

☰ > Home > Markets > Markets Brief: Fed Rate Cut in Focus

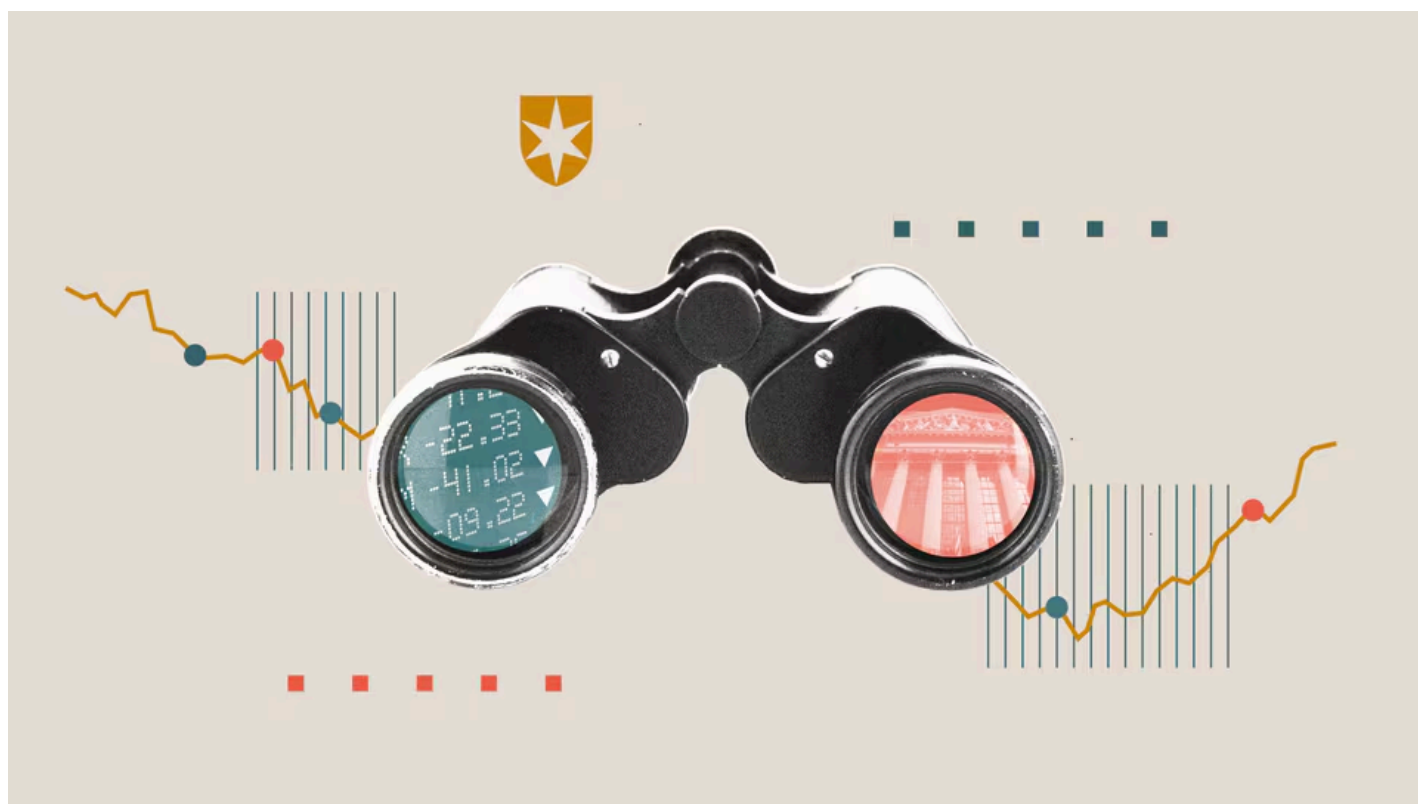
Markets Brief: Fed Rate Cut in Focus

Plus: Oil stocks, the power of compounding, active vs. passive and core inflation.



Dan Kemp • Sep 16, 2024

Share ↗



Securities In This Article

Plug Power Inc (PLUG)

Broadcom Inc (AVGO)

Humana Inc (HUM)

Revolve Group... (RVLV)

Chewy Inc (CHWY)

+4 More ▾

Insights into key market performance and economic trends from Dan Kemp, Morningstar's global chief research and investment officer.

Tech Stocks Rebound

The pendulum of market sentiment swung again last week as resurgent optimism among investors pushed the Morningstar US Market index up 4% in sharp contrast to the previous week's fall of 4.3%. As ever, the rise in prices was not evenly distributed. Technology led the way with several of the index heavyweights that dragged on that sector in the previous week providing support. Most notable among these was Broadcom AVGO which rose 22.4% following quarterly results the previous Thursday. You can read Morningstar's Broadcom analyst, William Kerwin's take on those results here.

In contrast energy stocks continued to fall and are now down 3.4% over the last six months, underperforming the broader market by 12.4% against a background of weak oil prices with the Brent crude benchmark down 14.3% over the same period. Although oil prices are a key driver of returns and there is evidence of excessive supply, Morningstar analysts believe investors are overly pessimistic about the sector, which is now priced 13.7% below their assessment of its fair value. To find out more, check out our Oil & Gas Pulse report which we published last week.

