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**MARKETS & FINANCE**

# Investors Adopt Defensive Crouch Ahead of Fed Rate Cut

The utilities sector is neck and neck with tech as 2024's best performing group

By [Hardika Singh](#) Following

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Shares of utility companies are among the best performers to start September. PHOTO: GRAEME SLOAN/BLOOMBERG NEWS

Investors are playing defense ahead of the Federal Reserve's looming interest-rate decision.

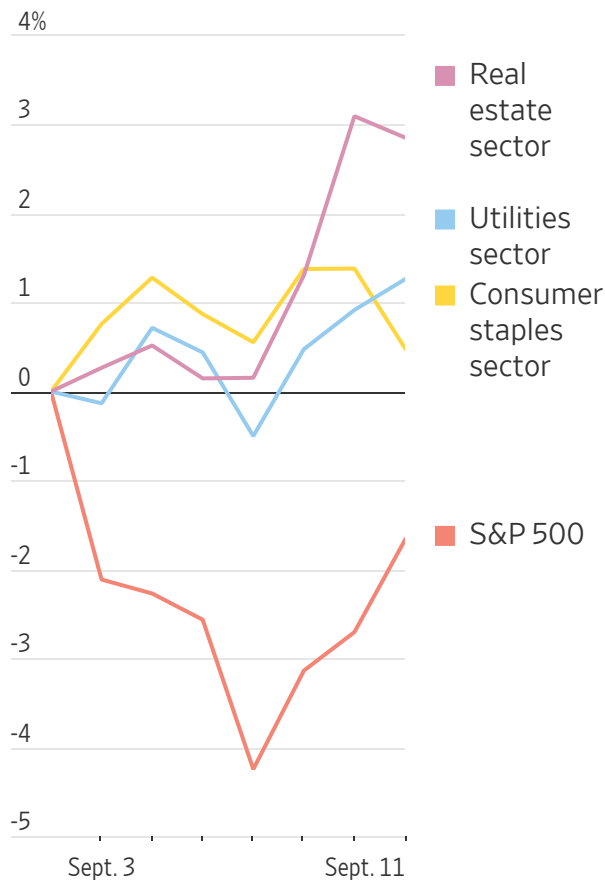
They are piling into corners of the market that are considered safety plays, after a roaring first half powered by big technology stocks.

Shares of real-estate, utilities and consumer-staples companies are among the best performers to start September. Gold prices are continuing to outperform,

and government bond yields are already on pace for their largest one-month decline since December as prices have risen.

“It’s really been something to see,” said David Bahnsen, chief investment officer at the Bahnsen Group, of the rotation into defensives.

#### Index and sector performance



Source: FactSet

Questions about the health of the U.S. economy, the magnitude of coming interest-rate cuts and the November presidential election have given some investors pause.

Wednesday’s inflation report did little to ease the concerns. Core inflation, which excludes volatile food and energy costs, came in slightly higher than expected. Stocks and bond yields declined sharply before bouncing back by the end of the day.

Markets have struggled to find their footing since early August when some of Wall Street’s most popular trades unwound and data suggested the labor market might be cooling

too quickly. Major indexes have been prone to sharp one-day swings, though the S&P 500 is down just 2% from its July record and is up 16% for the year.

Some of the shine has come off the Magnificent Seven group of big tech stocks. Nvidia, for one, has tumbled 7% since Aug. 28 when it reported quarterly earnings and sales that more than doubled—a pace of growth that slowed from the turbocharged clip over the past year.

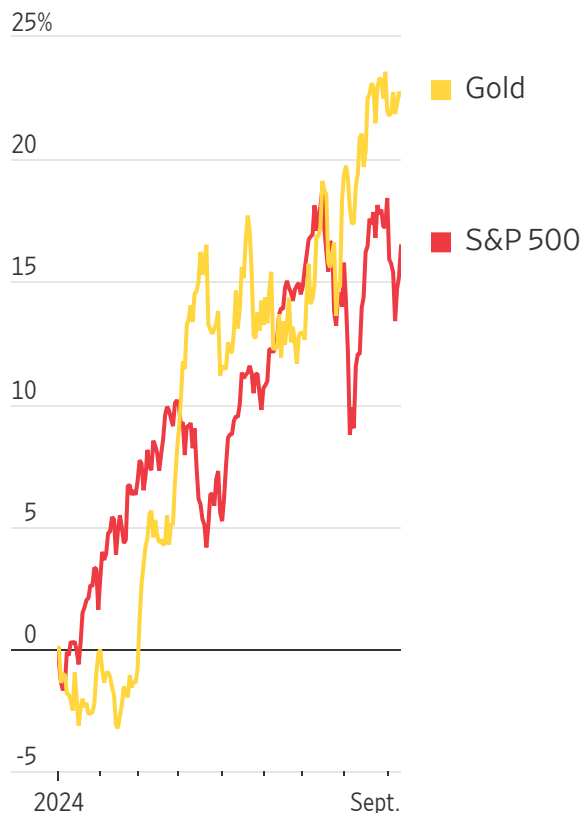
The recent reordering of the market’s winners and losers has the utilities sector neck and neck with tech as 2024’s best performing group in the S&P 500. Both are up more than 20%.

The Fed is widely expected to begin easing interest rates at its meeting next week. Investors say the surprise in core inflation strengthens the case for a quarter-percentage point rate cut over a more aggressive half-point reduction. Interest-rate futures suggest the odds of a bigger rate cut are now about 15%, according to CME Group, down from 34% Tuesday.

With rates set to fall, that could make the chunky dividend yields on defensive stocks look more attractive. The real-estate sector of the S&P 500 boasts a 3% yield, followed by utilities at 2.9% and consumer staples at 2.2%.

“If you’re going to buy something that might have upside from an equity perspective, but it’s also going to give you money to sit and wait, it’s not a bad place to do it,” said Mark Hackett, chief of investment research at Nationwide. “The yield doesn’t hurt.”

#### Gold and stocks performance



Note: Gold data notes the most-actively traded futures contract.

Source: FactSet

Bank of America strategists suggested this week that the utilities and real-estate sectors will be beneficiaries in a lower-rate environment because of their dividends and encouraged clients to boost their exposure to utilities.

Shares of real-estate, utilities and consumer-staples companies are seen as defensive plays because customers give priority to meeting rent, paying gas and electric bills and buying household goods, even when they trim other spending.

Gold prices have hit repeated all-time highs since March. They have been boosted by demand for safe-haven assets. Plus, lower rates make gold, which pays no income, more

attractive relative to assets such as stocks and bonds that pay dividends and interest. Gold prices are up 23% this year, outpacing the S&P 500.

The benchmark 10-year Treasury yield settled Wednesday at 3.653%, the second-lowest level of 2024. Bond yields fall as prices rise, and investors tend to flock to the safety of U.S. Treasuries during periods of market unrest.

Meanwhile, the S&P Global Investment Manager Index's risk appetite reading has fallen to its lowest level since May 2023. The monthly survey, based on data from about 300 institutional investors, found they are fretting about valuations, along with political uncertainty and recession risks.

Stocks still look expensive historically. The S&P 500 is trading at 21 times its expected earnings over the next 12 months, versus its 10-year average of 18.

For now, the question for markets remains whether the surge in defensive assets is a blip or the start of a new market regime.

“We’ve gone through a few of these headfakes, but we think this one is real because rates are going to start coming down,” said Emerson Ham III, senior partner at Sound View Wealth Advisors. “If you get a rally where you’ve got defensive names doing well but also technology performing on a fundamental basis, that’s kind of the best of both worlds.”

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