Monday, June 17, 2024

SUMMARY-

I. Growth stocks rally on lower inflation data.

II. Fed adjusts rate cut forecast but keeps end result the same.

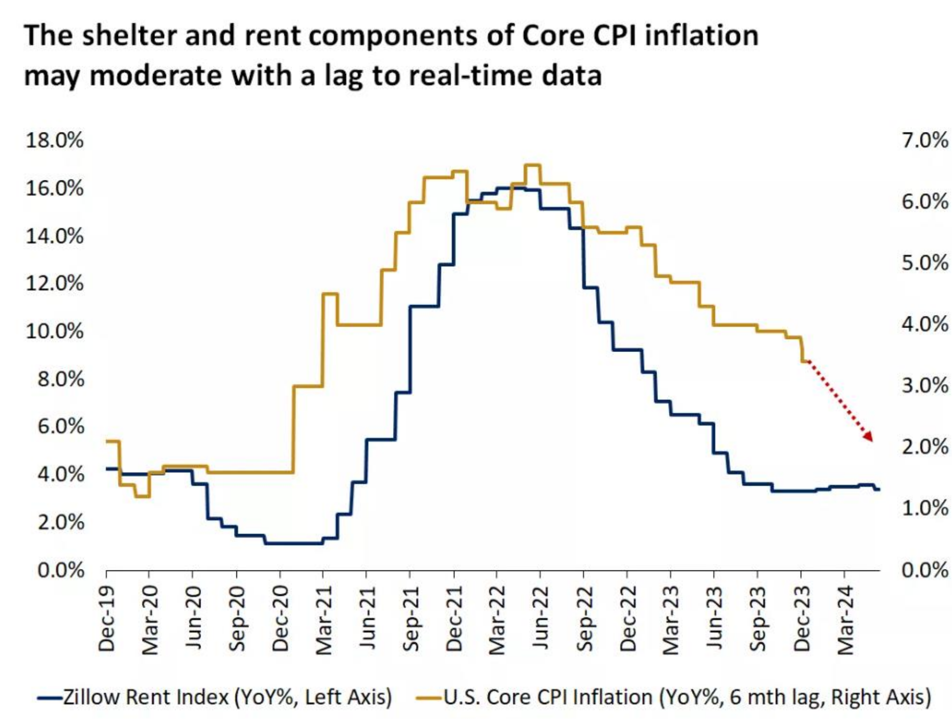
III. Soft landing scenario formally predicted by Federal Reserve.

IV. Consumer sentiment falls as persistent inflation takes its toll.

Good morning:

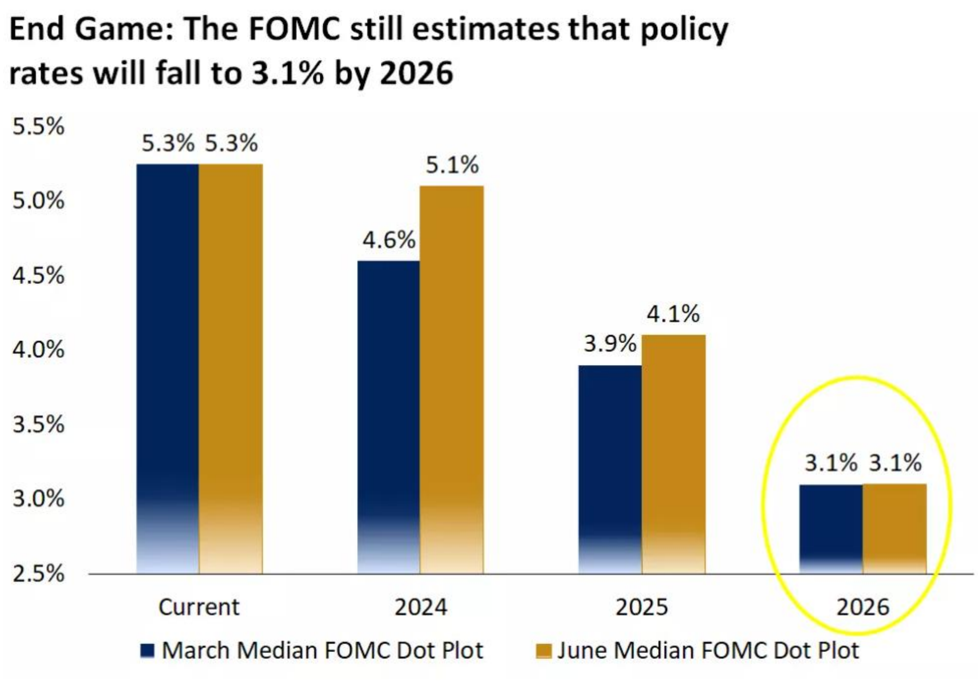
The S&P 500 and the NASDAQ recorded their seventh positive week out of the past eight, with both indices pushing their record levels higher. The NASDAQ posted a 3.3% total return while the S&P 500 added 1.6%, while the Dow was an outlier with a 0.5% decline. Markets were celebrating positive news from new inflation data, as well as the June FOMC meeting against a backdrop of continued excitement relating to the future of artificial intelligence for key technology companies and the economy at large.

