Cut And Pause: FOMC Summary

As widely expected, the Fed cut the Fed Funds rate by 25bps, to 4.25-4.50%, at yesterday?s FOMC meeting. Moreover, they intimated that after cutting rates by 1% since September, they are likely to be more data-dependent, which may slow the pace of further rate cuts. They want to see inflation trend lower again and/or the unemployment rate tick higher before cutting rates again. Beth Hammack from the Cleveland Fed was the lone dissenter.

Their posture toward more rate cuts and future policy was probably more important for investors than its rate decision. To help better assess their updated views, the meeting included the Fed?s fourth-quarter economic projections. The Fed now expects to cut rates by only .50% throughout 2025. Three months ago, they thought they would lower them by 1%. The market is now on the same page as the Fed, as it was expecting two 25bps rate cuts in 2025 before yesterday?s meeting.

The table below shows the evolution of the Fed?s 2025 economic projections over the last four quarters. The Fed raised its inflation forecast from last quarter to 2.50% for PCE and Core PCE. Currently, PCE is 2.3%, and Core PCE is 2.8%. More importantly, the increase implies that the Fed believes inflation may be stuck at current levels for 2025. However, their inflation forecasts beyond 2025 are intact at around 2%.

2025 FOMC Median Economic Projections

	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Real GDP	2.00	2.00	2.00	2.10
Unemployment Rate	4.10	4.20	4.40	4.30
PCE	2.20	2.30	2.10	2.50
Core PCE	2.30	2.30	2.20	2.50
Fed Funds	3.90	4.10	3.40	3.90

What To Watch Today

Earnings

Thursday Dec 19	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time
Nike NKE:US		0.65	1.03		12.18B	13.4B	$118.51B	Q2	AM
Cintas CTAS:US		1.01	3.61		2.56B	2.38B	$85.22B	Q2	PM
FedEx FDX:US		4.05	3.99		22.17B	22.2B	$68.94B	Q2	PM
Paychex PAYX:US		1.13	1.08		1.31B	1.26B	$50.83B	Q2	PM
Darden Restaurants DRI:US		2.03	1.76		2.86B	2.73B	$19.9B	Q2	PM
FactSet Research Systems FD		4.25	4.12		565.1M	542.2M	$18.58B	Q1	AM
CarMax KMX:US		0.61	0.52		6.04B	6.1B	$13.38B	Q3	PM
Blackberry BB:CN		-0.02	0.01		204.01M	175M	$1.85B	Q3	PM

