

Will Turmoil Continue as FOMC Meets?

September has been quite a ride for investors so far. **After a nosedive** of 4% at the beginning of the month, the S&P 500 has largely **clawed its way back**.

Inflation continues to fall, with August CPI and PPI data released last week showing that inflation is trending close to 40-year averages. **While Core CPI came in hotter than expected**, Fundstrat Head of Research Tom Lee interpreted the data as “better than it looks.” It **doesn’t change the fact that inflation is indeed falling fast**,” he added. Aside from the statistically lagging shelter component, the biggest contributors to August Core CPI were travel-related – airline fares and (non-shelter) lodging. “Did inflation suddenly accelerate in Shelter and airline fares?” Lee asked rhetorically. “We don’t think so. To us, **this looks more like seasonal-adjustment noise**.”

There appears to be consensus agreement that the **inflation numbers will not cause the Fed to push back the rate cuts** that officials have recently hinted will begin at next Wednesday’s Federal Open Markets Committee (FOMC) meeting. Lee expects that this means tailwinds for stocks. Yet, **“we just saw the fourth-worst start for September,”** Lee reminded us. He and his team found that when looking at the historical “first four trading days” of September and examining the 20 worst instances for stocks, **not once** in those 20 precedents has September ended up positive. “Sure, history is meant to be broken,” he conceded, “but in my view, **this is telling us that we are in for a challenging time leading up to Election Day**.”

Head of Technical Strategy Mark Newton acknowledged that “the **stock market has been a lot choppier** since July, but outside of Technology, **it has mostly held up** extraordinarily well. And with regard to Technology, despite this huge sell off, it really has not broken levels to think that Tech is going to weaken from here. In fact, Tech has been an outperformer all week.”



“It’s **really important for trend followers that the S&P 500 gets up above the 5,650 level,**” he asserted. “That will allow for a pretty decent rally, in my view, but for now, we’re still sort of choppy and range bound, held by 5400 on the downside and 5650 on the upside.”

The banner features a dark blue background with white and light blue circuit-like patterns. On the left, there is a play button icon followed by the text 'Live Webinar'. The main title 'Technology & AI Outlook with Tom Lee & Dan Ives' is prominently displayed in white. Below the title is a purple button with the text 'Watch Replay Now'. On the right side, the date and time 'Thursday, September 5 @ 2pm ET' are shown. Below this, there are two circular headshots of the speakers. Under the first headshot is the name 'Dan Ives' and his title 'Managing Director, Equity Research' with a small logo for 'Wedbush Securities'. Under the second headshot is the name 'Tom Lee, CFA' and his title 'Co-founder, Head of Research' with a small logo for 'Fundstrat'.

Chart of the Week

DON'T FIGHT THE FED: Fed cut versus economic cycle

We are here



Fed cut + recession:

July '74, April '80, June '81,
Jan '01 and Sept '07

Fed cut + "no landing":

Jan '71, Oct '84, Oct '87,
July '89, July '95, Sept '98

	% return (avg)	Win-ratio		% return (avg)	Win-ratio
1W	-0.3%	20%	1W	-0.1%	67%
1M	0.5	60	1M	5.2	100
3M	-7.5	20	3M	9.7	100
6M	-3.5	20	6M	14.0	100
9M	-4.0	40	9M	16.0	100
12M	-2.3	40	12M	16.5	100

} **100%**

Source: Fundstrat, Bloomberg, Datastream, Kenneth French Data Library

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If the Fed does indeed cut rates at the FOMC on Wednesday, as widely expected, the bearishly inclined are warning that this could actually be bad for stocks. They note (correctly) that historically, stocks have fallen half the time immediately after the Fed makes its first cut of a cycle. However, Head of Data Science "Tireless" Ken Xuan and his team took a deeper look historical cycles and came to a different conclusion. Examining the last 11 Fed "first cuts," Xuan found that five of them took place with a recessionary backdrop. The other six came during a non-recessionary, "no landing" scenario such as the one in which we currently find ourselves. The difference in historic post-cut win ratios between the two categories is significant and best illustrated by our Chart of the Week.



Recent *FlashInsights*

[fsi-flash-insights]

FSI Video: Weekly Highlight



Key incoming data

- ~~9/9 9:00 AM ET: Aug F Manheim Used vehicle index~~ **Mixed**
- ~~9/9 11:00 AM ET: Aug NY Fed 1yr Inf Exp~~ **Tame**
- ~~9/10 6:00 AM ET: Aug Small Business Optimism Survey~~ **Tame**
- ~~9/11 8:30 AM ET: Aug CPI~~ **Tame**
- ~~9/12 8:30 AM ET: Aug PPI~~ **Tame**
- ~~9/13 10:00 AM ET: Sep P U. Mich. Sentiment and Inflation Expectation~~ **Tame**



