# Financial Markets This Week

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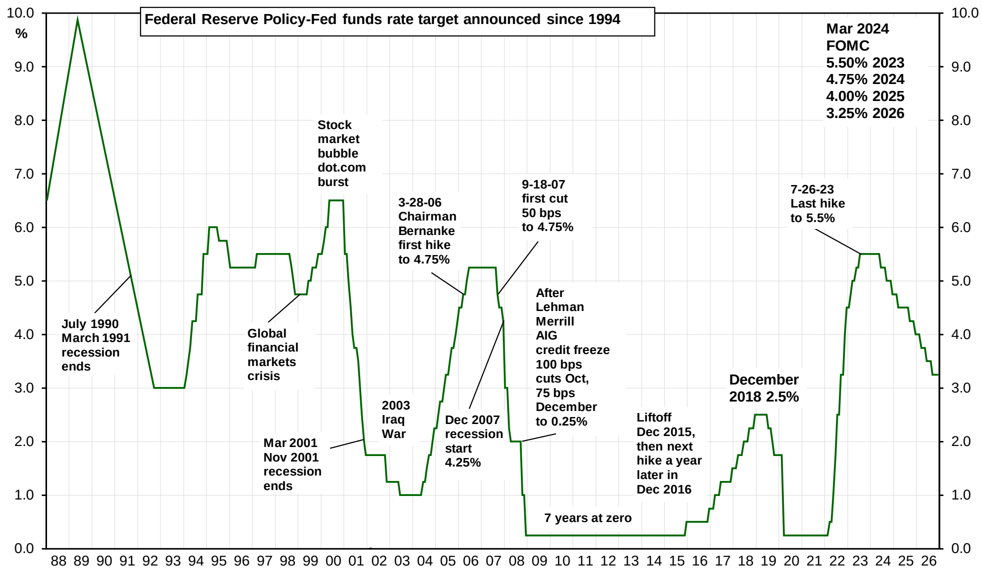
Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

## NINE RATE CUTS, NOT TEN

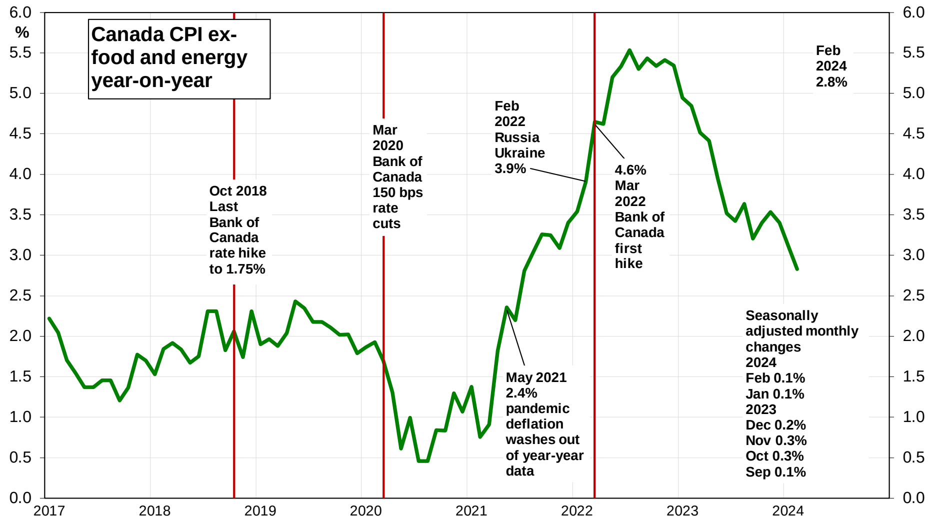



Not a lot to talk about after this week's Fed meeting. Powell said they need more data. The Fed interest rate forecast sees 9 rate cuts through the end of 2026, one less than the ten rate cuts they saw at the December meeting. They are keeping with three rate cuts this year, which might have cheered the stock market, closing at a new record Wednesday. Core CPI rose 0.3% November, 0.3% December, 0.4% January and 0.4% February, and yet the Fed forecast didn't take a single 25 bps rate cut off the table this year. Maybe inflation is transitory. There was no inflation in Canada in January and February, maybe Powell thinks Canada's lower prices are coming our way, it is just over the border after all. Okay, okay, back up, the Fed's core PCE inflation measure rose just 0.1% in both November and December, which shows you why the public does not believe the Washington statistics on the "cost of living crisis." To further confuse inflation matters, Powell said Wednesday that the Fed was thinking February core PCE inflation (released Friday, March 29) would come in well below 0.3%, unlike in January where core CPI and PCE were both 0.4%.

