BULL & BEAR Bulletin

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Rate Cuts? Not So Fast.

The stock market has enjoyed a significant rally since the December 13, 2023 Federal Open Market Committee meeting press conference, when it was declared that further rate hikes were not necessary and projections of three rate cuts in 2024 are expected via the Federal Reserve's (Fed) dot plot. As of this writing, the market has begun a 6.96% total return run, driven by market expectations for six rate cuts in 2024 with the cuts beginning in March. At the Fed's January 26, 2024 press conference, Fed Chairman Jerome Powell began putting some cold water on talk of March rate cuts, declaring that the economy was still running strongly and that the Fed's 2% inflation target had not yet been met. The Fed wants to see more data supporting cooling inflation and a stable employment environment.

The February 2, 2024 employment report was received with headlines of "blockbuster," because the economy added 353,000 jobs, which was 117,000 higher than expected. Average hourly earnings rose 0.6%, another strong showing. This triggered a backup in interest rates, as the bond market believes rate cuts will be more muted. The unemployment rate remained at 3.7%, which is another measure Powell uses as an indicator. The jobs report will likely be used as an easy excuse for the Fed to declare for "data dependent" reasons that rate cuts in March are unwarranted.

The "strong" jobs report has many weak points that would favor eventual rate cuts. The average hours worked per week fell to 34.1, which is the lowest measure since the peak of the pandemic. Another weak point was the increase in part-time workers while full-time workers decreased, which has been a good indicator of a possible recession. The prior two months of jobs reports were also revised down meaning November and December job markets were not as strong as initially reported. The vast majority of states also reported higher unemployment rates. Lastly, since this was a January report, it underwent a seasonal adjustment which, if one looks at prior years, makes the report more likely to be significantly revised in the future.

When compared to March, May is a more likely start to Fed rate cuts. The stock market will likely have to adjust its expectations for rate reductions that begin later in the calendar and a higher probability of fewer cuts than were initially expected.

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