The Weekly Market Update – 3/18/24: Fed Meets to Set Interest Rate Expectations

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,117.09	-0.13%	7.28%	7.28%	28.89%	5,175.27	1.1%
Dow Jones Industrial Average	38,714.77	-0.02%	2.72%	2.72%	18.55%	39,131.53	1.1%
NASDAQ Composite	15,973.17	-0.70%	6.41%	6.41%	39.44%	16,274.94	1.9%
Russell 2000	2,039.32	-2.08%	0.60%	0.60%	7.50%	2,442.74	19.8%
MSCI EAFE (USD)	2,325.12	-1.38%	3.98%	3.98%	13.22%	2,398.71	3.2%
MSCI Emerging Markets (USD)	1,034.74	-0.23%	1.07%	1.07%	7.34%	1,444.93	39.6%
Bloomberg Commodity Index	99.19	1.21%	0.55%	0.55%	-6.57%	237.95	139.9%
Barclays U.S. Aggregate Bond	89.68	-1.27%	-2.20%	-2.20%	0.80%	112.07	25.0%

Source: FactSet

This week's Federal Reserve Bank (Fed) meeting could be more eventful than expected. The year's second Federal Open Market Committee (FOMC) event is scheduled this week (Tuesday, 3/19 and Wednesday, 3/20) as the U.S. central bank meets to discuss the U.S. economy and inflation. The Fed's primary monetary policy tool is to manage short-term interest rates by setting a range for its overnight, bank-lending fed funds target. While market expectations reflect no change to the prevailing fed funds target range of 5.25% to 5.50%, Fed Chair Jerome Powell has repeatedly said that the Fed intends to begin moving interest rates lower in 2024 to a more "neutral" level. The debate continues regarding the timing of the first fed funds rate cut. After this week, the next Fed meeting is in early May, then mid-June and late July. Through February 2024, U.S. consumer inflation continued to improve (lower) (Bureau of Labor Statistics, BLS; consumer price index, CPI) while the labor market (BLS' net new jobs data) accelerated in early 2024 compared to the second half of 2023 (using the 3-month average monthly increase in nonfarm payrolls). While the Fed seeks inflation that trends toward +2.0%, the February CPI was +3.2%, ranging between +3.1% to +3.4% for five consecutive months. This has contributed to the Fed's interest rate pause (the 5.25% to 5.50% fed funds range is unchanged since July 2023), but the recent stalled inflation progress keeps the Fed on edge. The FOMC will update is Summary of Economic Projections (SEP), which is published at alternating FOMC meetings. The SEP records projections (economic growth, inflation, interest rates, and unemployment) from individual Fed board members and presidents, offering insights on FOMC expectations. The most recent SEP published in December 2023 showed a median expected fed funds level at year-end 2024 and 2025 of 4.6% and 3.6%, respectively. This reflects a Fed expectation of three, 0.25% cuts to the fed funds target in 2024 and four, 0.25% reductions in 2025. In our view, investors could react to changes to the SEP (fewer rate cuts than expected) and/or if Chair Powell indicates that the Fed pause will continue longer than expected. Our base case is that the first fed funds reduction comes at the June meeting, rather than May, as inflation progress has stalled. Commentary from Chair Powell about a "rate pause for longer" could lead to equity market volatility.

Oil prices move to a 2024 high. U.S. oil prices, as measured by West Texas Intermediate (WTI), moved above $82 per barrel on 3/18/24, the first time since 11/6/23. This year's gains (WTI has rallied more than +14% in 2024) are attributed to geopolitical tensions (including recent Ukraine attacks on Russian refineries), a drop in U.S. oil inventories (Energy Information Administration), and potential production cuts discussed by Saudi Arabia and Iran. The surge in prices has caught many oil traders by surprise as a mild winter in the U.S. and Europe had eroded some seasonal demand. Now, as normal seasonal demand improves, mostly related to travel, prices could remain elevated. As crude moves higher, so does gasoline, with the auto club AAA indicating that the U.S. national average for unleaded gasoline is at $3.47 per gallon (3/18/24), up +6% over the past month. This creates potential consumer spending headwinds.

U.S. equity markets look to rebound this week after two weeks of declines. The widely followed S&P 500 index nudged down -0.1% last week; a modest decline, but the first two-week drop since October of last year. Despite the pullback, the index also closed at a new high last week on Tuesday. Investors will watch the post-Fed meeting press conference, as well as an annual developers' conference hosted by artificial intelligence (AI) leader Nvidia, with a keynote address delivered by CEO Jensen Huang. We will watch for any real-time updates on the level of global AI investment.

James D. Ragan, CFA
Director of WM Research
(206) 389-4070
jragan@dadco.com

Please refer to page 2 of this report for detailed disclosure information.

Important Disclosure: The information contained herein has been obtained by sources we consider reliable, but is not guaranteed and we are not soliciting any action based upon it. Any opinions expressed are based on our interpretation of data available to us at the time of the original publication of the report. Assumptions, opinions, and estimates constitute our judgment as of the date of this report and are subject to change without notice. Investors must bear in mind that inherent in investments are the risks of fluctuating prices and the uncertainties of dividends, rates of return and yield, as well as broader market and macroeconomic fluctuations and unforeseen changes in the fundamentals or business trends affecting the securities referred to in this report. Investors should also remember that past performance is not indicative of future performance and D.A. Davidson & Co. makes no guarantee, express or implied, as to future performance. The information is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor. It is not a representation by us, or an offer, or the solicitation of an offer, to sell or buy any security. Further, a security described in a report may not be eligible for solicitation in the states in which a client resides. D.A. Davidson & Co. does not provide tax advice and investors should consult with their tax professional before investing. Further information and elaboration is available upon request.

Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.