions Historically Steep	**August Core PCE (9/29)**
Resilient GDP	"Higher For Longer" Fed	Technicals: Can Bounce Continue?
Stable Earnings	Economic Instability in China	Watching 10-yr Interest Rate
FOMC Says "No Recession in 2023"	Elevated Interest Rates	Assessing Economic Data

Disclosures

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