

## Rate Cuts Are Coming... But How Many?

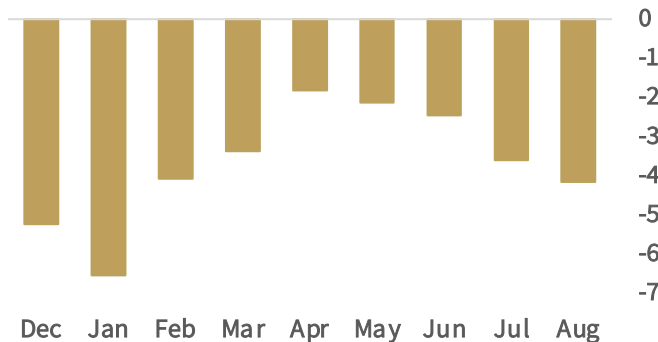
Last Friday in Jackson Hole, Federal Reserve Chair Jerome Powell made clear that the Federal Reserve will move its target interest rate lower next month. This move will come after the Federal Reserve has held its target rate at a range of 5.25% to 5.50% for over a full year. During this period, the U.S. economy posted an average GDP growth of 3%, inflation receded closer to the Federal Reserve's 2.0% target, and monthly payrolls grew by an average of 207,000 per month.

Why act now? On August 2<sup>nd</sup>, the BLS released its report on July payrolls, which slowed weaker job growth, slowing wage growth, and increasing unemployment. That report heightened the Federal Reserve's sensitivity to the job market and turned its attention from taming inflation to promoting maximum employment. As Chair Powell noted on Friday, Federal Reserve officials "do not seek or welcome further cooling in the labor market."

Since the July payrolls report and Chair Powell's speech, investors have renewed their confidence that interest rates will fall sharply. This confidence implies that the job market will continue to slow. Over the next few weeks, reports on the labor market will command investor attention—particularly the August jobs report released on September 6<sup>th</sup>. While rate cuts are certainly coming, the extent to which those cuts match investor expectations will depend on how the job market unfolds.

### CHART OF THE WEEK

Implied Number of 0.25% Interest Rate Cuts in 2024



Source: Bloomberg, World Interest Rate Probabilities, Fed Funds Futures

Index Returns (%)						
Equities	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.
S&P 500	5617	0.17	3.06	18.82	29.36	9.31
Russell 1000 Growth	3677	-0.68	0.29	21.05	35.12	9.20
Russell 1000 Value	1828	1.32	6.69	13.76	21.44	6.68
FTSE High Dividend Yield*	441	1.10	6.14	14.45	22.18	8.66
S&P Small and Mid Cap	17287	1.71	6.57	10.84	21.14	4.48
MSCI EAFE	2439	1.85	5.69	11.79	22.69	4.67
MSCI EM	1104	0.12	2.40	10.22	17.01	-1.67

\* Bloomberg U.S. Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Fixed Income						
	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.
U.S. Aggregate	4.36	0.46	4.27	3.53	8.80	-1.96
U.S. Int. Gov/Credit	4.11	0.42	3.22	3.73	8.04	-0.30
U.S. Corporates	4.88	0.48	4.56	4.05	11.00	-1.92
High Yield	7.28	0.60	3.55	6.22	13.55	2.60
Municipals (1-10)	2.98	0.30	1.94	1.15	5.00	0.13

Key Rates						
	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago
2-yr Treasury	3.94	3.99	4.76	4.25	5.05	0.22
10-yr Treasury	3.82	3.81	4.40	3.88	4.21	1.31
30-yr Treasury	4.11	4.06	4.56	4.03	4.28	1.92
3-mo. LIBOR	5.34	5.38	5.59	5.59	5.67	0.12
6-mo. CD rate	4.86	4.94	5.42	5.28	5.78	0.11
Prime Rate	8.50	8.50	8.50	8.50	8.50	3.25
30-yr fixed mortgage	6.85	6.88	7.26	6.99	7.54	3.08

Index Characteristics					
NTM P/E	NTM P/E (20Y med)	NTM P/S	NTM P/S (20Y med)	Div. Yld	
23.5	16.8	3.0	1.7	1.3	
31.4	19.8	5.4	2.0	0.6	
18.4	14.9	1.9	1.4	2.0	
14.0	14.3	1.7	1.6	3.9	
18.6	19.0	1.3	1.2	1.6	
15.0	14.7	1.5	1.1	3.0	
13.1	12.6	1.4	1.3	2.6	

Levels					
Currencies	Last	1 Wk Ago	Prev YE	3 Yrs Ago	
DXY	100.56	101.44	101.33	92.69	
\$ per €	1.12	1.11	1.10	1.18	
\$ per £	1.33	1.30	1.27	1.38	
¥ per \$	143.97	145.26	141.04	109.84	

Levels					
Commodities	Last	1 Wk Ago	Prev YE	3 Yrs Ago	
Oil (WTI)	75.72	73.17	70.98	56.67	
Gasoline	3.35	3.40	3.12	3.15	
Natural Gas	1.91	2.20	2.51	4.37	
Gold	2525	2514	2063	1818	
Copper	9173	9086	8464	9424	
Wheat	508	533	628	719	
BBG Index	231.05	228.56	226.43	205.75	

### LAST WEEK IN REVIEW

- **FOMC Minutes:** Officials indicated readiness to reduce begin reducing interest rates in September.
- **BLS Payroll Revisions:** Trailing 12-month payrolls, ending in March 2024 were revised lower by 818K or 68K per month.
- **S&P Flash PMIs (August):** Continued contraction in manufacturing (48) offset by services (55).
- **Existing Home Sales (July):** Increased 1.3% in July, helped by lower mortgage rates.

### THIS WEEK

- **Durable Goods (July):** 8/27
- **S&P CS Home Price Index (June):** 8/27
- **CB Consumer Confidence (Aug.):** 8/27
- **Retail & Wholesale Inventories (July):** 8/28
- **Personal Income, Spending, PCE Inflation (July):** 8/30

### S & P SECTOR RETURNS

