

OBSERVATIONS

- Markets traded higher last week after the Federal Reserve's rate cut (see One More Thought) with the S&P 500 gaining +1.4% and notching a new record high last Thursday, while small caps (Russell 2000) also gained +2.1%. Meanwhile the yield on a 10-year Treasury climbed +9 basis points to 3.74%.¹
- Retail sales were mixed in August, but broadly in line with market expectations. The headline retail sales figure increased +0.1% month-over-month (MoM), which was ahead of expectations (consensus was -0.1% MoM), but retail sales less autos and gas came in just below expectations at +0.2% MoM—consensus was +0.3% MoM. Meanwhile the strong retail sales numbers for July were revised higher to +1.1% MoM.¹
- Industrial production improved in August gaining +0.8% MoM although the decline for July was revised downward to -0.9% MoM. Capacity utilization increased in August to 78.0% with the gains being led by mining and manufacturing sectors.¹
- Housing starts moved up sharply in August increasing +9.6% MoM from July to 1.356 million (annualized rate). Compared to last year housing starts are +3.9% higher than in August-2023. New housing permits also increased in August to 1.475 million (annualized rate), which was +4.9% MoM higher than in July.¹
- Conversely, existing home sales underwhelmed in August, falling -2.5% MoM from July to 3.86 million (annualized rate)—existing home sales fell in the South, West, and Northeast regions, while the Midwest registered no change. Compared to last year, existing home sales are down -4.2% year-over-year (YoY).¹
- Initial unemployment claims fell to 219k new claims last week—a -22k drop from the previous week's figure—but were about +8k claims higher than the same week last year.¹

EXPECTATIONS

- After cutting its policy interest rates for the first time in four years by 0.25% in early August, the Bank of England (BOE) made no changes to its policy rate last week noting that services inflation remains elevated in the UK. The central bank indicated it would take a "gradual approach" to further easing, while markets are generally looking for another 0.25% cut in the BOE's November meeting.²
- Congress failed last week to pass a stop-gap funding bill to provide monies to keep the government open after 30-September—the end of the government's fiscal year. Nonetheless, we still expect Congress to finalize a last-minute temporary funding bill that will avoid a partial government shutdown—at current spending levels—until early-2025 at which point the newly elected Congress will have to grapple with the FY2025 budget as well as raising the debt ceiling.³

ONE MORE THOUGHT: The Fed Cuts Rates by -50 Basis Points—Policy Recalibration Begun^{1,4}

All eyes were on the Fed last week and they did not disappoint. After one of the longest policy rate pauses in the last 50 years, the Fed finally cut rates last week, reducing the Fed Funds Policy Rate by -50 basis points (bps). The -50bps move was partially an attempt by the Fed to get ahead of any further softening of the US labor market and Chairman Powell acknowledged during his post-Fed meeting press conference that had they received the weaker than expected July jobs report before the mid-summer meeting they might have begun lowering rates at that time. However, Powell stated the Fed judged the labor market to be stable and that overall economic growth was solid.

