



Market Commentary

Weekly perspective on current market sentiment

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Last week's S&P 500 Index: -0.8%

Fed decision

Key takeaways

- While consensus expectations have fallen for 2024, the number of expected cuts remains too high for 2025 in our view.
- The Federal Reserve's decision and Chair Powell's presser today should shed clarity on the possibility of a September cut.

Will he, or won't he? That is, will Federal Reserve (Fed) Chair Jay Powell announce a rate cut today or not? Our best guess is he will not announce a rate cut this afternoon. As our regular readers know, we have two cuts penciled in this year and one cut next year. And almost surely, given the still-high underlying level of consumer inflation relative to the Fed's target and modest unemployment rate, the economic fundamentals do not quite allow our central bankers to take their foot off the brake just yet.

Saying that, and with three Federal Open Market Committee (FOMC) meetings remaining over the balance of the year (September, November, and December), we believe the time is near for the Fed's first move to lower the fed funds target rate. But, as stated, not at this week's meeting. Many investors are wondering how the financial markets might react to the post-meeting statement that will be released today as well as Chair Powell's comments at the upcoming press conference.

First, consider that stock and bond markets have been quite optimistic for some time that the Fed is going to make meaningful rate cuts. We would argue that much of this optimism has been priced into markets already. Relative to the consensus, we have been far less aggressive in terms of the number of cuts for nearly all of this year. While consensus expectations have fallen for 2024, the number of expected cuts remains too high for 2025 in our view. The Fed itself is projecting four cuts next year with the consensus largely in line with that magnitude of adjustment. Our projection currently calls for one rate cut next year as rental apartment inflation has its typically delayed bounce late next year. We expect the Consumer Price Index (CPI) to post a 3% gain in 2025.

While we expect the S&P 500 Index to be higher (5,600 – 5,800) and the yield on the 10-year Treasury note to be largely in line with current levels (4.0% – 4.5%) at the end of next year, we would expect increased volatility as market participants come to grips with the likelihood that inflation could very well not come down closer to the Fed's target in the near-to-intermediate term, resulting in fewer rate cuts than the consensus expects today

Interest-rate markets have had a habit of getting too optimistic when it comes to rate cuts over the past two years. We suspect markets are overly optimistic now. And while we have been most favorable short-term fixed income and using it as a "parking spot," the volatility that typically accompanies market consensus abandoning excess optimism is a reason we want to make sure that bond ladders make good use of the intermediate maturities.

The Fed's decision and Chair Powell's presser today will likely shed clarity on the possibility of a September cut. Investors will be anxiously waiting.

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