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Financial Week Newsletter

Summarized by Smith Shellnut Wilson

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"Words are not that important when you recognize intentions." Isabel Allende

MARKETS

Macro Recap: As anticipated, the U.S. Federal Reserve reduced its key lending rate by 50 basis points (0.50%) on Wednesday, rather than the 25-point cut some had predicted. This decision was supported by 11 of the 12 Fed voting members, with Fed Governor Bowman favoring a 25-basis point cut. The Fed funds rate now stands at 4.75% to 5.00%.

The Committee noted it has "gained greater confidence that inflation is moving sustainably toward 2 percent" and believes the risks to achieving its employment and inflation goals are balanced.

The Summary of Economic Projections revealed a revised median estimate for the 2024 unemployment rate at 4.4% (up from 4.0% in June) and a decrease in PCE inflation to 2.3% (down from 2.6% in June) and core-PCE inflation to 2.6% (down from 2.8%). The dot plot indicates a median estimate for 2024 at 4.40%, suggesting another 50 basis points of rate cuts this year and an additional 100 basis points in 2025.

Fed Chair Powell justified the larger 50-basis point cut as a necessary "recalibration" to ensure the labor market and economy remain robust. He emphasized that this more aggressive move is intended to maintain stability and that the Fed does not feel it is lagging behind with its policy rate. The larger cut signals the Fed's commitment to staying ahead.

In other news, U.S. retail sales for August rose slightly by 0.1%, surpassing most economists' expectations of a slight decline. Additionally, the Commerce Department revised July's gain to 1.1%, up from the initially estimated 1.0%.

Equity Recap: Stocks had another robust week. Early gains were driven by optimism over the Fed's anticipated 50 basis point rate cut. When the Fed delivered, the momentum continued through Friday. On Monday, the Dow surpassed its mid-July record high, and the S&P 500 followed with a new high on Thursday, buoyed by the first interest-rate cut since March 2020. Each major index rose approximately 1.5% for the week, with the NASDAQ ending just 4% below its all-time high.

Bond/Rate Recap: In the bond market, the 10-year Treasury yield closed at 3.73% on Friday, marking an increase for the week but a significant drop from its year-to-date peak of 4.70% in late April. A commonly referenced bond market indicator for recession prospects is no longer signaling a high risk of an economic downturn. Since mid-2022, the 2-year U.S. Treasury yield had been higher than the 10-year yield, a rare phenomenon known as a yield curve inversion. However, on September 4, the 2-year yield fell below the 10-year yield and has remained there, with Friday's closing yields at 3.58% for the 2-year and 3.73% for the 10-year.

Week Ahead: A monthly report set to be released on Friday will reveal if the recent reduction in inflationary pressures continued into August. The latest report for July indicated that the PCE Price Index increased at an annual rate of 2.6%, excluding energy and food prices.

INDICES

	Sep 20 Close	Sep 16 Open	Weekly Change	Dec 31 2023	YTD Change
DJIA	42,063	41,394	1.6%	37,690	11.6%
S&P 500	5,703	5,626	1.4%	4,770	19.6%
NASDAQ	17,948	17,684	1.5%	15,011	19.6%
Russell 2000	2,228	2,182	2.1%	2,027	9.9%
KBW Bank Indx	115.0	109.8	4.7%	96.0	19.7%
VIX	16.2	16.6	-2.5%	12.5	29.7%
Oil (WTI)	$71.00	$68.65	3.4%	$72.57	-2.2%
Prime	8.00	8.50	-0.50	8.50	-0.50
Effective Fed Funds	4.83	5.33	-0.50	5.32	-0.49
3m Tbill	4.65	4.88	-0.23	5.33	-0.68
2yr UST	3.59	3.58	0.01	4.25	-0.66
10yr UST	3.74	3.65	0.09	3.88	-0.14
2-10yr UST Spread	15	7	8	-37	52
2y AAA Muni/10y UST	66.7%	67.0%	-0.3%	58.9%	7.8%
10y AAA Muni/10y UST	70.2%	71.8%	-1.6%	58.5%	11.7%
5yr Inflation Rate	2.05	1.96	0.09	2.15	-0.10

Week Ahead

- **Monday:** No major reports
- **Tuesday:** S&P/Case-Shiller Home Price Index, Industrial production, Consumer Confidence
- **Wednesday:** New home sales
- **Thursday:** 2nd Q GDP(3rd estimate), Pending home sales, Durable goods, Weekly unemployment
- **Friday:** PCE, UofM Consumer Sentiment

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