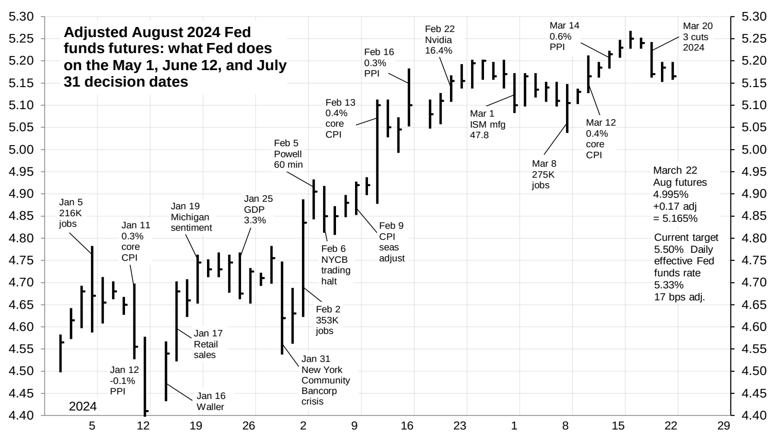
| Fed Individual Forecasts | | | | |
|---|---|---|---|---|
| Fed funds rate at year-end | | | | Longer |
| Votes | 2024 End | 2025 End | 2026 End | run |
| 1 | 4.375 | 2.625 | 2.375 | 2.375 |
| 2 | 4.625 | 3.125 | 2.375 | 2.500 |
| 3 | 4.625 | 3.125 | 2.500 | 2.500 |
| 4 | 4.625 | 3.375 | 2.625 | 2.500 |
| 5 | 4.625 | 3.625 | 2.875 | 2.500 |
| 6 | 4.625 | 3.625 | 2.875 | 2.500 |
| 7 | 4.625 | 3.625 | 2.875 | 2.500 |
| 8 | 4.625 | 3.625 | 2.875 | 2.500 |
| 9 | 4.625 | 3.625 | 2.875 | 2.500 |
| 10 | 4.625 | 3.875 | 3.125 | 2.625 |
| 11 | 4.875 | 3.875 | 3.125 | 2.750 |
| 12 | 4.875 | 3.875 | 3.125 | 3.000 |
| 13 | 4.875 | 3.875 | 3.125 | 3.000 |
| 14 | 4.875 | 3.875 | 3.125 | 3.000 |
| 15 | 4.875 | 3.875 | 3.125 | 3.125 |
| 16 | 5.125 | 4.125 | 3.375 | 3.500 |
| 17 | 5.125 | 4.375 | 3.375 | 3.500 |
| 18 | 5.375 | 4.375 | 3.625 | 3.750 |
| 19 | 5.375 | 5.375 | 4.875 | |
| Median | 4.625 | 3.875 | 3.125 | 2.563 |
| Meeting | Mar 24 | Mar 24 | Mar 24 | Mar 24 |

There were two-sided risks Powell said, keeping rates high for too long and causing weakness in economic growth and the labor markets, or cutting rates prematurely and producing a new inflation outbreak. He said the 3.9% unemployment rate (3.86%) was still quite low and not showing any worries about our observation that when the unemployment rate rises 0.5 percentage points off the low, then there is a recession. We thought the Fed years ago was on alert for potential downside economy risks whenever the unemployment rate rose 0.3 percentage points above a cyclical low point. Things must be different down there at 20th and C Streets now. Maybe to become even more different in the future with the story circulating in markets this week that if Trump got a second term he would select either Warsh, Hassett, or Laffer of all people, as the next Fed Chair. Powell's latest 4-year term has some time left as he was sworn in a few months late on May 23, 2022.