Economy

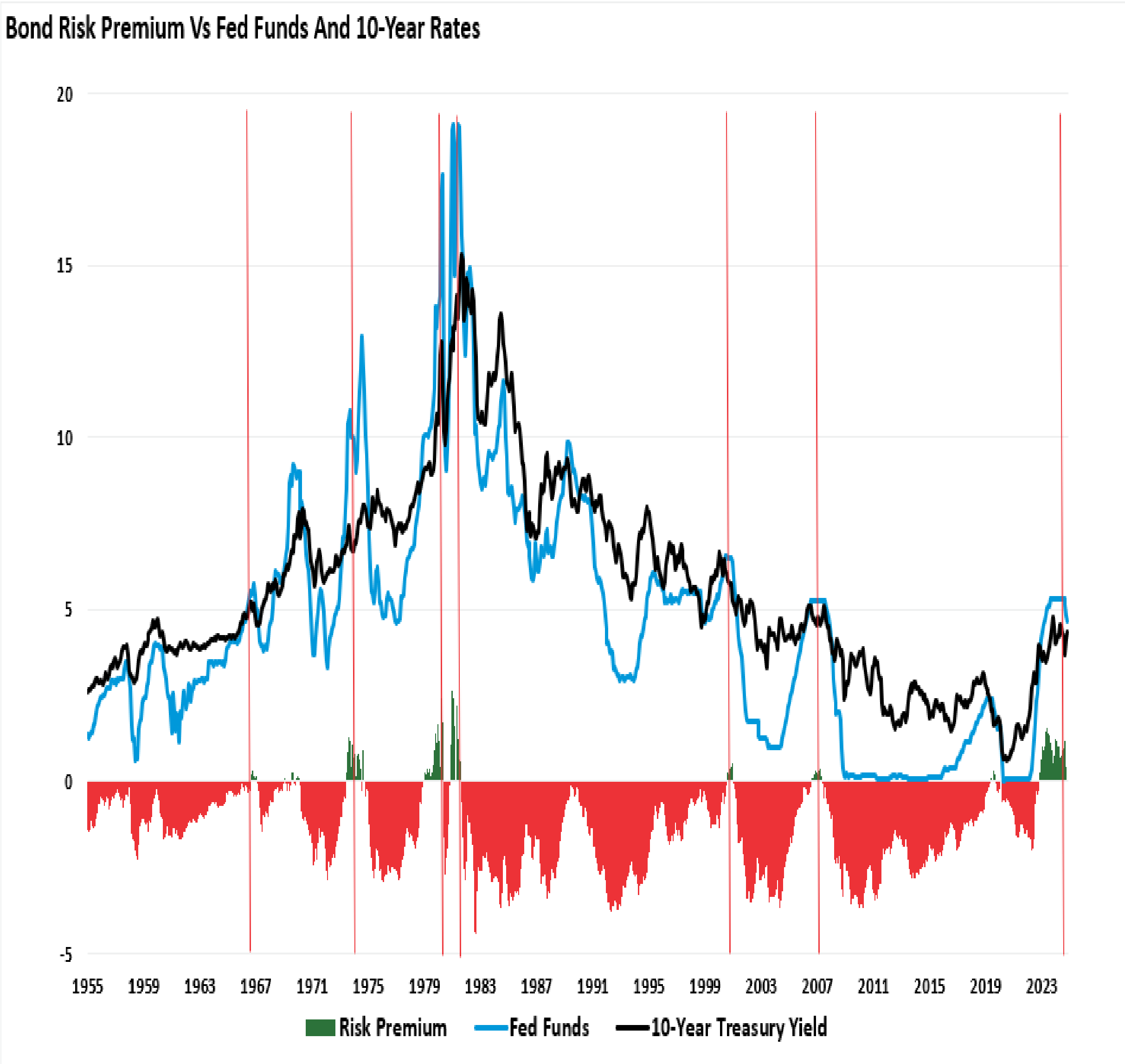
Thursday December 19 2024			Actual	Previous	Consensus	Forecast
08:30 AM	US	GDP Growth Rate QoQ Final Q3		3%	2.8%	2.8%
08:30 AM	US	GDP Price Index QoQ Final Q3		2.5%	1.9%	1.9%
08:30 AM	US	Initial Jobless Claims DEC/14		242K	230K	235.0K
08:30 AM	US	Philadelphia Fed Manufacturing Index DEC		-5.5	3	3
08:30 AM	US	Continuing Jobless Claims DEC/07		1886K	1890K	1885.0K
08:30 AM	US	Core PCE Prices QoQ Final Q3		2.8%	2.1%	2.1%
08:30 AM	US	Corporate Profits QoQ Final Q3		3.5%	0%	0.0%
08:30 AM	US	GDP Sales QoQ Final Q3		1.9%	3%	3.0%
08:30 AM	US	Jobless Claims 4-week Average DEC/14		224.25K		220.0K
08:30 AM	US	PCE Prices QoQ Final Q3		2.5%	1.5%	1.5%
08:30 AM	US	Philly Fed Business Conditions DEC		56.6		
08:30 AM	US	Philly Fed CAPEX Index DEC		24.90		
08:30 AM	US	Philly Fed Employment DEC		8.6		
08:30 AM	US	Philly Fed New Orders DEC		8.9		
08:30 AM	US	Philly Fed Prices Paid DEC		26.60		
08:30 AM	US	Real Consumer Spending QoQ Final Q3		2.8%	3.5%	3.5%
10:00 AM	US	Existing Home Sales NOV		3.96M	4.07M	4M
10:00 AM	US	Existing Home Sales MoM NOV		3.4%		1%
10:00 AM	US	CB Leading Index MoM NOV		-0.4%	-0.1%	-0.2%
10:30 AM	US	EIA Natural Gas Stocks Change DEC/13		-190Bcf		
11:00 AM	US	Kansas Fed Composite Index DEC		-2		5
11:00 AM	US	Kansas Fed Manufacturing Index DEC		-4		4

