OBSERVATIONS

- Markets traded lower last week amid mixed economic data and the Fed's rate decision (see Expectations); the S&P 500 lost -2.0% while small caps (Russell 2000) lost -4.4% and the yield on the 10-year treasury gained +12 basis points to end the week at 4.52%.[1]
- Retail sales grew by more than expected in November, largely due to strong automotive sales, increasing +0.7% month-over-month (MoM) and retail sales in October were revised slightly higher.[1]
- In contrast, industrial production declined -0.1% MoM in November—analysts had been expecting a monthly gain—and October's industrial production figures were also revised lower.[1]
- New housing starts also disappointed in November coming in at 1.289 million (annualized rate), which was down -1.8% MoM from October's housing start level. New housing permits increased sharply by +6.1% MoM in November to 1.505 million (annualized rate) compared to October's permitting figure.[1]
- Existing home sales came in better than expected at 4.15 million units (annualized rate) in November, which was a +4.8% MoM increase from October's sales level (3.960 million units).[1]
- Initial unemployment claims declined to 220k last week—a decrease of -22k from the week prior—and remain low and on-par with claims from the same week last year.[1]
- The PCE price index—the Fed's preferred gauge of inflation—came in better than expected in November, increasing only 0.1% MoM and registering 2.4% year-over-year (YoY). Core PCE, which excludes food and energy was in line with expectations and remained steady at 2.8% YoY—the same as in October.[1]

EXPECTATIONS

- **Research Corner will take a break for the winter holidays and return on Monday 6-January-2025!** Wishing everyone happy holidays this December and a joyous 2025!
- The Fed cut its main policy rates by -25 basis points last week—which was well anticipated by the markets—but set the stage for a rate cutting pause at their next meeting in late Jan-2025 and only signaled two additional cuts are likely in total next year (see Chart of the Week) as progress towards their 2% inflation target has slowed in recent months.[2]
- Congress passed a stop-gap funding bill just hours before its 20-December deadline averting a government shutdown. The new budget bill extends government funding until mid-March-2025 at which point the newly elected Congress will have to fund the remainder of the 2025-fiscal year and raise the debt limit.[1]

ONE MORE THOUGHT: Fed's Hawkish Rate Cut Roiled Markets[2]