| Meeting | Fed Policy-key variables | 2024 | 2025 | 2026 | Long Term |
|---|---|---|---|---|---|
| Mar | Fed funds | 4.6 | 3.9 | 3.1 | 2.6 |
| Dec | Fed funds | 4.6 | 3.6 | 2.9 | 2.5 |
| Mar | PCE inflation | 2.4 | 2.2 | 2.0 | 2.0 |
| Dec | PCE inflation | 2.4 | 2.1 | 2.0 | 2.0 |
| Mar | Core inflation | 2.6 | 2.2 | 2.0 | |
| Dec | Core inflation | 2.4 | 2.2 | 2.0 | |
| Mar | Unemployed | 4.0 | 4.1 | 4.0 | 4.1 |
| Dec | Unemployed | 4.1 | 4.1 | 4.1 | 4.1 |
| Mar | GDP | 2.1 | 2.0 | 2.0 | 1.8 |
| Dec | GDP | 1.4 | 1.8 | 1.9 | 1.8 |




What else happened at this meeting besides sticking with three rate cuts this year? The economic forecasts are of the lost at sea variety where there is nothing really to make of them. Real GDP is 2.1% in 2024, where they thought in December the recession-magnitude interest rates would take the economic ship down or at least slow economic growth to 1.4%. Core PCE inflation is 2.6% in Q4 2024 now up from 2.4% which leaves them with the embarrassing situation where actual core PCE inflation is 2.8% in January, so only two-tenths away from the end of the year goal where they see three rate cuts to 4.75%.

