All Eyes on Jackson Hole Economic Symposium

Adam Turnquist | Chief Technical Strategist
Last Updated: August 22, 2024

Leaves beginning to drop in the yard, back-to-school commercials, cooler nights, and for those working in capital markets, the annual Jackson Hole Economic Symposium are all emblematic reminders summer is about to end. For many of us, especially with kids, the transition to fall brings a lot of change beyond just the turning of the leaves.

The same can be said about markets, as September tends to bring elevated volatility and weaker monthly returns. This year, change could be particularly notable as the economy remains on trial. The September 6 employment report will be a powerful piece of evidence that could potentially persuade investors of a hard- or soft-landing verdict. NVIDIA (NVDA) earnings next week will also provide insight into spending on artificial intelligence, while the Institute for Supply Management (ISM) manufacturing and services sector data during the first week of September will be closely monitored for any signs of slowing growth.

Of course, this year's Jackson Hole Economic Symposium, titled "Reassessing the Effectiveness and Transmission of Monetary Policy," could also bring some changes. Federal Reserve (Fed) Chair Jerome Powell headlines the event with a highly anticipated speech tomorrow at 10 a.m. ET. Here are a few important aspects to monitor during the event:

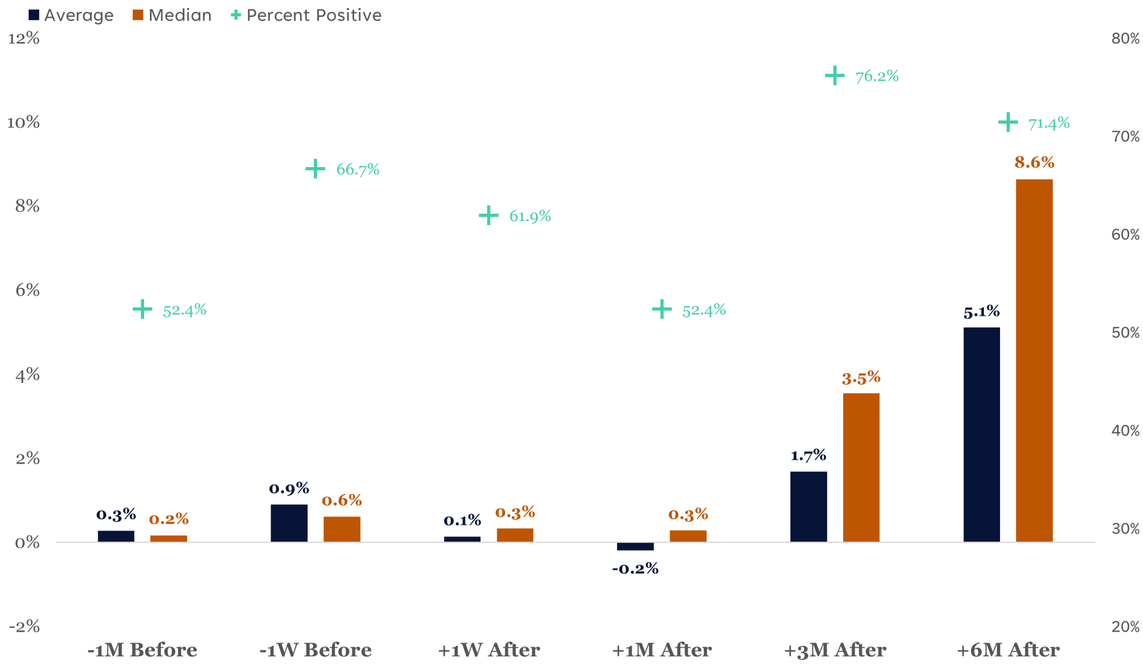
- Powell is expected to lay the groundwork for the Fed's first rate cut in over four years. Signs of reduced pricing pressures and cooling economic growth will likely be enough for policymakers to start reducing the target rate.
- Yesterday's preliminary downward revision to nonfarm payrolls data of 818,000 jobs for the 12 months through March — the largest downgrade since 2009 — provided additional evidence of loosening labor market conditions. Investors will be listening carefully tomorrow for any updated assessment on the labor market, a topic that has seemingly stolen the spotlight from

inflation recently. According to LPL's Chief Economist Jeffrey Roach, "The labor market appears weaker than originally reported. A deteriorating labor market will allow the Fed to highlight both sides of the dual mandate and investors should expect the Fed to prepare markets for a cut at the September meeting."

- The fed funds futures market agrees a rate cut is likely coming next month. Implied probabilities for a 0.25% reduction in the target rate are holding at 100%, while odds for a 0.50% rate cut currently stand at 30%. However, investors will be listening for more details on the path of longer-term monetary policy beyond the expected cut in September. Of course, we will likely hear from Powell that the path is "data dependent" but also dependent on where the Fed views the neutral rate of interest — an ideal economic rate that theoretically stimulates a perfect balance of full employment and stable inflation. Many argue the Fed's view of the neutral rate is too low, leaving some expectations it could eventually be revised higher.
- Last month, Chair Powell mentioned the Fed has gained confidence that inflation is moving sustainability toward their 2% target, stating "The second quarter's inflation readings have added to our confidence, and more good data would further strengthen that confidence." With recent consumer and wholesale inflation data continuing that trend, investors will be listening for Powell to acknowledge the Fed may have enough confidence in the trajectory of inflation to reduce rates next month.

