KENSINGTON
Asset Management

Kensington Market Insights

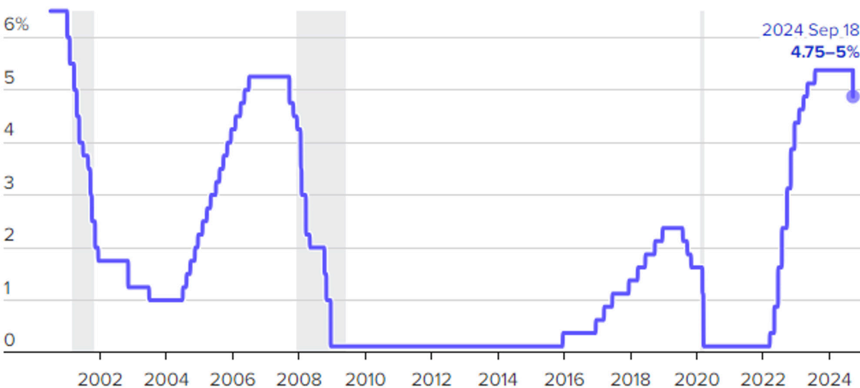
September 26, 2024

Market Insights is a piece in which Kensington's Portfolio Management team will share interesting and thought-provoking charts that we believe provide insight into markets and the current investment landscape.

Rate Cuts Amid Weakening Labor Market

Last week, the Federal Reserve held its September Federal Open Market Committee (FOMC) meeting, where it made a somewhat surprising move by cutting the target range for the federal funds rate by 0.50%, bringing it to 4.75%–5%. Leading up to the meeting, market expectations were split between a 25bps and 50bps rate cut. The larger move suggests that the Fed sees diminishing upside risks to inflation and increasing downside risks to employment.

Federal funds target rate July 2000–September 2024



Note: From December 2008 to present, the chart reflects the **midpoint** of the Federal Reserve's target range. The target rate began in 1982.
Shaded areas indicate recessions as defined by the National Bureau of Economic Research.
Source: Federal Reserve Bank of New York
Target rate as of Sept. 18, 2024

As we've discussed in previous editions of Market Insights, the Fed's dual mandate is to maintain low inflation while maximizing sustainable employment. The decision to cut rates more aggressively, by 0.50%, reflects concerns about a weakening labor market. High borrowing costs can discourage business investment, which in turn reduces hiring, something we've seen in recent months. In August, the US Bureau of Labor Statistics (BLS) reported 142,000 new jobs, but also revised down the June and July jobs data. Additionally, in late August 2024, the BLS released revisions to payroll jobs for the 12-month period ending in March 2024, reducing previous reports by 818,000 jobs—a 0.50% downward adjustment over that period (see chart on next page).

About Kensington

Kensington Asset Management specializes in data-driven, quantitative investment solutions spanning across the global investment landscape. Our focus is to help provide investors with confidence through quantitative analytics, by attempting to participate in rising markets, while taking steps to help avoid exposure during times of market decline or volatility. Kensington Asset Management was founded by Bruce P. DeLaurentis, a quantitative pioneer with over 40 years of trading experience through numerous market cycles.

Investment Philosophy

Kensington believes that the best way to generate steady, above average positive returns is to employ an investment methodology that has the potential to recognize and measure consistent and repeating behavioral patterns in the financial markets. With that goal in mind, Kensington has developed clearly defined quantitative decision models that strive to minimize subjectivity in this decision-making process. The overarching goal is to capture sufficient returns in positive market conditions, while protecting capital, with rigorous mitigation during down markets.