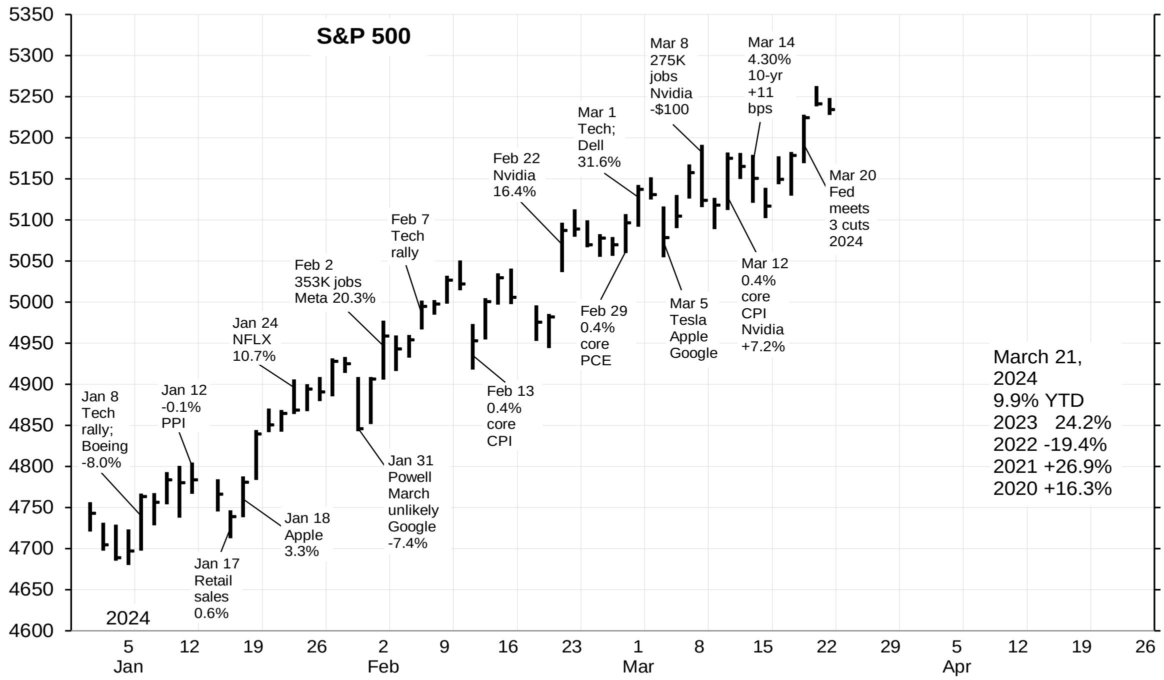



Anything in the Q&A session of interest? Anything besides "the Committee wants to see more data that gives us higher confidence that inflation is moving down sustainably toward two percent?" He did say in the same breath that if there was a significant weakening in the data, particularly in the labor market, that could also be a reason for them to begin the process of reducing rates. It was disturbing for Powell to say he didn't see rates going back down to zero again as during the pandemic, but "there's tremendous uncertainty around that." We certainly hope we don't see them trying zero rates again, the lesson there is a lesson on just how much stimulus a lower interest rate strategy can actually provide, especially as rates are cut early normally in recessions when no one in the economy has any interest in borrowing or buying a new house or car. Stay tuned.

**Next up: February PCE inflation report Friday, March 29**

| Monthly | | 2024 | 2023 | | | | | | | | | | | 2023 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % Changes | Feb | Jan | Dec | Nov | Oct | Sep | Aug | Jul | Jun | May | Apr | Mar | Feb | Jan | Dec |
| Core CPI inflation | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.4 | 0.5 | 0.3 | 0.5 | 0.4 | 0.4 |
| Core PCE inflation | | 0.4 | 0.1 | 0.1 | 0.2 | 0.3 | 0.1 | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 | 0.5 | 0.4 |
| Core PCE YOY | | 2.8 | 2.9 | 3.2 | 3.4 | 3.6 | 3.7 | 4.2 | 4.3 | 4.7 | 4.8 | 4.8 | 4.8 | 4.9 | 4.9 |
| Core CPI YOY | 3.8 | 3.9 | 3.9 | 4.0 | 4.0 | 4.1 | 4.3 | 4.7 | 4.8 | 5.3 | 5.5 | 5.6 | 5.5 | 5.6 | 5.7 |

## INTEREST RATES



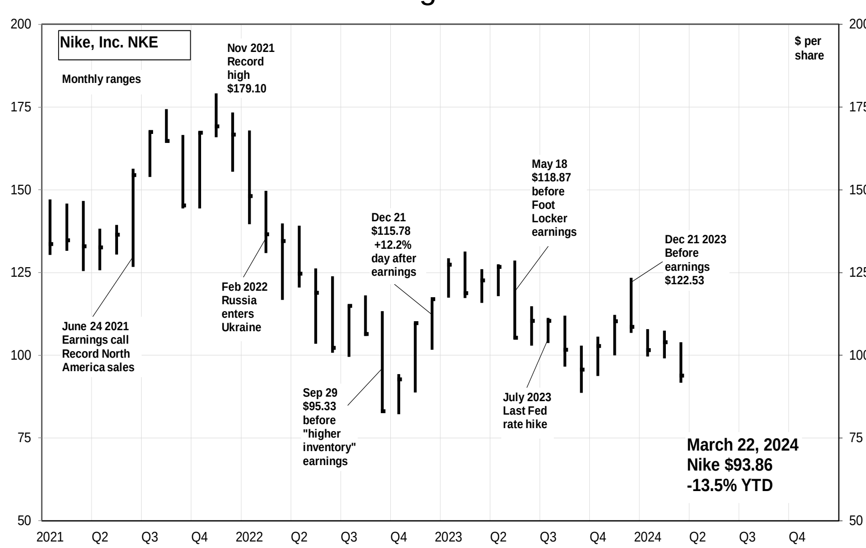

Stocks liked Fed meeting day with the S&P 500 down 0.1% before the 2pm ET release of the press statement and forecasts. Stocks tried to rally because the Fed kept three rate cuts on the table this year, but did not get too far. But the S&P 500 seemed to gain conviction early during Powell's Q&A testimony from 230 to 330pm ET. Powell still thinks inflation is moving down, and even said core PCE inflation released next Friday would be 0.3% not the 0.4% posted for core CPI in February. Core CPI at 0.358% was barely 0.4% anyway. Bond yields swing lower, then higher, then unchanged on the Fed news. As far as QT, Powell did say they would "slow the [$60 billion monthly] pace of runoff fairly soon." QT is $720 billion per year which adds, with the Federal budget deficit, to the national debt, so cutting back should drop bond yields? Friday S&P 500 closed 9.7% YTD, 10-yr yield 4.20%.