Equity markets have staged an impressive recovery since the August 5 low set earlier this month. The S&P 500 has quickly climbed back toward record-high territory as oversold conditions and mostly better-than-expected earnings and economic data brought buyers back into the market. While Jackson Hole could spoil some of the near-term momentum, we found that over the last 20 years, the event has not historically been a consistent driver of price action (up or down). The table below highlights how the S&P 500 performed anywhere from one month before Jackson Hole to six months after the symposium since 2003. Performance tends to be relatively flat leading up to and immediately after the event, with average and median returns one month later hovering near breakeven. Momentum tends to turn a bit more bullish three and six months later, with a materially higher frequency of positive returns. However, these months also overlap with a strong seasonal period for stocks, so it's hard to isolate how much (if any) of that performance is related to the outcomes from Jackson Hole. Perhaps the key takeaway from the data is that the market implications of policy changes related to Jackson Hole are likely longer-term.

S&P 500 Performance Before and After Jackson Hole (2003–2023)



Source: LPL Research, Bloomberg 08/22/24
Disclosures: Past performance is no guarantee of future results. All indexes are unmanaged and can't be invested in directly. The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of the predecessor index, the S&P 90.

Summary

Investors are eagerly awaiting Chair Powell's Jackson Hole speech tomorrow. We suspect he will likely set the stage for a September rate cut given the trajectory of inflation data and continued signs of a cooling labor market. We don't expect to hear much color on the degree of potential policy changes but believe another disappointing employment report next month could tilt the scale toward a 0.50% cut in September. Investors will be listening carefully for any change in the Fed's confidence in the economy given some of the disappointing data earlier this month, for additional clarity on the longer-term path of monetary policy, and if anything has changed with how they consider the neutral rate.

From an investment perspective, LPL's Strategic and Tactical Asset Allocation Committee (STAAC) maintains its neutral stance on equities, while actively monitoring economic data, corporate profits, and technical analysis signals. Although we welcome the recent rebound and more upbeat macroeconomic data, market breadth on the latest bounce has been underwhelming, and there isn't quite enough technical evidence to make the case that the pullback is over. We expect volatility to remain elevated in the coming months as the market waits for more clarity on the economy, election, and a better seasonal setup. The STAAC maintains its modest overweight to fixed income, funded from cash, which can help buffer against equity market volatility should economic conditions worsen while also providing attractive income.

IMPORTANT DISCLOSURES

This material is for general information only and is not intended to provide specific advice or recommendations for any individual. There is no assurance that the views or strategies discussed are suitable for all investors. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk.

Indexes are unmanaged and cannot be invested into directly. Index performance is not indicative of the performance of any investment and does not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results.

This material was prepared by LPL Financial, LLC. All information is believed to be from reliable sources; however LPL Financial makes no representation as to its completeness or accuracy.

Unless otherwise stated LPL Financial and the third party persons and firms mentioned are not affiliates of each other and make no representation with respect to each other. Any company names noted herein are for educational purposes only and not an indication of trading intent or a solicitation of their products or services.

Asset Class Disclosures –

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

Bonds are subject to market and interest rate risk if sold prior to maturity.

Municipal bonds are subject and market and interest rate risk and potentially capital gains tax if sold prior to maturity. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply.

Preferred stock dividends are paid at the discretion of the issuing company. Preferred stocks are subject to interest rate and credit risk. They may be subject to a call features.

Alternative investments may not be suitable for all investors and involve special risks such as leveraging the investment, potential adverse market forces, regulatory changes and potentially illiquidity. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

Mortgage backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

High yield/junk bonds (grade BB or below) are below investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

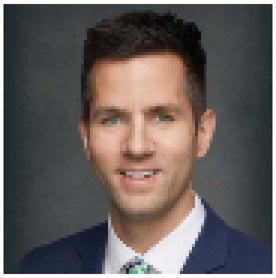
Precious metal investing involves greater fluctuation and potential for losses.

The fast price swings of commodities will result in significant volatility in an investor's holdings.

Securities and advisory services offered through LPL Financial, a registered investment advisor and broker-dealer. Member FINRA/SIPC.

Not Insured by FDIC/NCUA or Any Other Government Agency | Not Bank/Credit Union Deposits or Obligations | Not Bank/Credit Union Guaranteed | May Lose Value

For Public Use – Tracking: #619254



Adam Turnquist

Adam Turnquist oversees the management and development of technical research at LPL Financial. His investment career spans over 15 years.