

## Weekly Market Update

August 19, 2024

# Financial Markets Stabilize

A combination of improved economic data helped to improve investor sentiment as Comerica Bank celebrated its 175th anniversary last week.

The S&P 500® punctuated its best one-week performance of the year with Comerica CEO Curt Farmer ringing the closing bell at the NYSE on Friday.

### Executive Summary

- The Index has now fully recovered from its early-August losses, which were triggered by a weak jobs report that sparked growth concerns and an unwinding of the yen carry trade, sending both equity prices and bond yields tumbling.
- A series of positive economic reports have reassured investors that the Federal Reserve will be able to cut rates before the economy tips into a recession. Last week's economic data sent contained two important messages: inflation is decelerating sufficiently enough for a cut in September and the economy is doing well enough that 50 basis point (jumbo) cuts are probably not necessary.
- The CBOE Volatility Index (VIX), often referred to as the "fear gauge," has made a dramatic round-trip in just two weeks. This rapid decline in the VIX suggests that the market's earlier fears were overblown, and that investor confidence has returned to the equity markets.

Despite the recent volatility, U.S. real GDP growth remains favorable, interest rates are heading lower and corporate profits are firm. We believe these three trends will help market sentiment should any further bouts of volatility materialize in the coming months.

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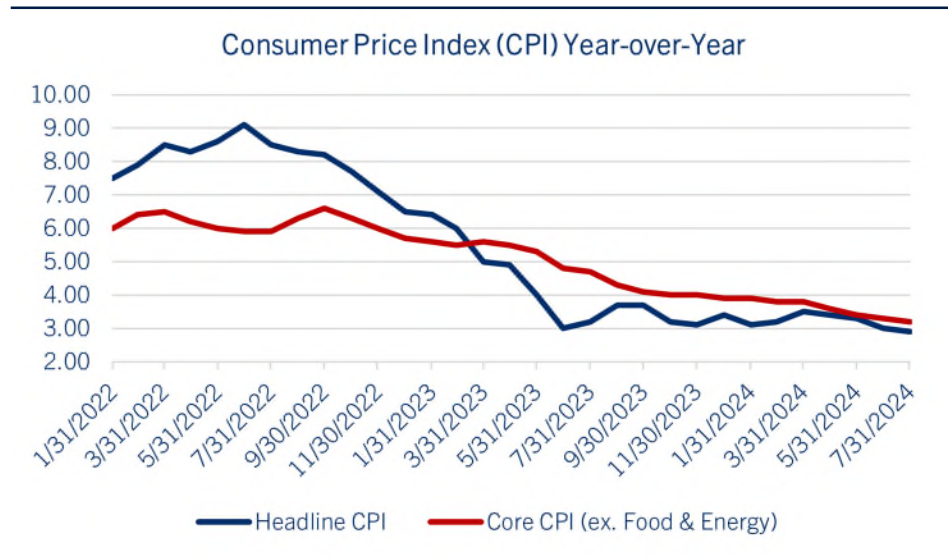
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## Inflation

The July Consumer Price Index (CPI) report showed headline inflation slowing to 2.9% year-over-year, its slowest pace since March 2021. This marks the fourth consecutive CPI report indicating that consumer prices are rising at or below analysts' expectations. See chart: **Consumer Price Index (CPI) Year-over-Year**.



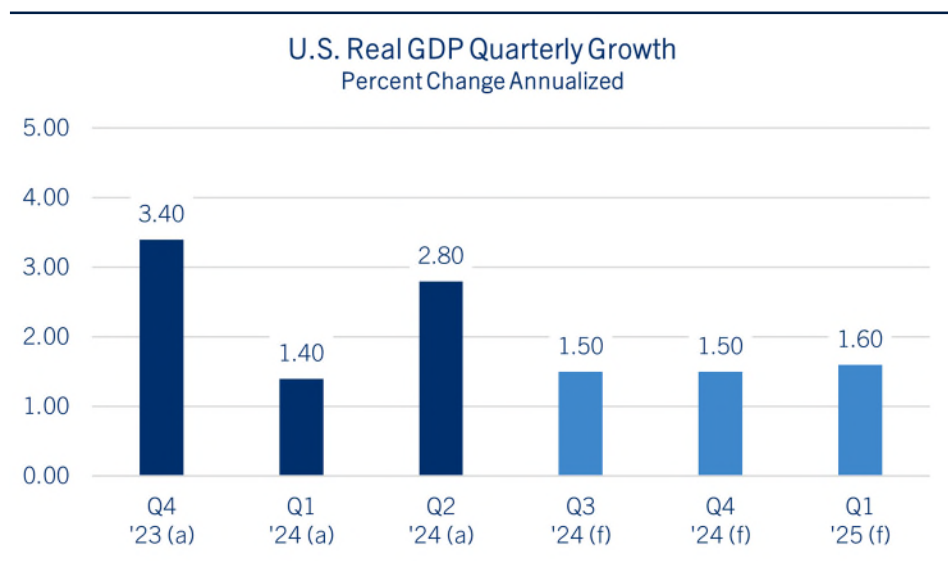
Source: Bloomberg L.P.

