

Market Commentary



Weekly perspective on current market sentiment

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Last week's S&P 500 Index: +0.9%

Tee it up? Or not?

Key takeaways

- Historically, the Federal Reserve (Fed) Chair's speech at the annual Jackson Hole Symposium has been used to hint at policy changes to come, with action taking place at the September meeting.
- Much of the financial world will be tuned in to see if the Fed tees up a rate cut, or not, for next month's policy meeting.

The financial markets have been debating whether or not the Federal Reserve (Fed) will cut interest rates at the September 16 – 17 monetary-policy meeting. The debate has also covered the possibility of a 50 basis point cut (100 basis points, or bps, equals 1%) and how many cuts our central bankers might implement over the remaining three policy meetings this year (September, October, and December). Fed Chair Jay Powell, in the wake of the July meeting, voiced concerns that current tariff policies could lead to higher inflation in the near to intermediate term while also stating that he believed the U.S. labor market was "at or near full employment."

But a lot can change over the course of just a few weeks as the July employment report showed nonfarm payroll growth well below consensus estimates. For the better part of a week following that report, the fed funds futures market was pricing in a greater than 95% chance of a rate cut. The probability has fallen back to 83% at the time of this writing, but inflation concerns do still linger. Based on the futures, the market is clearly pricing in a rate cut next month and thinks the Fed will want to act as job creation slows along with the economy.

And now this week comes the annual Jackson Hole Symposium hosted by the Kansas City Federal Reserve. Note that historically the Fed Chair's speech at this event has been used numerous times to hint at policy changes to come, with action taking place at the (next) September meeting. That is what happened at the 2024 Jackson Hole get-together as a half-point cut occurred at the September meeting. Chair Powell is scheduled to speak on Friday at 10 a.m. ET, but there is no guarantee that the speech will hint at potential policy changes. But much of the financial world will be tuned in to see if the Fed tees up a rate cut, or not, for next month's policy meeting.

Our analysis continues to suggest that the Fed will cut at one of the remaining three meetings this year and again next year. Next month's meeting is certainly "live" and could result in a cut. Also consider that the market is pricing in four or five quarter-point cuts between now and the end of next year. We think lower rates will help the economy in 2026 but believe the number of cuts priced into the fed funds futures market is too high. We see choppy markets ahead as investors sift through economic data that shows inflation creeping higher over the balance of this year and growth slowing.

As a result, we think that portfolio adjustments are in order, but our outlook calls more for rebalancing and trimming risk than a wholesale shift out of equities or commodities. We remain overweight U.S. Large Cap Equities and favor a neutral allocation to commodities. Our goal is to rebalance portfolios after some robust moves since the beginning of the year.

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