To Our Valued Clients,

Federal Reserve Chair Jerome Powell returned to the spotlight this week, completing a two-day tour on Capitol Hill to discuss monetary policy and the Fed's course of action on interest rates and the economy. His messaging was clear as he reinforced that policymakers remain cautious about lowering rates too quickly, and the risk that inflation could pose if they were to do so.

"The Committee does not expect that it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent," stated Powell in his prepared remarks to Congress on Wednesday. This messaging hasn't wavered for the better part of three months now as policymakers continue to note that lowering rates too quickly risks losing the battle against inflation. This doesn't come as any major surprise as the economy has remained robust, and although inflation has moved lower, it has been stubborn in recent months. What was more interesting was the market's reaction to the announcement. Major stock indexes continued to move higher and bond yields moved lower as investors seemingly shrugged at Powell's hawkish tone. This is in stark contrast to the reaction experienced just a couple months ago when markets were yearning for any indication that rates may be headed lower, even though the messaging and economic backdrop were largely the same. The reaction seems to underscore a shift in the preference where investors are placing a heightened emphasis on fundamentals and growth prospects as opposed to interest rates. In some ways, this makes sense given we are wrapping up a Q4 earnings season turned out better than many had estimated, with 73% of S&P 500 companies reporting earnings above forecast.

The Fed will meet in two weeks to discuss their second interest rate decision of 2024, anything but a continued pause at this point would likely be met with concern from a market perspective. Based on futures trading, the likelihood of a cut at this month's meeting stood at 74% as we entered this year, that figure has now moved to just 5% as the prospect of rate cuts continues to be pushed further down calendar. Thanks for reading, and as always, if you have any questions or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

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