Clarus Wealth Advisors

Market Watch

October 2, 2023

Primary Market Drivers

Inflation

Last Friday, August Core PCE came in at +0.1% m/m, below expectations for +0.2% and the smallest monthly increase since November 2020. The soft report was a welcome sign after August CPI and PPI ticked higher than expected earlier in the month. Inflation data is still being closely watched as investors cautiously await the end of the Fed's tightening cycle. While rate hikes are likely nearing an end, investors are still on edge given the Fed's "higher for longer" rhetoric. The next significant inflation data points are September PPI (10/11) and CPI (10/12).

Fed Policy

The Fed held rates steady at 5.25% - 5.50% at its last meeting. The move was widely anticipated as a foregone conclusion, so there were no surprise regarding the policy decision. What was surprising was the information surrounding the pause. Dot plot projections removed 50bps of easing in 2024 and solidified the notion of an additional hike in 2023, with 12 of 19 Fed officials saying they expect to raise rates once more this year. While the market has anticipated this based on previous dot plot projections, the removal of 50bps of easing in 2024 was a negative surprise. Powell's tone remained cautious as he stressed data dependence and "higher for longer" rhetoric once again. Despite the communicated plan to raise rates again before year-end, CME's FedWatch Tool iscurrently projecting a 74.3% chance of "no change" to the target rate during the next Fed meeting on 11/1, likely in response to the soft August Core PCE data.

Interest Rates & Economic Data

Yields spiked again on Monday to a new cycle high as better-than-expected economic data spurred more selling in bonds. 10-yr rates hit an intra-session high of 4.7%, the highest level since the summer of 2007 (and good for a +210% move from 12/31/21). How and when this move will end remains to be seen, but it's worth noting that rates have gone parabolic once again and have risen +15% in just the last month alone. Bad for equities, worse for bonds. On the economic data front, last week saw a handful of high-profile misses in Chicago PMI and US GDP, as well as a disastrous Pending Home Sales report. However, a better-than-expected (but still contracting) ISM Manufacturing Index on Monday morning had yields marching higher once again. This week we will see a lot of labor market data, with JOLTS (10/3), ADP Employment (10/4), Weekly Jobless Claims (10/5), and Nonfarm Payrolls (10/6) in focus.

Market Returns		9/29/23 (Close)
Category	*Ticker*	*YTD%*
Domestic Equity		
S&P 500	SPY	13.03%
Dow Jones	DIA	2.62%
Large-Cap Growth	QQQ	35.13%
Large-Cap Value	IVE	7.51%
Mid Caps	MDY	4.09%
Small Caps	IWM	2.50%
International Equity		
Developed Intl	EFA	6.94%
Emerging Markets	EEM	0.92%
Fixed Income		
Core Bonds	AGG	-1.03%
Corporate Bonds	LQD	-0.62%
High Yield Bonds	HYG	4.14%
ST Treasuries	IEI	-0.07%
LT Treasuries	TLT	-9.00%
International Bonds	BNDX	2.04%

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	**September PPI (10/11) & CPI (10/12)**
Fed Cycle End is Near	Core Inflation Remains Elevated	**JOLTS (10/3), ADP Employment (10/4)**
Strong Labor Market / Consumer	Yield Curve Inversions Historically Steep	**Nonfarm Payrolls (10/6)**
Resilient GDP	"Higher For Longer" Fed	Watching Interest Rate Spike
Stable Earnings	Interest Rates Skyrocketing	Assessing Economic Data
FOMC Says "No Recession in 2023"	Weak Seasonality	

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