

Energy Surge

Higher energy prices weighed on stocks last week. For the week, the S&P 500 Index was -0.8%, the Dow Jones Industrials -1.6%, and the NASDAQ -0.6%. The Energy, Communication Services, and Technology sectors led the S&P 500 Index for the week, while the Health Care, Materials, and Industrials sectors lagged. The 10-year U.S. Treasury note yield was 4.973% at Friday's close versus 4.780% the previous week.

Oil prices were 9.4% higher last week and continue to impact consumers at the gas pump. Average U.S. gasoline prices were 4.0% higher for the week, and diesel fuel prices hit a new record eclipsing \$6 per gallon. Energy prices have been the main driver of inflation this year, and that showed in the August Consumer Price Index (CPI) report. In August, headline CPI was +0.4% month-over-month and core CPI, which excludes the impact of food and energy prices, was +0.3%. On a year-over-year comparison, CPI was +3.4% and core CPI was +2.4%.

The recent surge in energy prices is complicating the Federal Reserve's inflation outlook at a time when underlying inflation had been moving closer to its target. Persistent energy-driven inflation coupled with a resilient labor market has increased the probability the Federal Open Market Committee (FOMC) will vote to increase the Fed funds rate at its meeting on Wednesday. CME Fed funds futures currently imply a 0.25% increase at the September meeting and an additional 0.25% increase at the December meeting. We will see the FOMC's roadmap for the remainder of the year when the updated Summary of Economic Projections is published following the meeting.

This week, two companies in the S&P 500 Index are scheduled to report third quarter earnings. Third quarter earnings are expected to grow by 28.7%, with revenue growth of 11.9%. Full-year 2026 earnings are expected to grow by 31.6%, with revenue growth of 12.1%.

In our Dissecting Headlines section, we where the economy currently stands versus the Fed's outlook from June.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	-0.8%	12.8%	Aggregate Bond Index	-0.9%	-1.0%
Dow Jones Industrial Average	-1.6%	10.6%	U.S. Dollar Index	-0.1%	0.8%
NASDAQ 100	-0.6%	16.8%	WTI Crude Oil	9.4%	74.2%
Russell 2000 (Small Cap Index)	-2.4%	18.0%	Gold	-1.8%	0.8%
International Stocks (MSCI ex-US)	-1.1%	16.5%	Real Estate (US REIT Index)	-1.2%	14.9%

Sources: S&P Global, FactSet

Dissecting Headlines: Projections

The FOMC updates its Summary of Economic Projections each quarter. At the June FOMC meeting, the Committee has projected a single increase of 0.25% to short-term interest rates for the year. This was based on economic projections of 2.2% Gross Domestic Product (GDP) growth, an unemployment rate of 4.3%, and inflation, based on the Personal Consumption Expenditures (PCE) Price Index of 3.6% and core PCE, which excludes food and energy price changes, of 3.3%.

Moving to this week's meeting, the Fed has data that shows annualized economic growth of approximately 1.8% through the second quarter, a current unemployment rate of 4.1%, and inflation of 3.7% based on the PCE Price Index through July with core PCE at 3.3%, and CPI inflation of 3.4% and core CPI of 2.4% through August. While the FOMC uses the PCE Index in its projections, the CPI data is more recent.

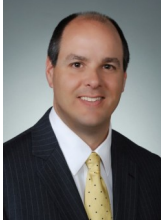
The FOMC is expected to raise rates at the policy meeting this week and the updated Summary of Economic Projections should provide insight for the remainder of the year. The Committee's dual mandate is price stability, as measured by the PCE Price Index, with stability defined as a 2% annual inflation rate, and maximum employment. With economic growth running below the Fed's June projection, the labor market remaining resilient, and inflation still above its target, the updated projections should provide an important look at how the Fed is balancing the two sides of its mandate and, ultimately, where it sees interest rates heading next.

The NovaPoint Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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