The U.S. Consumer Price Index (CPI) and Producer Price Index (PPI) inflation readings for May both came in a bit lower than expected. CPI inflation was helped by flat food prices and lower energy prices last month, in addition to a fall in new car prices and airline fares. The overall headline CPI inflation came in at 3.3% year-over-year, below expectations and last month's 3.4%. Core inflation, which excludes food and energy, was 3.4% in May, below forecasts of 3.5% and last month's 3.6%. After several hotter-than-expected inflation readings for the first three months of the year, the May CPI data was a welcome shift and appeared to confirm that inflation is not re-accelerating. However, many economists expect the Fed will want to see at least two to three better inflation readings before signaling any potential rate cut in the coming months. Chairman Powell noted in last week's press conference the potential drivers that could move inflation closer to the Fed's 2.0% target. 1) Shelter and rent components of the CPI basket moderating, especially given real-time data has already slowed; and 2) Services inflation potentially moderating as the labor market cools and wage growth slows. While inflation may not decline in a straight line, as we have seen so far this year, if the Fed is correct, the path of disinflation could continue in the months ahead, giving them more comfort to signal rate cuts.



Source: Bloomberg.

The updated Fed “dot plot” of future rates and policy actions was presented at last week’s FOMC meeting. The March dot plot had predicted three rate cuts in 2024, while the latest version now only sees one by the end of this year. However, despite the pace of upcoming rate cuts clearly slowing, their end result remains unchanged. Over the next 12-36 months, the dot plot still points to a terminal Federal Funds rate of 3.1%. This is a decline of more than 200 basis points from the current level and would require 8-9 quarter point rate cuts by the Fed to be reached. If this projection comes to fruition, it will create a generally favorable backdrop for both the equity and fixed income asset classes, and its anticipation has been fundamental to the current bull market’s rise since the Fed paused their hikes in last summer.



Source: FOMC June 2024 Summary of Economic Projections.

If inflation continues to moderate as expected, the Fed also formally made the case that the economy is headed for a soft landing. They believe U.S. GDP will remain at or above 2.0% and unemployment will not exceed 4.2% through 2026. Expectations that AI will help drive productivity, earnings, and economic growth in the coming years are also helping support the soft landing narrative and the equity market's move to new highs.

The Fed outlines a "soft landing" for the U.S. economy:

FOMC Projections, June 2024	2024	2025	2026
Change in Real GDP (YoY %)	2.1%	2.0%	2.0%
Unemployment rate	4.0%	4.2%	4.1%
PCE inflation (YoY %)	2.6%	2.3%	2.0%
Core PCE inflation (YoY %)	2.8%	2.3%	2.0%

Source: FOMC June 2024 Summary of Economic Projections.

Meanwhile, a variety of other mixed data last week showed that challenges and risks remain, as is always the case. Friday's preliminary reading from the University of Michigan's consumer sentiment survey fell to the lowest level in seven months, likely on persistent inflation concerns and slower wage growth. European large-cap stock averages also fell in the wake of European Parliament election results. However, the World Bank lifted is full-year 2024 outlook for global economic growth.

Thanks to an improved U.S. outlook, the bank now expects global GDP to come in at 2.6%, up from its 2.4% estimate in January.

As a reminder, our office and all financial markets will be closed this Wednesday, June 19th, in observance of the Juneteenth holiday. Have a great week and a happy and healthy start to the summer!

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Market return and statistical data obtained from: https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US

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