Market Trading Update

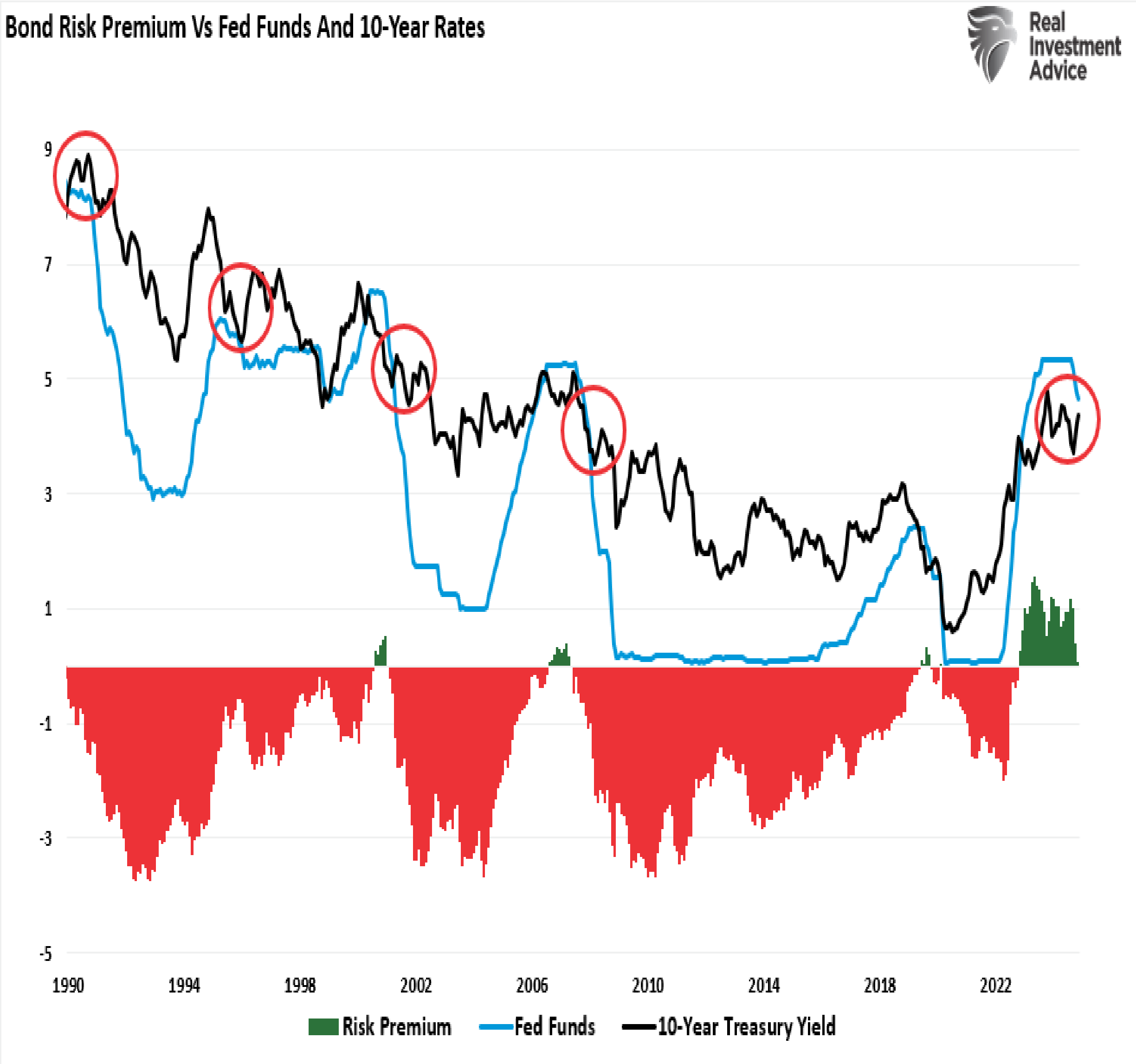
[In yesterday?s commentary](), we discussed the market?s bad breadth, which typically precedes short?to intermediate-term corrections and consolidations. Will bad breadth spoil the ?Santa Claus? rally? Maybe. But sometimes, bad breadth can take a while to stall market momentum. We will continue to monitor the market closely.

In today?s commentary, I would like to discuss the recent rise in bond yields, which have been the subject of many email questions lately. As we ***[discussed previously]()***, bond yields are tied to economic growth, wages, and inflation. However, in the short term, bond yields reflect sentiment. As we head into year-end, bonds have been under pressure as managers tax loss harvest the losses in bonds, and there are concerns about the *?stickiness?* of inflation as of late. However, in the longer term, yields will track economic growth lower, coinciding with lower inflation rates.