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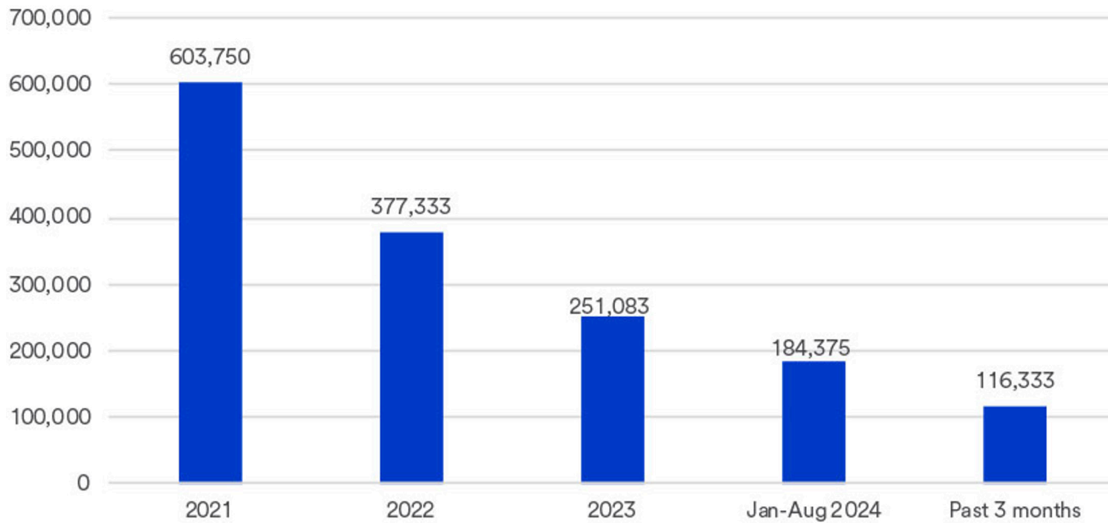
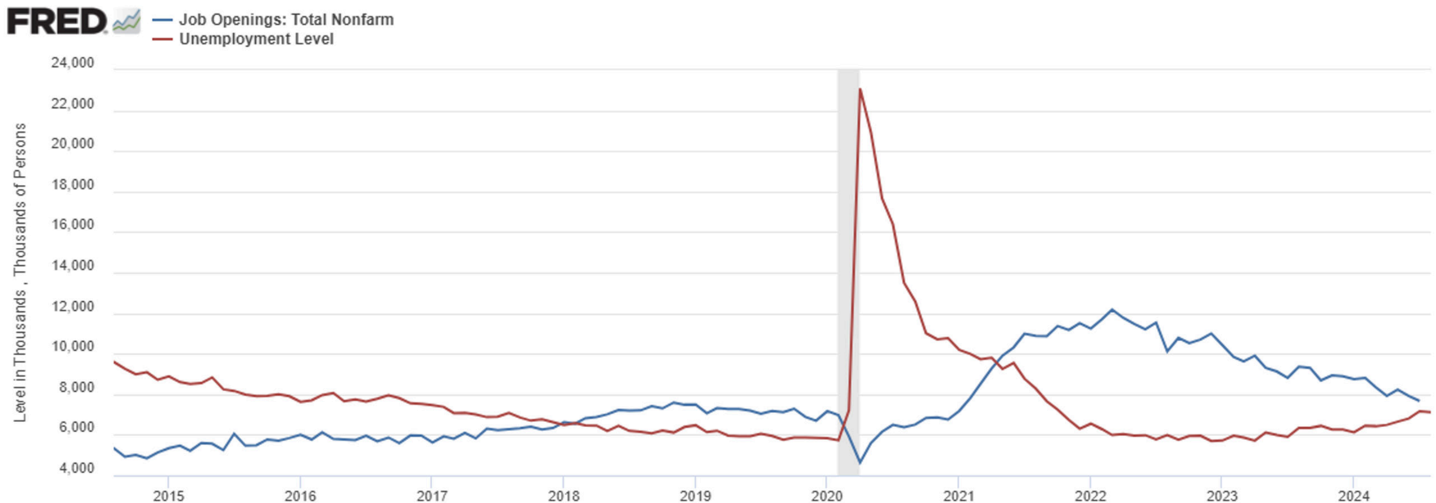


Source: US Bank as of September 6, 2024

Job Openings Shrinking

The labor market has also experienced a reduction in job openings. Previously, there were far more open positions than available workers, but this imbalance has started to level off. By the end of July, the US had 7.7 million job openings compared to 7.1 million unemployed persons, according to the BLS. The "Worker Demand Gap"—the difference between job openings and unemployed workers—is now at its lowest level in over three years (see chart below).