A graphic for the Morningstar Advisor Blog. It features a dark teal background with stylized silhouettes of two people in profile, one yellow and one green, facing each other. A speech bubble with three yellow dots is positioned between them. Below the silhouettes, the text "Advisor Blog" is in a small, white, sans-serif font. The main headline, "When Clients Ask, 'Are You Worth It?'" is in a larger, white, sans-serif font. Below the headline is a white rectangular button with the text "Get Answers →" in a dark teal, sans-serif font. In the bottom right corner, the Morningstar logo is displayed in white, consisting of the word "MORNINGSTAR" in a bold, sans-serif font with a stylized "M" icon to its left.

Advisor Blog

When Clients Ask, "Are You Worth It?"

Get Answers →

MORNINGSTAR

Think big with Direct Web Services. Learn More.

Inflation Data Backs Rate Cut Argument

The inflation data for August were a mixed bag with core inflation (which excludes volatile food and energy prices) a little higher than expected at 0.3% rather than 0.2% and annualized headline inflation lower than expected at 2.5% compared to 2.6%.

While the Federal Reserve tends to focus on core inflation rather than the headline number, this latest data appeared to encourage expectations of a 0.5% cut in interest rates this week with the probability of a larger cut increasing to 45% from 30% a week ago (source CME FedWatch). You can find out what Morningstar's chief US economist, Preston Caldwell thought about the data [here](#).

Charlie Munger and Compounding

When experiencing volatile markets, it is easy to become excessively focused on the immediate future and forget that investing should be a demonstration of compounding growth. The key drivers of investing returns act slowly over a period of years or even decades and consequently patience is essential to successful investment. It is well known that humans struggle to intuit the impact of compounding returns and so prioritize near-term gains rather than long-term success. Morningstar's Danny Noonan illustrates the dangers of such an approach by contrasting two investment approaches in his latest [article](#). Investing legend Charlie Munger expressed it well: "The first rule of compounding: Never interrupt it unnecessarily". While there is much more to successful investing than merely patience, the latter is essential to the former.

When Does it Pay to Go Active?

Many investors believe that the best way to access compound growth is through passive investment as there is less temptation to make changes to the portfolio. This theory is tested by the latest edition of Morningstar's semi-annual US Active/Passive Barometer which analyzes over 8,000 funds across categories. The report highlights the variation in the success rates of active and passive funds and demonstrates where active managers have been more successful. You can access this report [here](#).



Surface real-time data on your site. [Learn more.](#)

Fed Fever Approaching

Investors' commitment to following Munger's advice on patience may be tested again this week as the Federal Reserve Open Market Committee (FOMC) meets to set interest rates. With expectations almost evenly divided between a cut of 0.25% and 0.50%, there is plenty of opportunity for elation, disappointment, extrapolation and volatility. Alongside this, several measures of economic activity are being released which could challenge market expectations and unsettle investors. You can find out more about what is happening this week on Morningstar's new market calendar page [here](#).

Highlights of This Week's Market and Investing Events

- Sept. 17: August [Retail Sales](#), August [Capacity Utilization](#), August [Industrial Production](#), July [Business Inventories](#)
- Sept. 18: August [New Residential Construction](#) report, September [Federal Open Market Committee](#) decision on interest rates
- Sept. 19: [Initial Unemployment Insurance Claims](#) report for the week ended Sept. 14, August [Leading Indicators](#)

Check out our full [weekly calendar](#) of economic reports, consensus forecasts, and corporate earnings.

For the Trading Week Ended Sept. 13

- The Morningstar US Market Index rose 4.03%.
- The best-performing sectors were technology, up 6.76%, and consumer cyclical, up 5.39%.
- The worst-performing sector was energy, down 0.52%.
- Yields on 10-year US Treasury notes fell to 3.66% from 3.72%.
- West Texas Intermediate crude prices rose 1.04% to \$69.29 per barrel.
- Of the 703 US-listed companies covered by Morningstar, 550, or 78%, were up, five were unchanged, and 154, or 22%, were down.

What Stocks Are Up?

Chewy [CHWY](#), Plug Power [PLUG](#), Broadcom [AVGO](#), Fastly [FSLY](#), Revolve Group [RVLV](#)