Two things to note are as follows. First, when the risk premium of bonds is positive, as it is now, such has historically coincided with a peak in yields.



Secondly, it is not uncommon that when the Fed begins to cut rates, bond yields rise somewhat as markets evaluate market risk. Also, historically, when the Fed started to cut rates, the economy has not yet fully reflected the slowdown in activity. However, as the Fed continues to cut rates and the economy slows, longer-term yields will follow suit. Such will be the same in the future.



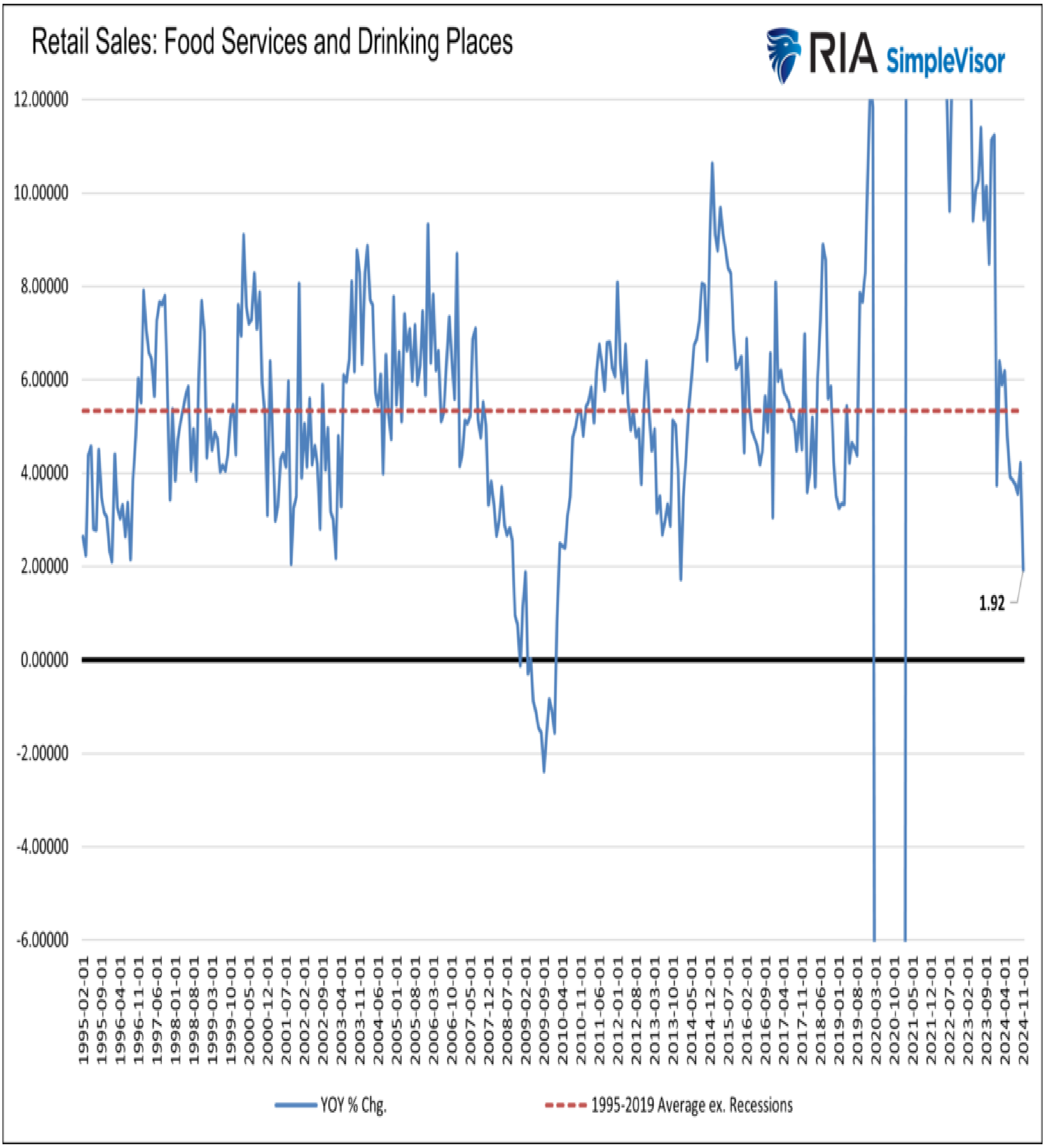
With the bond risk premium elevated, the longer-term outlook (next 24-36 months) remains very bond positive. That also inherently suggests that stocks will likely underperform over the same period as valuations correct to align with a slowdown in earnings growth.