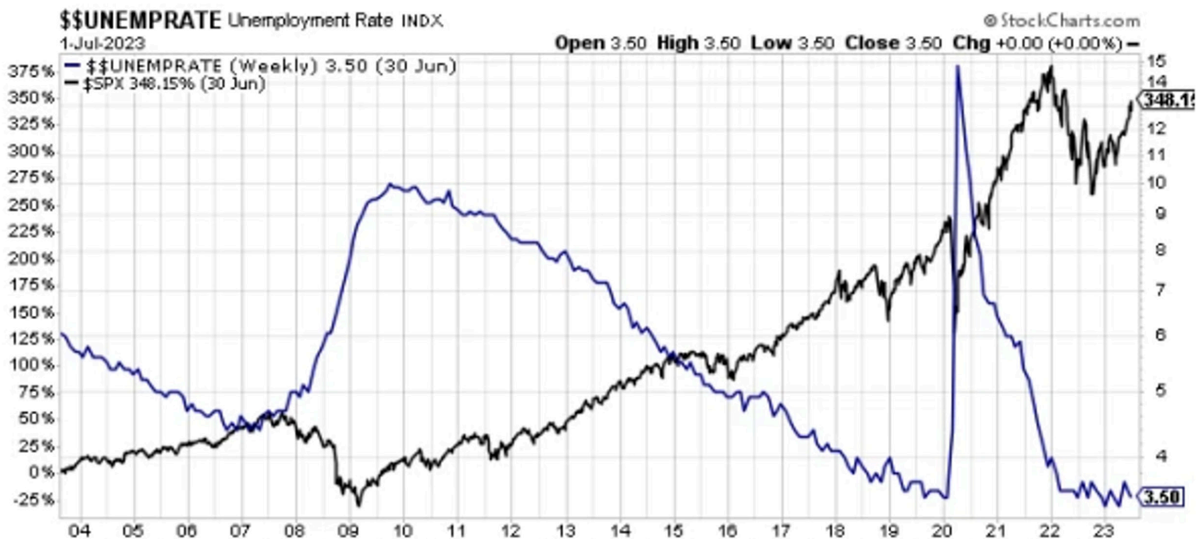


Time to Panic?

Despite slowing job growth, it may not be time to sound the alarm just yet. While the August unemployment rate stood at 4.20%, down slightly from 4.30% in July, this is still considered a favorable level. However, a potential concern arises from the fact that, historically, once unemployment starts rising, it tends to continue doing so (see chart below). The rate has been slowly, but steadily, increasing since its low of 3.40% in April 2024.

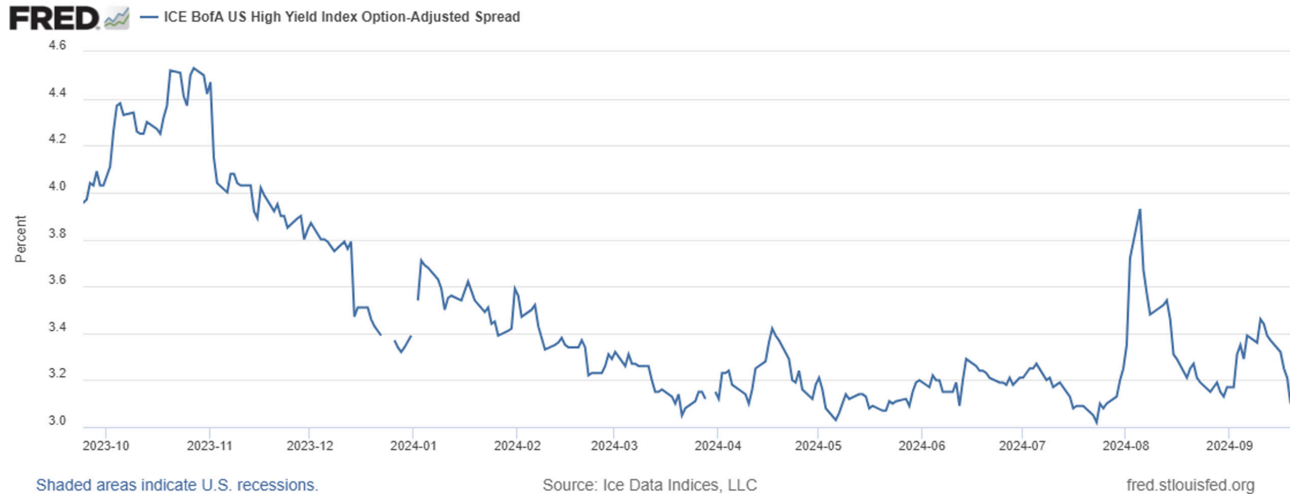
Market Impact

Rising unemployment typically has a negative effect on equity markets, as the two have maintained an inverse relationship over the long term. However, this relationship is not always straightforward and can be influenced by various other factors (see chart below).