## Nike, Inc. (NKE) down 13.5% YTD

Nike was $100.82 before earnings on March 21, falling 6.9% the next trading day. The Street has had its worries about footwear sales, macro headwinds, bloated inventories, restructuring costs. Now the worry is the competition with new brands from other companies like "On" and "Hoka," the latter owned by Deckers Outdoor, taking away from Nike's market share of running shoes.

**Nike Footwear Sales ($millions)**

| Fiscal Quarter | Quarter | North America | Europe (EMEA) | Greater China | Asia Pac LatAm |
|---|---|---|---|---|---|
| Q3 2024 | 2.29.2024 | 3460 | 1960 | 1547 | 1195 |
| Q2 2024 | 11.30.2023 | 3757 | 2186 | 1361 | 1303 |
| Q1 2024 | 8.31.2023 | 3733 | 2260 | 1287 | 1141 |
| Q4 2023 | 5.31.2023 | 3807 | 2174 | 1336 | 1230 |
| Q3 2023 | 2.28.2023 | 3322 | 2011 | 1496 | 1141 |
| Q2 2023 | 11.30.2022 | 3963 | 2063 | 1370 | 1108 |
| Q1 2023 | 8.31.2022 | 3805 | 2012 | 1233 | 1064 |
| Q4 2022 | 5.31.2022 | 3,580 | 2,030 | 1,178 | 1,197 |
| Q3 2022 | 2.28.2022 | 2,532 | 1,569 | 1,554 | 1,005 |
| Q2 2022 | 11.30.2021 | 2,852 | 1,806 | 1,235 | 887 |
| Q1 2022 | 8.31.2021 | 3,264 | 1,983 | 1,449 | 1,022 |



## OTHER ECONOMIC NEWS

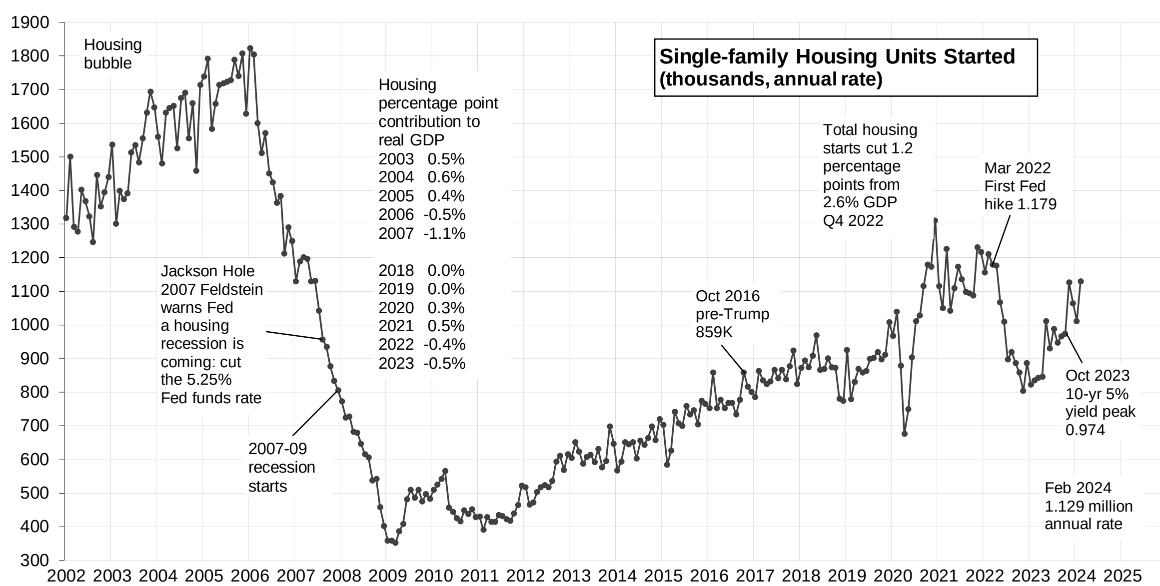
### Housing starts turn the corner (Tuesday)

