Are Stock Markets & The Fed On A Collision Course?

With Christmas being next week, we will not be sending a commentary as we hope you will be enjoying the holiday with family and friends instead of reading emails. That said, I did want to share some insights that Barrons published recently regarding the Fed. rate cuts and their potential impact on the stock markets going into 2025. There are really two key takeaways to consider:

1. While the Federal Reserve is still expected to reduce the Fed Funds rate by another 0.25% on December 18th, inflation still remains above their target goal and has even accelerated recently, which does not bode well for future rate cut expectations.
2. The S&P is on target to gain more than 20% for a second consecutive year. When this has happened in the past, the results for a strong third year are mixed. The article explains that "back in the 1990s, there was a **strong third year**. It may happen again, but the rally is still vulnerable to a hangover from elevated expectations and pushback from the Fed".

So, what does all of this mean for us in 2025? Simply put, hope for another strong year but also stay somewhat defensive and manage our expectations. If you want to read the full article, I've included it below.

Please reach out if you have any questions or would like to discuss further. Otherwise we hope you have a wonderful holiday season and a happy new year!

Stock Markets and Fed Are on a December Collision Course. Why This Rally's at Risk and 5 Other Things to Know Today.

The hallmark of November was optimism about how much tax cuts and lighter regulation from President-elect Donald Trump might **help companies**, with the S&P 500 and Dow Jones Industrial Average enjoying their **best performance** of the year. But that was last month and traders are facing a different outlook now.

That starts with the Federal Reserve. It was a huge relief when the central bank started lowering interest rates, but it's already getting to the point where every decision is a tough call—and there's a chance rates don't have much further to fall.

Look at it from the Fed's perspective. Chair Jerome Powell has said the labor market is just as important as inflation for policymakers now. Friday is jobs day, and economists expect a rebound in nonfarm payrolls in November after a weak gain in October. The unemployment rate is still historically low.

On top of that, inflation is still well above the Fed's target and even accelerated at its last reading. Just taking the data at face value, it's not clear that the Fed should be lowering borrowing costs now.

Of course, traders still expect another quarter-point reduction at the Dec. 18 decision. That's because rates have been coming down a lot over the past two years and there are still signs of slightly softer economic growth. Market expectations may not be wrong, but it's not a straightforward decision.

Earnings this week will take the pulse of the consumer. Discounters Dollar Tree and **Dollar General**, cosmetics firm **Ulta Beauty**, grocery store **Kroger**, and clothes retailer **Lululemon Athletica** are all **due to report**.

The S&P is looking to gain more than 20% for a second consecutive year. When that happens, historically the **track record** of the year that follows is mixed. Back in the 1990s, there was a **strong third year**. It may happen again, but the rally is still vulnerable to a hangover from elevated expectations and pushback from the Fed.

—***Brian Swint***

Thank you,

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