That is just what we are watching.

A Different Twist On Consumer Confidence

Personal consumption accounts for two-thirds of economic activity. Therefore, consumer sentiment and consumers? collective desire to spend are outsized determinents in economic forecasting. Unlike surveys, which have flaws, consumer confidence is more effectively assessed by analyzing retail sales, such as where and how consumers spend their money. Within retail sales, restaurants and bars have a high correlation with confidence. Simply put, it?s easy to cut back on going out for a meal or drink if your financial confidence is lacking. Conversely, going out for dinner or drinks is common if your confidence improves.

The graph below charts retail sales of food services and drinking places since 1995. The red dotted line is the non-recessionary average from 1995 through 2019. The current annual growth in this retail sales sector is a mere 1.92%. Such is probably less than the rate of inflation for restaurants and bars. Bottom line: Consumers tell us with their wallets that they have little economic confidence. If this continues, the economy could likely slow substantially.



Global Conditions Portend A Catch-Down In America

China, Britain, Europe, and other countries and regions are experiencing sluggish economic growth and, in some cases, contraction. At the same time, the US continues its strong post-pandemic growth pace. **Has the US economy diverged from the global economy, or are a lot of economic canaries in coalmines keeling over and warning the US is soon to catch down?**

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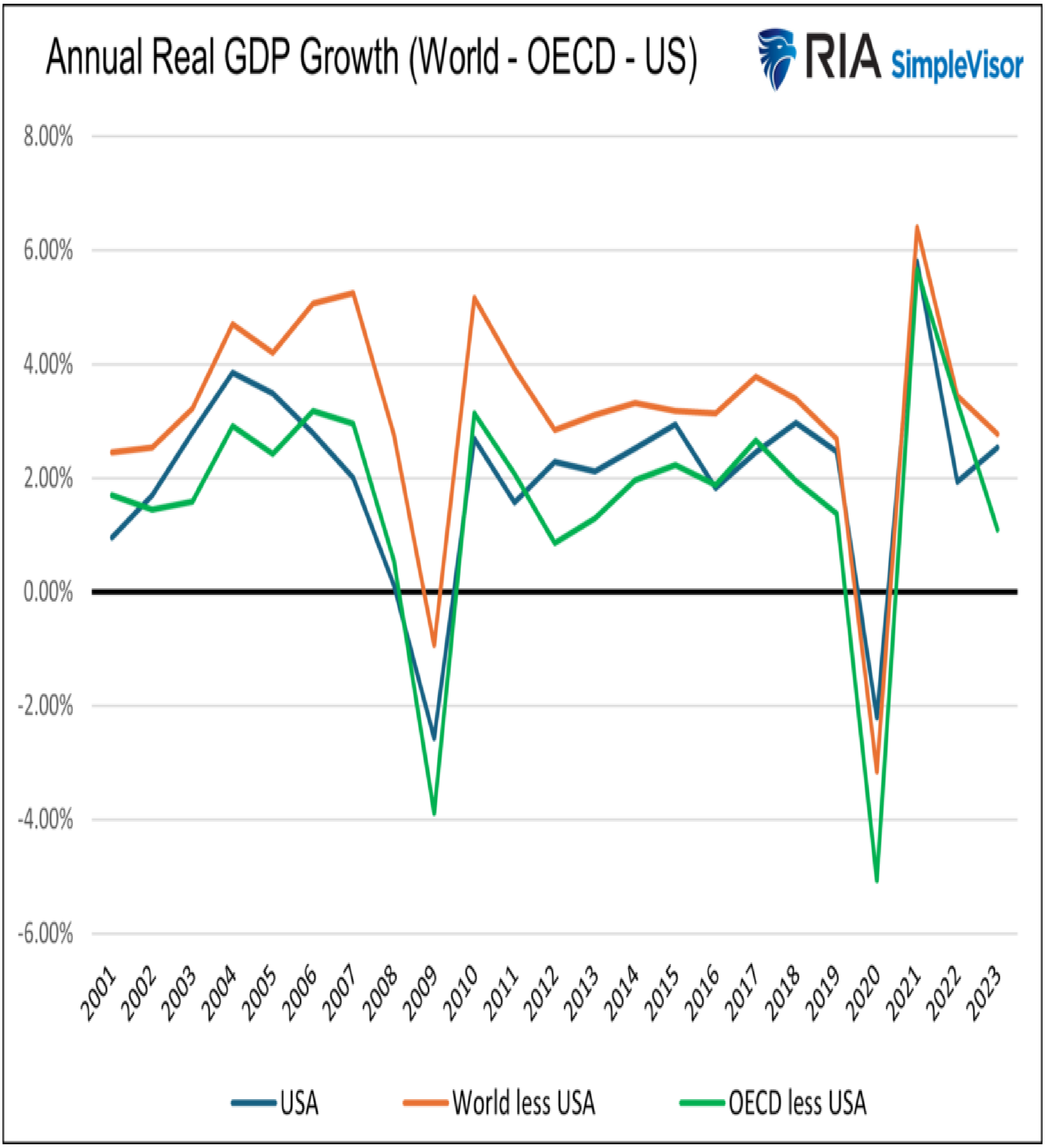

