

BULL & BEAR *Bulletin*



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Rate Cut Odds Keep Getting Pushed Back

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The stock market has added another 12% of returns following last year's strong performance, partially fueled by expectations of eventual rate cuts by the Federal Reserve. Stronger than expected data on the economy continues to push back when cuts will occur. Some even argue that a rate hike has a very small, but real possibility if inflation continues to persist.

The June 7, 2024 employment report all but eliminated hopes for a July rate cut because the economy added 272,000 jobs, which was 82,000 higher than expectations. Average hourly earnings rose 0.4%, one-tenth hotter than expectations and another strong showing. Job gains were concentrated within healthcare, hospitality & leisure and government sectors. Average hours worked per week were unchanged and in-line with expectations and has improved over the past quarter. This triggered a backup in interest rates, as the bond market believes rate cuts will be more muted for the year.

Unemployment did move up to 4% versus expectations of 3.9% and is certainly higher than the 3.7% from earlier in the year. The unemployment rate was one of the few weak data points.

Looking at the futures market, odds of a September rate cut fell to 55%, while November stood at 68% and July fell to 9%. These odds also factor in the past few months of hotter inflation prints that have stubbornly persisted. Government spending through the Inflation Reduction Act, Chips Act and Infrastructure Act is pumping hundreds of billions of dollars into the economy, preventing the Federal Reserve from reaching its goal of 2% inflation.

When taking the data in total, a September rate cut remains at best a coin toss while a November cut looks like the highest probability. Market participants were arguing how many rate cuts would happen in 2024; now a valid argument can be made whether there will be any rate cuts in 2024?

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