

Another Winning Week After Outsized Rate Cut

It was another strong week for stocks..



Early in the week, gains were fueled by optimism about the Fed cutting rates by 50 basis points. The Fed delivered and gains continued until Friday, when the market closed flattish as participants digested the solid run in equities. Friday's session was also a "quadruple witching" quarterly expiration of stock options, index options, single stock futures, and index futures.

The Federal Open Market Committee (FOMC) voted in favor of cutting the target range for the fed funds rate by 50 basis points to 4.7%-5.00%. It was not a unanimous vote. Fed Governor Bowman preferred a 25-basis points rate cut.

The directive indicated that the Committee has "gained greater confidence that inflation is moving sustainably toward 2 percent, and judges that the risks to achieving

its employment and inflation goals are roughly in balance."

The Summary of Economic Projections showed a shift in the median estimate for the 2024 unemployment rate to 4.4% (from 4.0% in June) and a downward shift in PCE inflation to 2.3% (from 2.6% in June) and core-PCE inflation to 2.6% (from 2.8%). The dot-plot, meanwhile, shows a median estimate for 2024 (4.40%) that implies another 50 basis points of rate cuts this year and another 100 basis points in 2025.

Fed Chair Powell defended the larger, 50-basis points cut as a proper "recalibration" to make sure the labor market and the economy remain in a solid condition and that the intent of the more aggressive move is to make sure they remain there. He also said that the Fed doesn't feel like it is behind the curve with its policy rate and that the larger cut can be construed as a sign of the Fed's commitment not to get behind.

This thinking drew in buyers, along with a fear of missing out on further gains. The S&P 500 and Dow Jones Industrial Average reached fresh record highs in the wake of the Fed's latest decision.

This week's data largely corroborated the market's thinking that the Fed can orchestrate a soft landing for the economy. Retail sales and industrial production were both stronger than expected in August, weekly jobless claims remain steady below recession-like levels, and the Philadelphia Fed Index tipped back into expansion (i.e. above 0.0 reading) in September.

Only three S&P 500 sectors settled lower. The defensive-oriented health care (-0.6%) and consumer staples (-1.2%) sectors were among the laggards.

Meanwhile, the energy (+3.8%), communication services (+3.7%), and financial (+2.4%) sectors were the top performers.

- S&P 500: +1.4% for the week / +19.6% YTD
- Nasdaq Composite: +1.5% for the week / +19.6% YTD
- Dow Jones Industrial Average: +1.6% for the week / +11.6% YTD
- S&P Midcap 400: +2.3% for the week / +11.6% YTD
- Russell 2000: +2.1% for the week / +9.9% YTD

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