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This is interesting:

Only 32% of S&P 500 stocks have outperformed the index year-to-date.

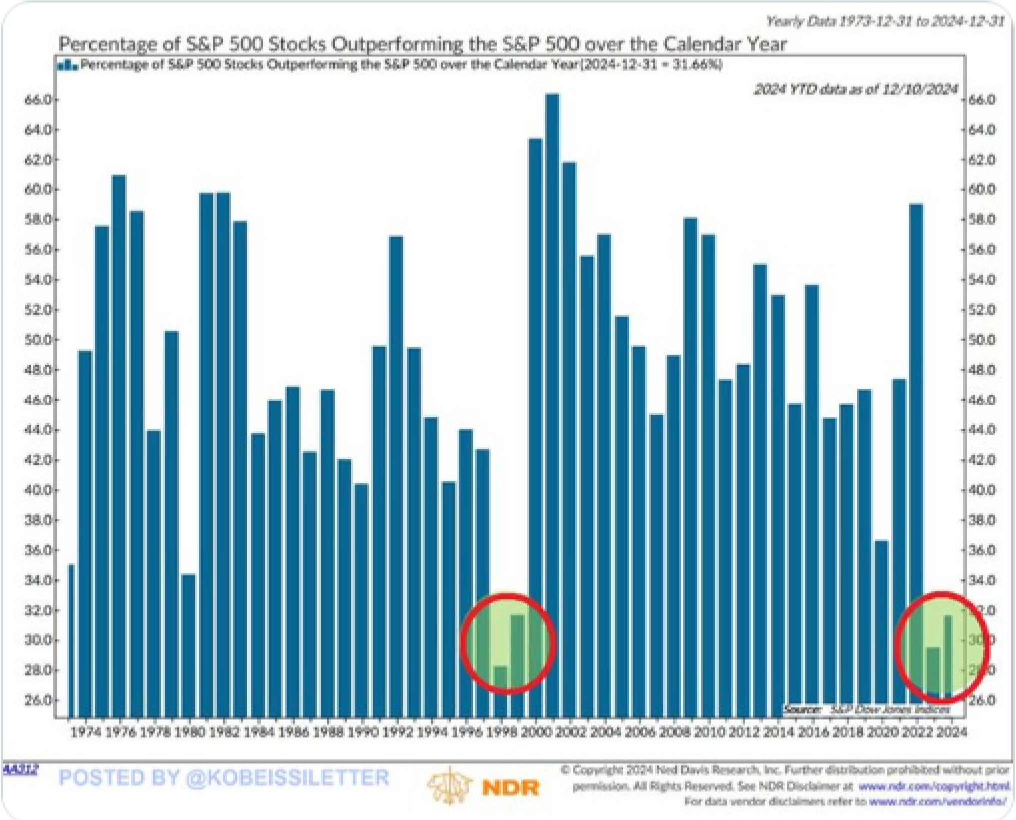
This marks the second consecutive year with such a low percentage after 29% was recorded in 2023.

Over the last 70 years, there was only one other period when such a streak occurred: in 1998-1999, before the Dot-com bubble popped.

To put this into perspective, the historical average has been ~50%.

Meanwhile, since 2023, the S&P 500 has rallied 57.6% while the equal-weighted index is up just 28.8%.

A few stocks are driving the entire market.



?Want to achieve better long-term success in managing your portfolio? Here are our [15-trading rules for managing market risks.?]()

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