August was a good month for both stocks and bonds. The S&P 500, Dow, and Nasdaq all gained, 2.4 percent, 2.0 percent, and 0.7 percent respectively. The Russell Midcap increased 2.0 percent, while the Russell 2000 (small caps) declined 1.5 percent. International markets rallied as well. The MSCI World ex-US was up 3.4 percent, the EAFE index gained 3.3 percent, and the MSCI Emerging Markets index increased by 1.6 percent. Bonds also rallied during the month as the Fed statements from the Jackson Hole meeting erased any doubt about forthcoming rate cuts when Chairman Powel said, “the time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook and the balance of risks.” The Bloomberg Aggregate US Bond Index gained 1.4 percent for the month.

The first week of September was more challenging – especially for semi-conductor stocks and the Magnificent 7 stocks whose share of the S&P 500 has fallen from about 34 percent at the peak in July to around 30 percent as of today. Morgan Stanley’ chart of the week for September the 9th illustrates the sharp retreat.


As Lisa Shalett pointed out in her GIC Weekly comments, “one of the most underappreciated risks of the past 18 months has been the S&P 500 Index’s unprecedented concentration in its top 10 names, which include the “Magnificent Seven.” We warned investors that an AI- or tech sector-linked selloff could exacerbate the volatility of the overall index. Semiconductor stocks—down 20% from mid-July all-time highs—have entered a bear market. However, recent broadening of outperformance among “the 493,” where more than 70% of stocks are besting the market-cap-weighted index over the past eight weeks, has prevented a significant drawdown in the total index.”

Despite the pullback in the first week of September, our team remains cautiously optimistic that diversified portfolios may continue to perform well as the markets broaden out rather than simply retreat across the board. While a soft landing is far from assured, we still believe it's a good base case scenario and that economic data is supportive of that view.

As Lisa Shalett wrote in this month's On the Markets , "If the soft landing is achieved, valuations will become critical, with nominal and real rates holding near current levels as higher-for-longer neutral rates are digested. In this scenario, market breadth should continue to improve, led by cyclicals and rate-sensitive stocks—extending the past six weeks' outperformance of an active stock-picking approach and the equal-weighted S&P 500 Index. But labor markets hold the key, and much will depend on the ability of corporate management teams to achieve aggressive profit forecasts without reducing worker ranks. For markets built on anticipation, it's show time. Stay focused on maximum portfolio diversification to optimize total return potential."

We believe the Fed's most likely rate cut will be 25 basis points on September 18th, with an outside chance of 50 basis points if this month's labor market data surprises to the downside. Lenoy Dujon, our US Canda Economist, and Seth Carpenter, our Chief Global Economist have stated that their "base case is for the median of the dot plot to signal three cuts in 2024, with some of the dots showing even more cuts this year. Projecting the unemployment rate will be tricky; we expect the next report to show a tick back down, with that outcome key to what the FOMC sketches. The shift is clearly here—how big it is will depend on the data (to steal a phrase)." In other words, they think the markets have the right number of rate cuts pegged in 2024 with 3 25 basis point cuts in September, November and December.

While major market indices likely won't gain much on the rate cut news (since we think markets have properly teased out of Fed comments what will actually occur), our team still expects continued rotation out of the Magnificent 7 into other areas of the markets – value stocks, small and mid-caps, international stocks, REITS – pretty much everything else.

As always, if you have any questions or concerns, please don't hesitate to reach out to any member of the team