- 9/16 8:30 AM ET: Sep Empire Manufacturing Survey
- 9/17 8:30 AM ET: Aug Retail Sales Data
- 9/17 9:00 AM ET: Sep M Manheim Used vehicle index
- 9/17 10:00 AM ET: Sep NAHB Housing Market Index
- 9/18 2:00 PM ET: Sep FOMC Decision
- 9/18 4:00 PM ET: Jul Net TIC Flows
- 9/19 8:30 AM ET: Sep Philly Fed Business Outlook
- 9/19 10:00 AM ET: Aug Existing Home Sales

FSI Sector Allocation

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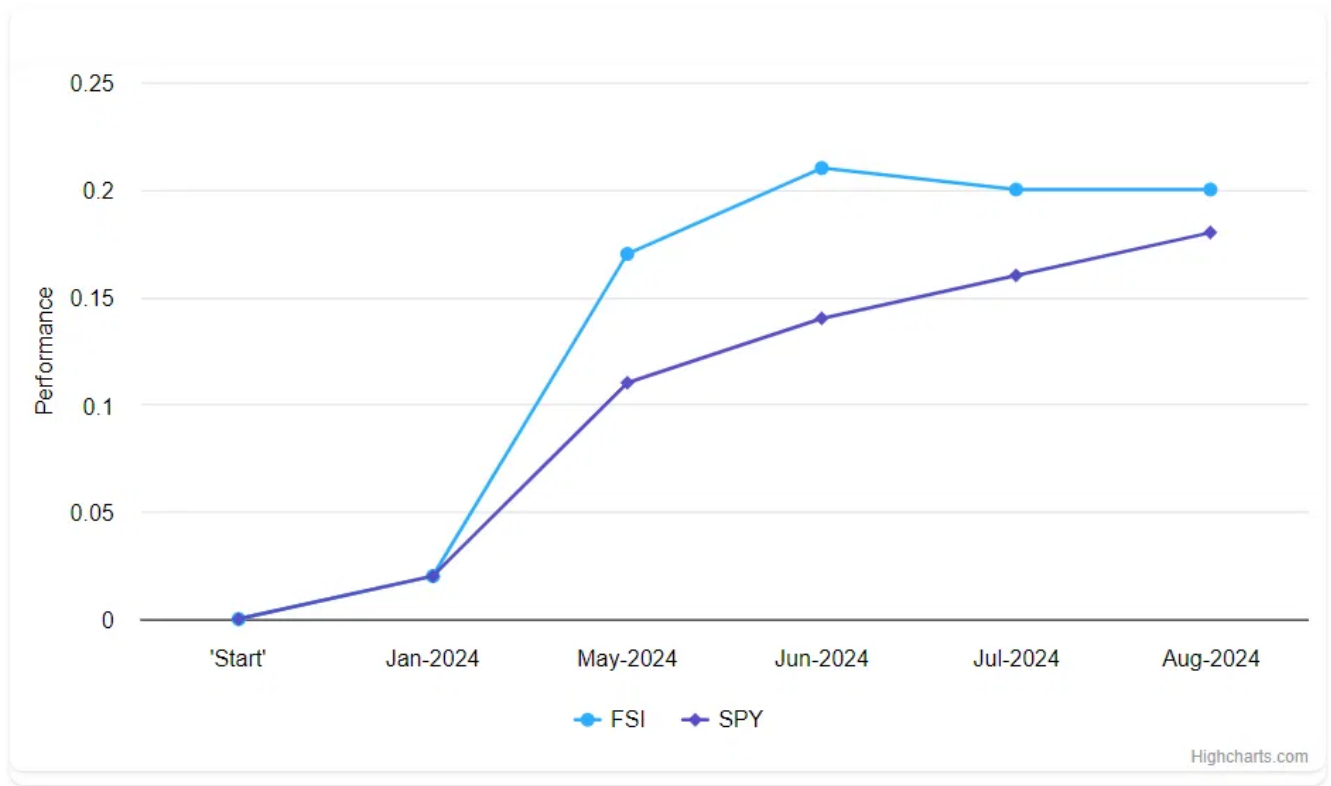
SECTOR	ETF	S&P WEIGHT	FSI WEIGHT	BETA	MANAGER 1	MANAGER 2
Health Care	XLV	12.91%	15.30%	2.4%	Over	Over
Information Technology	XLK	28.00%	29.50%	15%	Over	Over
Energy	XLE	4.30%	4.90%	0.9%	Over	Over
Communication Services	XLC	8.90%	10.90%	2.0%	Over	Over
Financials	XLF	12.60%	15.00%	2.4%	Over	Over
Industrials	XLI	8.70%	9.70%	1.0%	Over	Over
Real Estate	XRE	2.50%	2.50%	0.0%	Over	Over
Consumer Discretionary	XLY	13.10%	9.60%	-1.7%	Under	Under
Utilities	XLU	2.30%	1.30%	-1.1%	Under	Under
Consumer Staples	XLP	6.80%	1.60%	-5.4%	Under	Under
Materials	XLB	2.40%	0.60%	-2.0%	Under	Under
Total		100%	100%			

*Image does not reflect current reporting

Stock List Performance



Upticks Against the SPY (Year to Date)



Performance period: January 01, 2024 through August 27, 2024

In the News

[fsi-in-the-news]



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