

A Note from Art: Fed Rate Cut

October 7, 2024

The Federal Reserve recently voted to cut interest rates, shaving 0.5% off the benchmark.¹

Markets rallied exuberantly at the news, reaching new highs.²

But before we get to why rates were lowered and what it might mean, let's take time for a Creel family update.

Our youngest, Eva, is now a big city girl! After graduation, she moved to New York City and is teaching at a prestigious private school on the "Upper East Side". She loves her new apartment and commuting to work on the subway. Here's a picture from our recent visit.



Now back to the regularly scheduled program.

Why did the Federal Reserve cut rates?

With inflation on a strong downward trajectory and concerns about economic weakness rising, the Fed clearly decided now was the right time to cut.

The size of the cut was a surprise to many, who expected a quarter-point cut and could indicate that the Fed feels strong action is warranted.

Some analysts believe lowering interest rates will lower the risk of a recession and increase the odds of a “soft landing” for the economy.³

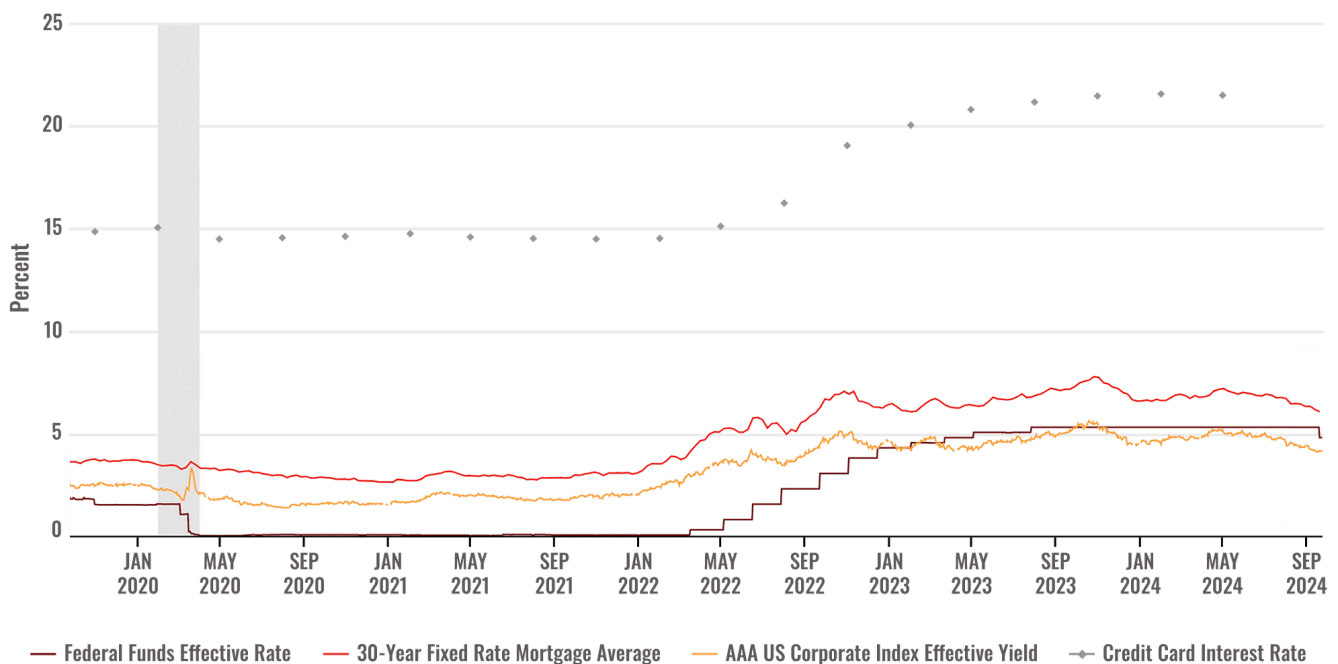
What do lower rates mean?

The Fed is responsible for setting the benchmark interest rate that all other borrowing rates follow.

A lower benchmark will reduce borrowing costs for businesses and consumers, helping economic growth accelerate in the months to come.

Commercial Interest Rates Follow the Benchmark Federal Funds Rate

Interest rates (01/01/2020 - 09/23/2024)



Source: FRED, FHLMC, Ice Data Indices

The chart above shows interest rate trends over the last four years.

You can see that while commercial rates don't change immediately after a rate cut, they generally follow the same trend.

Going forward, mortgages will become cheaper, likely boosting the real estate market.

Business borrowing costs will drop, giving a bump to industries like technology, which rely on credit to fund R&D.