Best-Performing Stocks of the Week

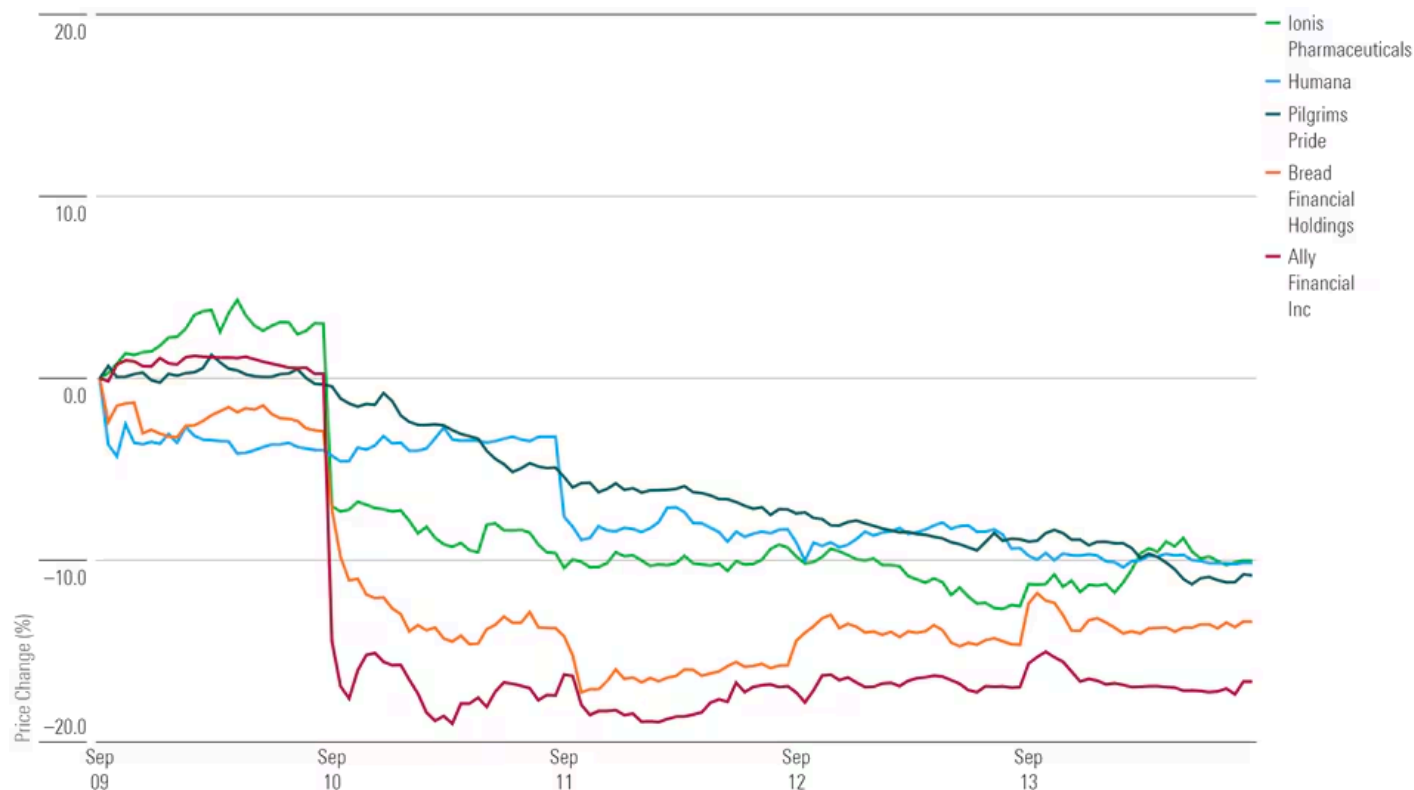


Source: FactSet. Data as of June 12, 2024.

What Stocks Are Down?

Ally Financial ALLY, Bread Financial BFH, Pilgrim's Pride PPC, Humana HUM, Ionis Pharmaceuticals IONS

Worst-Performing Stocks of the Week



Source: FactSet. Data as of June 12, 2024.

Turn our insights into action with a subscription to Morningstar Investor

Start Free Trial

The author or authors do not own shares in any securities mentioned in this article. Find out about [Morningstar's editorial policies](#).

Share 

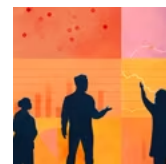
More in Markets

[View All >](#)

Markets Brief: Is Your Portfolio an SUV or a Race Car?

Plus: Financials lead, while energy stocks stumble.

Dan Kemp • Oct 21, 2024



What's Happening in the Markets This Week

The Federal Reserve Beige Book, home sales, and earnings from Coca-Cola and GE are on the docket.

Frank Lee • Oct 19, 2024



Smart Investor: These Stocks Are Leading the Rally, Bank ETFs Jump, and Top Large-Value ETFs

We wrap up our coverage of the markets and the week.

Tom Lauricella • Oct 19, 2024



About the Author

[View All Authors >](#)



Dan Kemp

Chief Research and Investment Officer

[More from Author](#)

Dan Kemp is Morningstar's Chief Research and Investment Officer.

Dan leads the Research and Investment team that comprises...

Markets Brief: Is Your Portfolio an SUV or a Race Car?

Dan Kemp • Oct 21, 2024

Markets Brief: Q3 Earnings Season Kicks Off

Dan Kemp • Oct 14, 2024

Markets Brief: Is 16% a Good Return?

Dan Kemp • Oct 7, 2024



United States

© Copyright 2024 Morningstar, Inc. All rights reserved. Dow Jones Industrial Average, S&P 500, Nasdaq, and Morningstar Index (Market Barometer) quotes are real-time.