Breaking economy news. Single-family housing starts continue to recover with mortgage yields off the peak made in the bond market sell-off last October. Housing starts increased 10.7% in February to 1.521 million at an annual rate after declining during the cold winter temps of January. Single-family starts increased 11.6% to 1.129 million, the highest recovery level yet in this rebound from the decline engendered by the first Fed rate hike in March 2022.

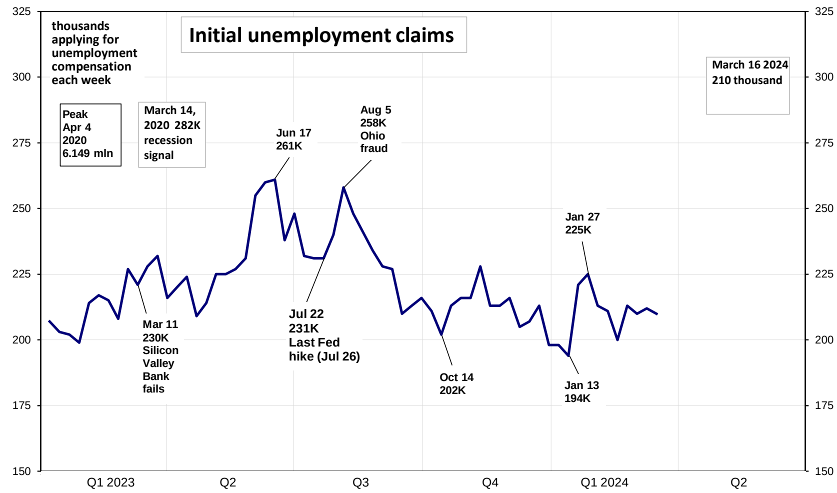
**Housing Starts Total, Single-Family, Multi-Family**

| | United States | | | Northeast | | Midwest | | South | | West | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 000s | Total | 1 unit | Multi | Total | 1 unit | Total | 1 unit | Total | 1 unit | Total | 1 unit |
| Feb 2024 | 1521 | 1129 | 377 | 122 | 85 | 202 | 157 | 883 | 683 | 314 | 204 |
| Jan 2024 | 1374 | 1012 | 347 | 136 | 73 | 134 | 112 | 763 | 586 | 341 | 241 |
| | | | | | | | | | | | |
| Feb 2023 | 1436 | 835 | 588 | 105 | 69 | 187 | 87 | 792 | 514 | 352 | 165 |
| % Chgs | | | | | | | | | | | |
| Feb/Jan | 10.7 | 11.6 | … | -10.3 | 16.4 | 50.7 | 40.2 | 15.7 | 16.6 | -7.9 | -15.4 |
| Feb/Feb | 5.9 | 35.2 | … | 16.2 | 23.2 | 8.0 | 80.5 | 11.5 | 32.9 | -10.8 | 23.6 |

Net, net, new residential housing construction shook off the cold winter weather in January with single-family construction rebounding strongly in February. Only single-family housing starts out West declined. Construction activity sank like a stone when the Fed first raised interest rates two years ago, but now builders see an early spring and they are rushing out to start new building projects. Residential housing construction was a major drag on the economy in 2022 and 2023, subtracting 0.4 and 0.5 percentage points from GDP growth of 1.9 and 2.5 percent, respectively. But now housing construction is seeing new life even with mortgage rates of 6% more than double where they were before the Fed started talking about the need to hike rates to fight inflation. Stay tuned. Housing construction is likely to add modestly to economic growth in the months ahead as builders look forward to the Fed rate cuts that policymakers are forecasting for later this year. Housing construction has likely turned the corner in this economic cycle and will cease to be a drag on the overall economy.