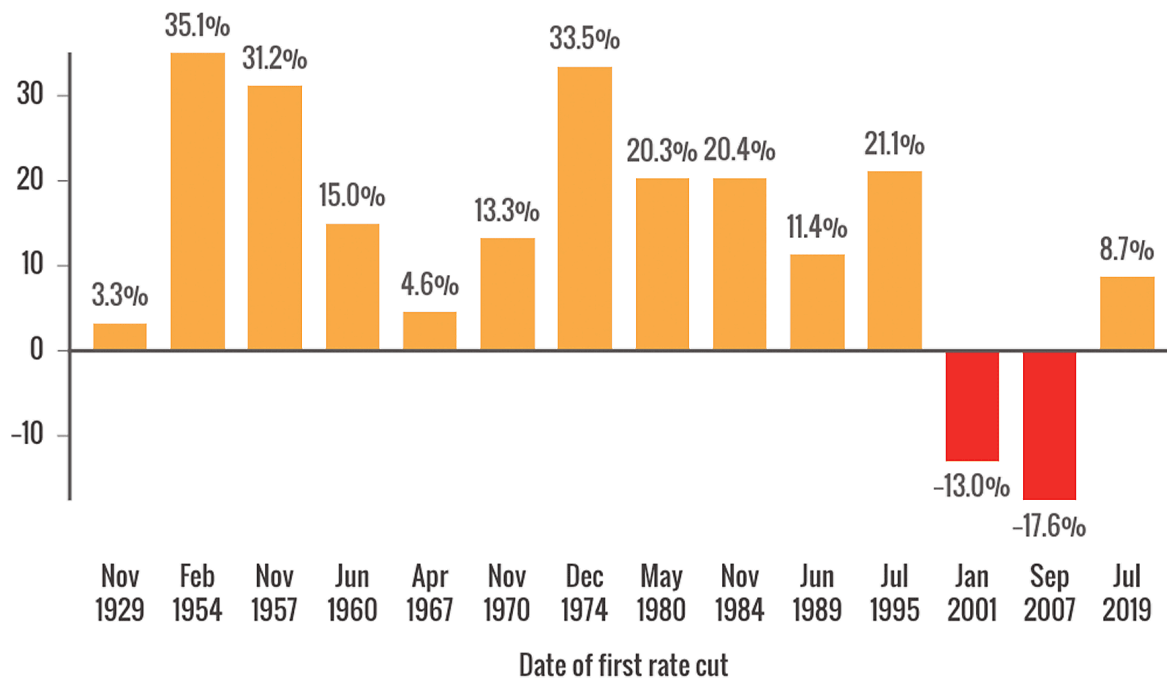
Historically, stocks have tended to do well when rates drop.⁴

However, past performance doesn't predict the future and there's no guarantee that equities will follow any conventional path.

Today's volatile markets are still grappling with post-pandemic distortions and are dominated by high-flying tech stocks.

S&P 500 Performance After Rate Cuts

S&P 500 return 12 months after first rate cut (08/09/1929 - 07/31/2020)



Source: Charles Schwab, Bloomberg, Federal Reserve

What could happen next?

Markets have rallied strongly in 2024, largely on hopes of lower interest rates.

Now that the Fed has finally cut rates, it's likely that traders will turn their attention to other factors.

We expect the presidential election to come into focus as we approach November.

Analysts will also be closely reading economic reports for hints about recession risks and economic growth in 2025.

All told, we're expecting plenty of volatility ahead.

We're watching closely and researching different market scenarios for Q4 and 2025.

In the meantime, if you have any questions or concerns, hit "reply" and let me know.

That's why I'm here.

Here's a Dad Joke before we go.

How do you get 100 math teachers into a room that only holds 99?

You carry the one.

Sincerely,

Art

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P.S. We're headed into a volatile fall, and I want to make sure you have answers to your questions and reassurance about any worries.

Is there anything on your mind or change in your life that I should know about? If so, please reply and share. We'll set up a time to chat.

Sources

1. <https://www.cnbc.com/2024/09/18/fed-cuts-rates-september-2024-.html>
2. <https://www.usatoday.com/story/money/2024/09/19/dow-sp-500-record-fed-cut/75297962007/>
3. <https://www.cnbc.com/2024/09/24/goldman-feds-jumbo-rate-cut-puts-the-us-on-track-for-soft-landing.html>
4. <https://www.schwab.com/learn/story/what-past-fed-rate-cycles-can-tell-us>

Chart sources:

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