

Stock Market Recap – August 2024

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Month in Review

- Broad-based gains during the month of August, with US large cap stocks finishing the month up +2.43% (S&P 500 TR Index). In the US, large cap value (+2.68%, Russell 1000 Value TR Index) finished ahead of large cap growth (2.08%, Russell 1000 Growth TR Index) for the second consecutive month.
- US small cap stocks took a breather after a strong July, finishing August down -1.49% (Russell 2000 TR Index). Outside the US, developed international equities benefitted from a weakening US dollar, rising +3.25% in August (MSCI EAFE NR USD).
- Bond markets rose for the fourth straight month in August, with the Barclays US Agg Bond TR Index finishing the month +1.44%.

What Happens Next: Soft or Hard Landing?

The Federal Reserve is poised to cut interest rates in September, the first interest rate cut since they began increasing interest rates in March 2022. Investors are now pondering, “what happens next?”: a “soft” or “hard” landing for the economy.

While not officially defined, a soft landing would be a continued decline in inflation and interest rates, without growth slowing down enough to enter a recession. Hard landing would be the opposite - a continued increase in unemployment and a slowdown in economic growth, resulting in a recession. Soft landings are historically less common, with the most recent (and classic case) being the 1994-1995 period.

Inflation has fallen closer to the Federal Reserve’s target rate, while unemployment has also begun to increase, prompting the likely rate cut in September. However, other signs indicate continued strength in the economy: for example, estimates for GDP growth this quarter stand at +1.5%. With no clear forecasts for a soft or hard landing, investors have priced in three to four rate cuts by the end of 2024, indicating expectations that the Federal Reserve will start and continue rate cuts in September.



Sources: Capital Group, Bureau of Economic Analysis, FactSet. Figures for Q1:20, Q2:20, and Q3:20 are -5.5%, -3.1%, and 3.0% respectively, and are cut off by the y-axis given the extreme fluctuations associated with the COVID-19 pandemic. Estimate for Q3:24 is based on the mean consensus estimate from FactSet. As of August 22, 2024.

What’s on Deck for September?

- With earnings season wrapped up in August, investors will be watching the Federal Reserve’s FOMC meeting closely for color around a potential rate cut.