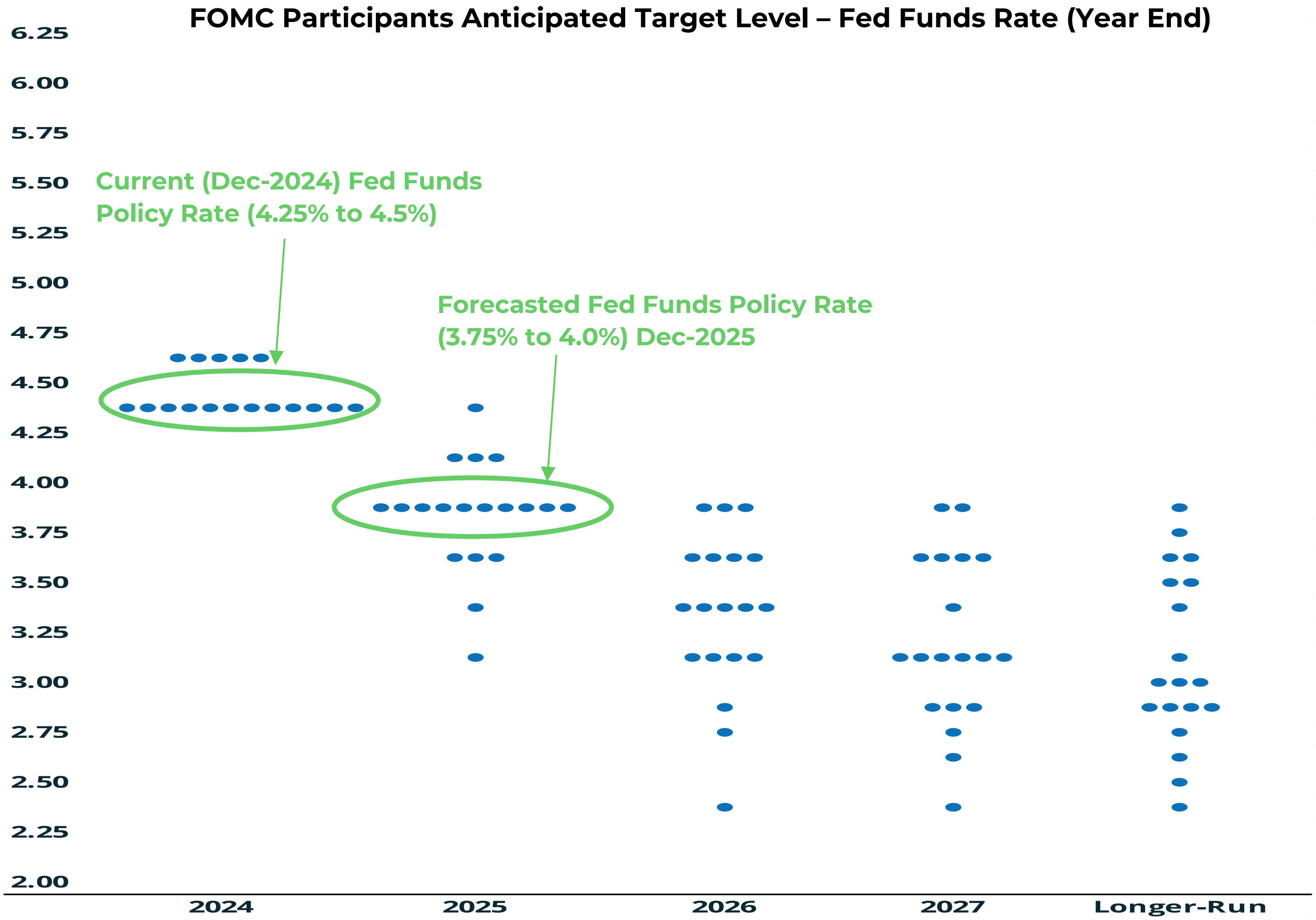
After the Fed's -25 basis point rate cut, markets walked back expectations for rate cuts in 2025 and began to digest the possibility that inflation will prove stickier in 2025 than initially anticipated by the Fed. While taking questions after the Fed's rate decision, Fed Chairman Powell indicated he felt it was a low probably that the Fed would have to pivot next year and actually raise rates due to lingering inflation pressures, but highlighted the possibility that rates are held steady next year and that no additional rate cuts would be warranted. The notion that no additional interest rate cuts would be forthcoming next year—even though Powell noted that this was not the Fed's base case for 2025—roiled markets. After weeks of low volatility and steady gains, markets sold off sharply last Wednesday, beginning just minutes after the Fed's decision was announced. The S&P 500 lost almost -3% on Wednesday afternoon alone and the yield on the 10-year Treasury jumped almost 10 basis points the same afternoon. More

[1] *Bloomberg LP, 12/20/2024*

[2] *https://www.federalreserve.gov/ 12/18/2024*

rate sensitive areas of the market saw the steepest declines, such as small cap stocks, Financials and Real Estate stocks. Markets stabilized on Thursday and Friday of last week, but it looks unlikely that a Santa Claus rally will be in the cards for this year. Still as of last Friday, with only six trading days left in 2024 and trading volumes set to decline until early January, the S&P 500 has returned +26.0%—which would be in the top-quartile of best annual returns since WWII. Overall, markets are likely to enter 2025 with volatility returning to normal levels and the S&P 500 within a few percentage points of its early December all-time high.

CHART OF THE WEEK



Source: US Federal Reserve 12/18/2024

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