

Markets Rally on Signs of Slowing Growth and Restrained Prices

The Fed's preferred inflation measure came in mostly below forecast in August, while both consumer income and spending slipped in the final month of the summer. The combination of cooling prices, falling demand and reduced income growth reinforce the Fed's decision to cut 50 basis points earlier this month and should support further cuts at the November and December meetings.

The overall Personal Consumption Expenditures (PCE) index for August rose +0.1%, following a +0.2% gain in July and matching the median forecast, while core PCE climbed +0.1%, below both the +0.2% prior month and the median forecast. As with the CPI measure, PCE goods prices were *negative* at -0.2% while prices for services edged +0.2% higher. In key sub-categories, food prices rose +0.1%, while energy prices fell -0.8%.

On an annual basis, headline PCE was up +2.2%, down from a +2.5% pace in July and *the lowest since February 2021*. Core PCE actually rose slightly from +2.6% (2.649) to +2.7% (2.678) year-over-year, equaling forecasts.

PCE is a broader index than CPI, counting all goods and services purchased by consumers as well as spending by employers and governments, with less emphasis on shelter costs and more on healthcare. The monthly PCE report is typically released about two weeks after the more familiar CPI, which diminishes its value, but since it's a Fed favorite, it still commands its share of attention.

In other news from this morning, personal income fell short of expectations, increasing by just +0.2% in August. This was half the +0.4% forecast and *the lowest in over a year*. In theory, less income equates to lower spending in future months. Personal spending for August also came in below forecast. The +0.2% increase was the smallest since January and reflects a more cautious consumer.

Earlier this week, the Conference Board's measure of consumer confidence for September fell 6.9 points to 98.7. The biggest single month drop in over three years was primarily due to a decline in expectations for the next six months. The future pessimism seemed to center on labor conditions as the percentage of consumers believing jobs were plentiful fell for the seventh straight month and is now at the lowest point in over three years at 30.9%. At the same time, the percentage saying jobs were "hard to get" rose from 16.8% to 18.3%, the *highest* in more than three years. Normally, the confidence surveys have little effect on the markets as the correlation between how consumers feel and their actual spending is weak, but the perceived labor softening elevated the importance.

Bond yields are slightly lower in early trading, reversing much of yesterday's sell-off. Inflation seems to be on a sustained downward path, but Fed officials have shifted their primary focus to the labor market. Next Friday's release of the September employment report will be closely watched by Fed officials and market participants.

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

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Both the DOW and the S&P 500 are at fresh record highs this morning as investors anticipate additional rate cuts in the midst of what still feels like a rare soft landing for the economy.

Market Indications as of 9:17 A.M. Central Time

DOW	Up 276 to 42,451 (NEW HIGH)
NASDAQ	Down -8 to 18,183 (HIGH: 18,647)
S&P 500	Up 11 to 5,756 (NEW HIGH)
1-Yr T-bill	current yield 3.95%; opening yield 3.97%
2-Yr T-note	current yield 3.59%; opening yield 3.62%
3-Yr T-note	current yield 3.51%; opening yield 3.54%
5-Yr T-note	current yield 3.53%; opening yield 3.56%
10-Yr T-note	current yield 3.76%; opening yield 3.79%
30-Yr T-bond	current yield 4.10%; opening yield 4.13%

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