¹ Bloomberg LP, 9/20/2024

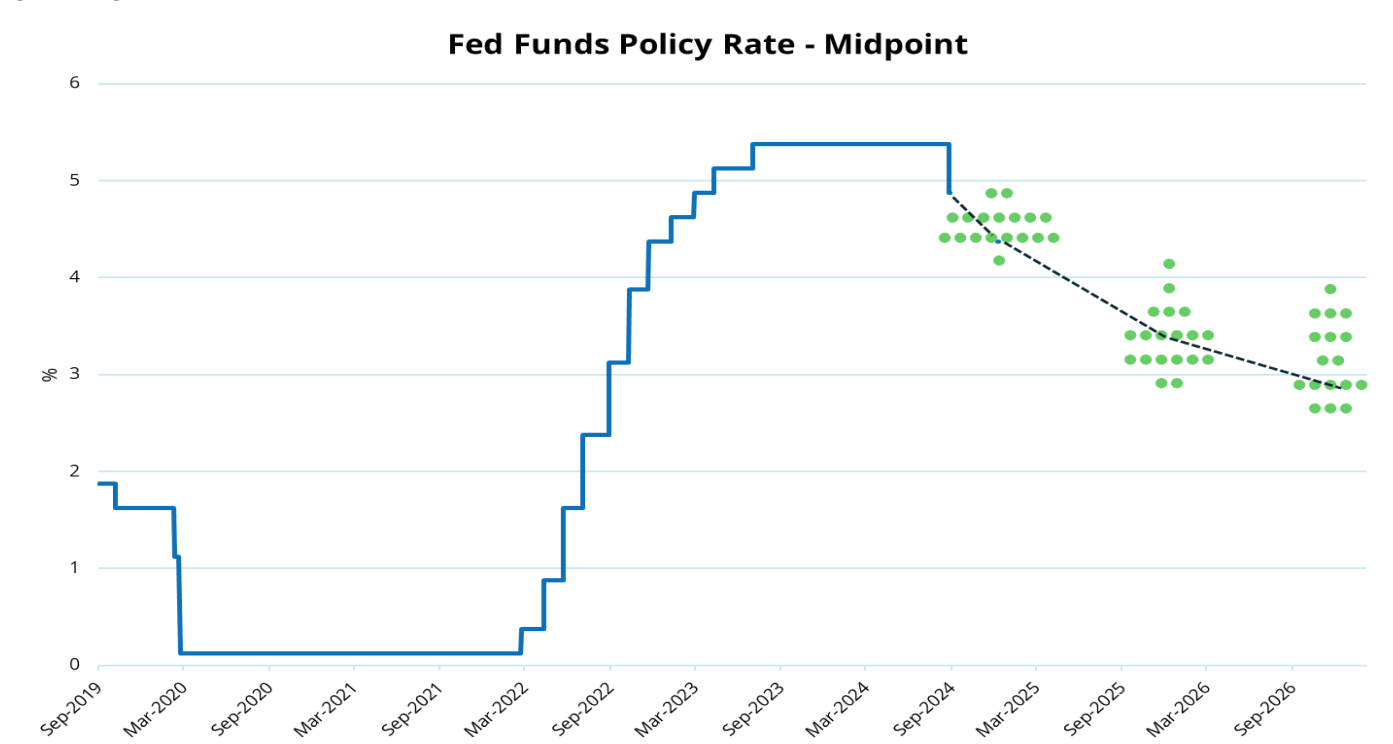
² <https://www.cnn.com/2024/09/19/bank-of-england-september-rate-meeting.html>

³ https://www.wsj.com/politics/policy/republican-divisions-sink-house-bill-as-government-shutdown-nears-dfc8454e?mod=politics_lead_pos4

⁴ The Fed - Meeting calendars and information ([federalreserve.gov](https://www.federalreserve.gov))

Thus, the Fed emphasized that -50bps cuts should not be interpreted as the new pace of Fed policy going forward, but as the start of a recalibration of Fed policy. The move was not unanimous—one Fed official voted for only a -25bps cut. Dissenting votes have been rare during Powell’s Fed Chairmanship, and this was the first dissent since mid-2022. The Fed meeting also provided a new set of economic projections by individual Fed officials which showed that the median official expects two additional -25bps cuts before the end of 2024. Additionally, at this point in time, Fed officials currently expect another four -25bps cuts by the end of 2025. Markets had not fully priced a Fed cut of -50bps last week—in fact cuts of this magnitude typically coincide with obvious economic weakness (spiking unemployment and falling growth metrics). As a result, markets moved higher as Powell seems to be steering the US economy further along the path of soft landing—a few quarters of sub-trend (but still positive) economic growth—while still lessening inflationary pressures. Soft landings are historically rare—the Fed has managed just one such outcome in the last 60 years during the 1994-1995 period—and are uncomfortable to live through. If the Fed eases rates too slowly the economic growth could sputter, but if it lowers rates too aggressively inflation could rebound. The Fed’s path is narrow, but so far it has succeeded where others have failed.

CHART OF THE WEEK



Source: Clearstead, Federal Reserve, Bloomberg LP, 9/20/2024

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