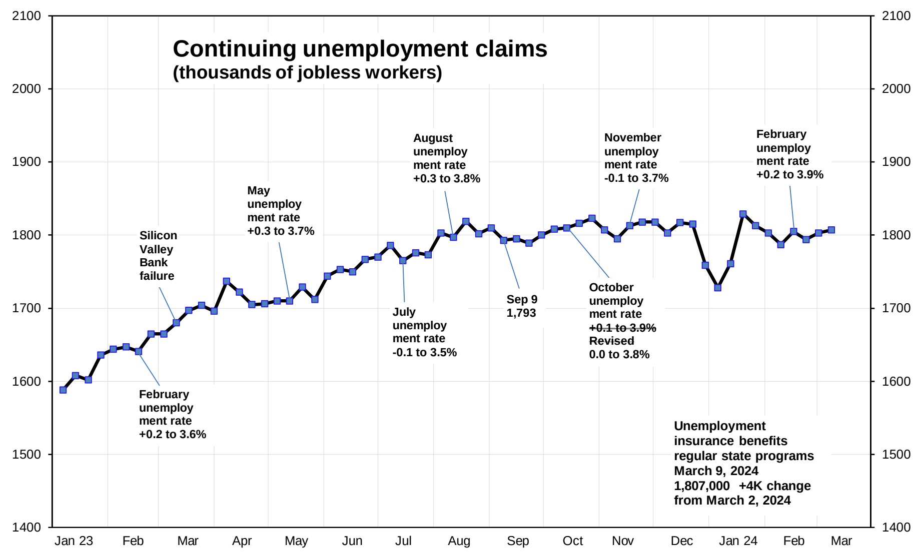


## Labor market steady (Thursday)




Breaking economy news. Weekly jobless claims data continue to signal all-clear when it comes to the country's on-again, off-again worries about recession. Initial claims or first-time applications, fell 2K to 210K in the March 16 week and were 228K a year ago. Continuing unemployment claims, the pool of jobless receiving compensation, rose 4K to 1.807 million in the March 9 week versus 1.680 million a year earlier.

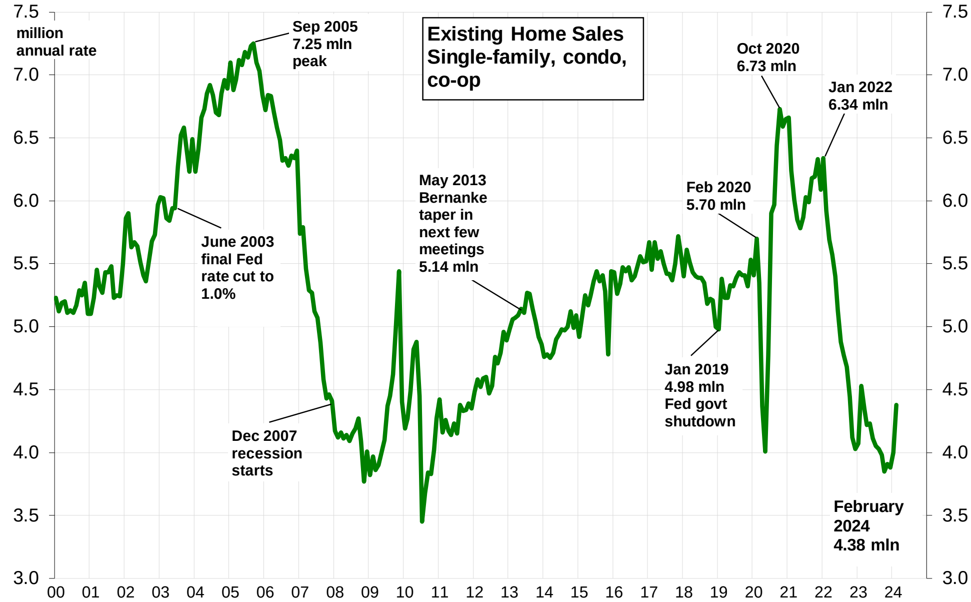
Net, net, Fed officials are waiting on confirmation that inflation is in check before cutting interest rates, but one thing they can be confident of is that companies are not laying off workers and the labor market remains relatively strong. The vast majority of companies are holding on to their workers and not letting them go. While some high-profile corporations have announced layoffs, these do not add to the number of jobless and these individual company layoffs are small relative to the 210 thousand of new filings for jobless benefits in the March 16 week which shows just how big the labor market is. 210 thousand is a drop in the bucket relative to the 134.6 million level of private nonfarm payroll employment in February.



