

Dow Jones Breaks New Record, Investors Brace for NVIDIA Earnings and the Fed's Preferred Inflation Metrics, the PCE and Core PCE.

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by Francisco Rodríguez-Castro
frc@birlingcapital.com

The U.S. and European stock markets begin the week with mixed results after ending last week with a bang that saw Wall Street key indexes surging over 1%. Today the Dow Jones rose to its all-time high closing at 41,240.52, meanwhile the S&P 500 and Nasdaq Composite fell. The markets seem to be in a holding pattern as investors await two significant reports later this week.

Next Wednesday, AI giant NVIDIA will report its 2Q25 earnings report. The company has an EPS estimate of \$0.6422. Additionally, the Federal Reserve's preferred inflation metric, the personal consumption expenditures (PCE) price index, is due Friday, and both news are the focal points of investors.

The Fed's Inflation Nowcasting has the PCE at 2.40% inflation to fall from 2.51%, with core PCE inflation (excluding food and energy) expected to rise to 2.77% from last month's 2.63% number. Notably, both of these inflation figures are now below the Fed's projections for 2024, which anticipated 2.6% headline inflation and 2.8% core inflation. With inflation running below the Fed's forecast and the unemployment rate at 4.3%, above the Fed's expected 4.0% for 2024, provides the platform for the Fed to start lowering interest rates as soon as next month.

European markets closed mostly down due to concerns about the economic outlook. Specifically, the German business confidence index, the Ifo, remains at its lowest since February, reflecting continued pessimism about Germany's economic prospects. The German economy's weakness is compounded by broader eurozone concerns, where business activity has been contracting slightly slower than before.

As the Fed is slated to begin its interest rate reduction cycle, it has boosted the broader market sentiment. Investors continue to digest Fed Chair Powell's remarks from Friday, where he gave the most unambiguous indication of any Fed President that rate cuts are on the horizon. Speaking at the annual Jackson Hole symposium—a venue known for signaling major policy shifts—Powell stated, "The time has come for policy to adjust". The recent consumer price index (CPI) reading at 2.89% has strengthened confidence that inflation aligns with targets, prompting FOMC members to focus on the other side of their mandate as cooling the labor market and now their aim to achieve a "Soft Landing". The bond market is now pricing at the beginning of a rate-cutting cycle, expected to start at the next FOMC meeting **on September 17-18**. The question now on everyone's mind is the size of the initial rate cut and the number of rate cuts for the rest of 2024 before it ends. While rate cuts are not a cure-all, the gradual easing of borrowing costs and steady economic growth should bolster market sentiment, support valuations, and enhance corporate profitability.

NVIDIA's earnings report for Wednesday is highly anticipated, given the company's leadership in AI development and the enthusiasm it sparked. NVIDIA now accounts for 7% of the S&P 500, with a market capitalization of \$3.122 trillion, second only to Apple. With the stock up 161% this year, its

performance could significantly influence market direction. Unlike the first half of the year, a broader range of sectors and stocks are now contributing to the rally, suggesting a shift in market leadership that we had expected. Improving earnings trends beyond the Magnificent 7 will result in more balanced gains in the year's final two quarters.

GDPNow for the 3Q24:

- The GDPNow for the third quarter of 2024 was updated on August 26 and is unchanged at 2.00% GDP.

Key Economic Data:

- **U.S. Durable Goods New Orders MoM:** rose to 9.89%, compared to -6.91% last month.
- **U.S. Retail Gas Price:** fell to \$3.50, down from \$3.53 last week, decreasing -0.85%.
- **Germany Ifo Business Climate Index:** fell to 87.00, down from 88.60 last month, decreasing -1.81%.
- **Germany Ifo Business Expectations Index:** fell to 86.90, down from 88.80 last month, decreasing -2.14%.
- **Germany Ifo Business Situation Index:** fell to 87.10, down from 88.30 last month, decreasing -1.36%.
- **Japan Business Conditions Composite Coincident Index:** fell to 113.20, down from 117.10 last month, decreasing -3.33%.

Eurozone Summary:

- **Stoxx 600:** Closed at 518.05, down 0.08 points or 0.02%.
- **FTSE 100:** Closed due to a Holiday in the UK
- **DAX Index:** Closed at 18,617.00, down 16.18 points or 0.09%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 41,240.52, up 65.44 points or 0.16%.
- **S&P 500:** closed at 5,616.84, down 17.77 points or 0.32%.
- **Nasdaq Composite:** closed at 17,725.76, down 152.03 points or 0.85%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,838.98, up 119.69 points or 3.22%.
- **Birling Capital U.S. Bank Stock Index:** closed at 5,374.61, up 87.18 points or 1.65%.
- **U.S. Treasury 10-year note:** closed at 3.82%.
- **U.S. Treasury 2-year note:** closed at 3.91%.

Third Quarter 2024

| Date | GDPNow 3Q24 | Change |
|----------------|--------------------|-------------------------|
| 7/25/24 | 2.80% | Initial Forecast |
| 8/1/24 | 2.50% | -10.71% |
| 8/6/24 | 2.90% | 16.00% |
| 8/8/24 | 2.90% | 0.00% |
| 8/15/24 | 2.40% | -17.24% |
| 8/16/24 | 2.00% | -16.67% |
| 8/26/24 | 2.00% | 0.00% |



US Durable Goods New Orders & US Retail Gas Price

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Germany Ifo Business Climate Index, Germany Ifo Business Expectations Index, Germany Ifo Business Situation Index & Japan Business Conditions Composite Coincident Index





Wall Street Recap

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