This trend should give the Fed additional confidence that inflation is sustainably moving toward its 2% target—a key condition for the Fed to begin cutting interest rates. We anticipate that Fed Chairman Jerome Powell will provide his clearest signals yet regarding rate cuts when he speaks at the Jackson Hole conference later this week.

## Economy

July's retail sales rose 1.0% from the previous month, surpassing expectations. Given the critical role of consumer spending in the U.S. economy, this strong start to the third quarter should ease fears of a rapid economic deterioration.

Additionally, initial jobless claims came in lower than analysts expected. Coupled with the robust retail sales data, this suggests that last month's disappointing unemployment report may have been an anomaly. Indeed, the rise in last month's unemployment report may have been influenced by a combination of factors, including the effects of Hurricane Beryl, new college graduates entering the workforce and the impact of immigration. **See chart: U.S. Real GDP Quarterly Growth.**

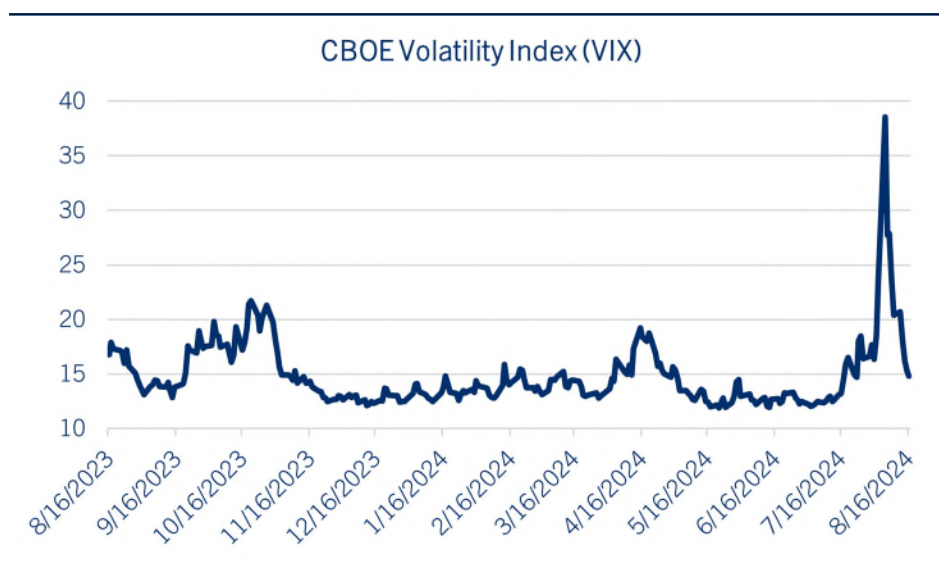


Source: Bloomberg, Comerica Bank Economics

Comerica Bank Chief Economist Bill Adams We continue to project real GDP growth of ~+1.5% in both the third and fourth quarters this year.

## VIX

The CBOE Volatility Index (VIX), often referred to as the "fear gauge," has made a dramatic round-trip in just two weeks. The VIX spiked to ~65 intra-day on August 5th before settling to ~38 at the close. For context, the only times that VIX has ever reached levels above 65 were during the height of the Great Financial Crisis and the onset of COVID-19, both of which peaked above 85. **See chart: CBOE Volatility Index (VIX).**



Source: Bloomberg L.P.

Over the last two weeks, the VIX has retreated below 15, back to where it stood in mid-July and below its 30-year historical median of around 18. This rapid decline in the VIX suggests that the market's earlier fears were overblown, and that investor confidence has returned to the equity markets.

## Conclusion

While the "Dog Days of Summer" did not disappoint, the improvement in economic data helped stabilize financial markets. We are certainly not out of the woods yet from a volatility perspective, though, as political and geopolitical headlines proliferate. U.S. real GDP growth remains favorable, interest rates are heading lower and corporate profits are firming. We believe these three trends will help market sentiment should any further bouts of volatility materialize in the coming months.

**Be well and stay safe!**



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