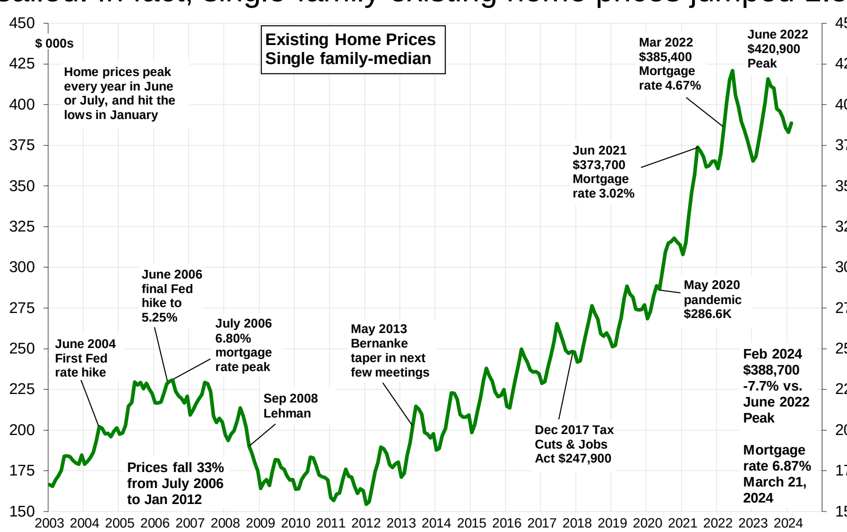

It is perhaps no longer a puzzle why the number of unemployed is somewhat elevated while the number of Americans receiving jobless benefits is not. Continuing unemployment claims were about the same level this week at 1.807 million that they were last August which matches up with the unchanged level of unemployed with a 3.8% jobless rate in August 2023 versus 3.9% (3.86) in February 2024. Stay tuned. The Fed isn't sure it is winning the war on inflation but its recession-level interest rates sure haven't generated the level of unemployment that we would expect to see if the economy actually turns down. Fed officials can thank their lucky stars as this is the first major monetary policy tightening in decades that has not led to an increase in joblessness.

## Existing home sales best in a year (Thursday)

Breaking economy news. Existing home sales made a solid 10.3% advance in February to 4.38 million at an annual rate which is the highest level of activity since last February. No wonder homebuilder confidence is, well, building. The strongest gains were in the West, up 16.4% in February, followed by 9.8% in the biggest market in the South which includes Texas, Florida, and North Carolina, where everyone wants to live until they find out how hot it is in the summertime. Sales in the Northeast were unchanged in February, while Midwest sales increased 8.4%.




Net, net, the Fed hit the pause button last July on the punitive rate hikes that had taken a toll on existing home sales, but now there are signs of life for sales, and even an early spring for February home prices. If Fed officials are still counting on a slowdown in the nation's residential housing markets to cool inflation, that boat has already sailed. In fact, single-family existing home prices jumped 1.5% to $388,700 in February which makes easing monetary policy at this juncture more problematic. The cost-of-living crisis in America is not going to be solved if home prices continue to spiral upward. Single-family home prices of $388,700 in February are below the $394,100 average in 2023, but they won't be for long with the official start of the spring selling season just a month away. Stay tuned.



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