Source: StockCharts.com as of July 1, 2023

Despite these labor market concerns, the broader market remains relatively unconcerned. The S&P 500 recently hit its 40th all-time high, and high-yield credit spreads—often viewed as a "canary in the coal mine" indicator—continue to hover at historically low levels (3.10% as of September 19, 2024), only spiking briefly during the market volatility in early August.



Equity markets, in fact, appear to be in the earlier stages of a bull run that began on October 12, 2022. Since then, the S&P 500 has risen by approximately 60%, which is below the historical average for bull market rallies, both in terms of percentage gains and duration. Since 1950, the average bull market has lasted 1,131 days (the current run is around 490 days) and delivered a 152.80% gain. This means we may be less than halfway through a typical bull market (see chart below).

Bull Market

Start Date	End Date	Trading Days	Percentage Change
1/3/1950	8/2/1956	1651	198.0%
10/22/1957	12/12/1961	1042	86.4%
6/26/1962	2/9/1966	913	79.8%
10/7/1966	11/29/1968	516	48.0%
5/26/1970	1/11/1973	665	73.5%
10/3/1974	11/28/1980	1555	125.6%
8/12/1982	8/25/1987	1274	228.8%
12/4/1987	3/24/2000	3109	582.1%
9/21/2001	1/4/2002	72	21.4%
7/23/2002	10/9/2007	1313	96.2%
11/20/2008	1/6/2009	30	24.2%
3/9/2009	2/19/2020	2756	400.5%
3/23/2020	1/3/2022	450	114.4%
10/12/2022	Current	486	59.7%
	Average:	**1131**	**152.8%**
	Median:	**978**	**91.3%**
	Max:	**3109**	**582.1%**
	Min:	**30**	**21.4%**

'A bull market is defined as 20% or more rally that were preceded by a -20% or more drop.
'A bear market is defined as a -20% or more drop that were preceded by a 20% or more rally.

Source: Grant Hawkridge, All Star Charts as of September 19, 2024

Bull Markets: Recession vs No Recession

However, this comparison can be misleading. As Doug Ramsey, CIO of The Leuthold Group pointed out in the firm's September Green Book research report, there's a clear distinction between bull market rallies that begin during a US recession and those that start without a preceding economic contraction—our current situation falls into the latter category.

Bull Markets In The S&P 500, 1957 To Date

Date of S&P 500 Low	Date of S&P 500 High	Gain (%)	Duration (Mos.)	Followed Recession?
October 22, 1957	December 12, 1961	86.4	50	Yes
June 26, 1962	February 9, 1966	79.8	43	No
October 7, 1966	November 29, 1968	48.0	26	No
May 26, 1970	January 11, 1973	73.5	32	Yes
October 3, 1974	September 21, 1976	73.1	24	Yes
March 6, 1978	November 28, 1980	61.7	33	No
August 12, 1982	August 25, 1987	228.8	60	Yes
December 4, 1987	July 16, 1990	64.8	31	No
October 11, 1990	March 24, 2000	417.0	112	Yes
October 9, 2002	October 9, 2007	101.5	60	Yes
March 9, 2009	February 19, 2020	400.5	131	Yes
March 23, 2020	January 3, 2022	114.4	21	Yes
October 12, 2022	*July 16, 2024*	*58.4*	*21*	*No*
Avg. (ex. latest)		**145.8**	**52**	**8 of 12 prior bull markets preceded by recession**
Median (ex. latest)		**83.1**	**38**	
Average (ex. latest) if:				
Preceded by recession		**186.9**	**61**	
Not preceded by recession		**63.6**	**33**	

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Source: Grant Hawkridge, All Star Charts as of September 19, 2024

As the chart shows, bull markets following recessions have significantly outperformed those without a prior recession, with the former delivering an average of 123% more gains and lasting over two years longer. When viewed through this lens, our current bull market run is closer to the historical average in terms of both percentage gains and duration.

Navigating the Uncertainty Ahead

As we move forward, the central question remains: Can the Federal Reserve stay ahead of the weakening labor market and guide the economy toward a soft landing? Or will the recent trends signal the eventual end of the current bull market? The Fed's ability to manage the delicate balance between inflation and employment will be crucial in determining whether this rally has further to run or if we are nearing a turning point.

In these uncertain times, tactical strategies may play a more important role in navigating market volatility. By staying adaptable and responsive to changing economic conditions, investors can better position themselves for whatever lies ahead.

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