

What happened last week:

- **Powell Pivot:** Chair Powell validated the market's view that a rate cut is coming in September.
- **Markets Rally:** Investors took comfort in Powell's words, pushing the S&P 500 to within 1% of its all-time highs.
- **Retail Earnings:** Strong releases from major retailers further helped sentiment around the consumer.

What we're watching this week

- **NVDA Earnings:** The tech giant once again beat earnings expectations but seemingly not by as much as investors had hoped.
- **Economic Data:** PCE, the Fed's preferred inflation gauge, jobless claims, and an update on consumer confidence are the main events.
- **Geopolitics:** The weekend's news of an Israeli attack on Lebanon may bring geopolitical risk off the back burner for investors.

Market Perspectives

- Fed Chair Jerome Powell gave the market what it wanted to hear at his annual address in Jackson Hole: "The time has come for policy to adjust." A meaningful change from the last two and a half years of Fed communication occurred at the gathering of global central bank heads in Wyoming - the Fed is no longer looking for any additional slowdown in the labor market. In very clear words, Powell brought the "Fed put" squarely back into the collective investor consciousness, and markets responded in kind. The S&P 500 rose ~1.5% last week to within 1% of its all-time high. More importantly, breadth continued its clandestine improvement as small-caps rallied over 3% in a tape that favored the more cyclical parts of the market. One caveat: volumes have been particularly light these last few weeks amid the typical late summer slowdown in trading activity.
- Other than Chair Powell's brief speech on Friday morning, last week's news flow was tepid. Earnings from key retailers were a bright spot, helping reassure the market that the consumer is still strong and willing to spend. The credit markets agree that the outlook is positive. High yield spreads are now tighter than at the end of July when the latest growth scare kicked off. Yet other parts of the market, including bond yields and the U.S. dollar, are reflecting some risk premia around the outlook for growth.
- This week is another light one for economic data releases. Nvidia once again beat earnings on Wednesday albeit to a lesser extent than the last several prints. Friday brings the Fed's preferred inflation gauge, but given Powell's speech last week, labor market data are more critical than updates on inflation at this stage. Lastly, tensions in the Middle East continue to simmer, which may put upward pressure on oil prices.

CPI = Consumer Price Index, PPI = Producer Price Index, PMI = Purchasing Managers' Index, PCE = Personal Consumption Expenditures Price Index.

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