



The Weekly Market Update – 12/16/24: Will a Fed Rate Cut Drive Equities Higher?

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	6,051.09	-0.64%	5.01%	26.86%	32.47%	6,090.27	0.6%
Dow Jones Industrial Average	43,828.06	-1.82%	3.54%	16.29%	21.91%	45,014.04	2.7%
NASDAQ Composite	19,926.73	0.34%	9.55%	32.74%	40.07%	20,034.90	0.5%
Russell 2000	2,346.90	-2.58%	5.24%	15.78%	29.73%	2,442.74	4.1%
MSCI EAFE (USD)	2,319.05	-1.52%	-6.06%	3.71%	9.14%	2,506.69	8.1%
MSCI Emerging Markets (USD)	1,107.01	0.18%	-5.45%	8.13%	12.15%	1,444.93	30.5%
Bloomberg Commodity Index	98.67	1.22%	-1.66%	0.03%	-3.08%	237.95	141.2%
Barclays U.S. Aggregate Bond	91.20	-1.43%	-3.02%	-0.55%	3.09%	112.07	22.9%

Source: FactSet

U.S. equity markets are choppy in December but have held fourth quarter (4Q24) gains that align with Federal Reserve Bank (Fed) interest rate cuts and the November election. With the Fed likely ready to lower its overnight lending fed funds target by an additional 0.25% this week (to a range of 4.25% to 4.50%), investor sentiment remains positive. Prior to 9/18/24 (the first Fed rate cut this cycle), the fed funds target was 5.25% to 5.50%. On 9/17/24, the S&P 500 equity index closed at 5,635, and on Friday, 12/13/24, closed at 6,051 (up +7.4% since the first Fed rate cut). Equities posted gains following the Fed moves in September (-0.50% rate cut on 9/18) and November (-0.25% cut on 11/7) as investors believe lower interest rates can stimulate economic growth. In addition, between the September and November Fed rate cuts, the election results on 11/5 added to equity market gains as investors link an incoming Trump Administration to further economic growth driven by a reduced regulatory environment and lower taxes. As of 12/16/24, in 4Q24 to-date, the S&P 500 gained +5.0% on a price basis (not including dividends), but the index closed lower (-0.6%) last week for the first time in four weeks. A modest decline within a market uptrend is not unexpected, but recent weakness was more pronounced for many sectors. Last week, the technology- and growth-centric groups (Communication Services, Consumer Discretionary, and Technology) were the only S&P 500 sectors to beat the index, and in the fourth quarter, amid the index's +5.0% gain, five sectors have traded lower (Health Care, Materials, Real Estate, Utilities, and Energy). We believe that a Fed rate cut this week could renew interest in cyclical sectors, driving investor attention back to broader sector exposure. Looking to 2025, we see improved relative performance from the "average" stock.

November inflation data met expectations, but the trend of improving (lower) reports has stalled. According to the Bureau of Labor Statistics (BLS), the November Consumer Price Index (CPI) increased +2.7% year-over-year (Y/Y), matching the FactSet consensus estimate. This was the second consecutive higher month Y/Y, since dropping to +2.4% in September. The November core CPI (excludes food and energy prices) was +3.3% Y/Y and has been stuck at +3.3% or +3.2% for six consecutive months (since June 2024). We also watch the month-to-month (M/M) data to evaluate recent trends, and M/M core CPI was +0.3%, unchanged for four months. That suggests that M/M inflation annualized (multiply by 12) is +3.6%, running a bit hotter than the Y/Y report. Individual categories contributing to higher M/M prices included shelter (mostly rent), hotels, medical care, drugs, used cars, and groceries. While the inflation data was in-line with FactSet consensus estimates, the Y/Y inflation number has stalled at around +3.0%, above the Fed's +2.0% target. We believe that inflation can trend lower in 2025, but that could change if better economic growth drives higher prices. Last week, the U.S. 10-year Treasury yield moved to 4.40%, its highest level since just after the election, an indication that bond investors are monitoring inflation trends closely.

The last full trading week of 2024 includes a heavy schedule of economic data, helping to shape understanding of 4Q24 U.S. growth in gross domestic product (GDP), which has exceeded expectations. Key GDP components, November retail sales (consumer) and housing starts (construction), are due, as well as personal income (wages) and spending (also consumer). On Friday, the Fed will watch the personal consumption expenditures (PCE) price index, its preferred report to measure consumer inflation.

James D. Ragan, CFA
Co-CIO, Director of Investment Management & Research
(206) 389-4070
jragan@dadco.com

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The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics (the most recent report can be found at [bls.gov/cpi](https://www.bls.gov/cpi)). The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE).

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. The "neutral" fed funds rate, is not a known number but is an estimate of the interest rate level that is neither accommodative or restrictive for the U.S. economy.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at <https://www.bea.gov/data/gdp/gross-domestic-product>.

The U.S. Census reports annualized monthly data on housing starts, permits, and completions. It is a widely followed measure to track construction activity in the residential housing market. New home sales measures sales of new single-family homes and is a measure of the demand for housing. The Advance Monthly Sales for Retail and Food is reported monthly by census.gov. The survey measure sales at retail establishments, providing data in sales of merchandise and services. Personal Income and Outlays is compiled by the Bureau of Economic Analysis (BEA). Personal income is the income received by, or on behalf of, all persons from all sources, but does not include capital gains. Personal outlays is the value of the goods and services purchased by persons in the United States, as well as interest and transfer payments.