Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Not so fast, or large

Last week started with a bang as investors interpreted the lower-than-expected July nonfarm payrolls report as the sky falling and equities sold off. The fed funds futures market also overreacted, suddenly expecting the Federal Reserve to cut rates in every meeting the rest of this year, with at least one being of the 50 basis-point variety.

We don't share this narrative. In our view, the 114,000 added jobs (likely impacted by poor weather) satisfy the Federal Reserve that the economy is right-sizing, not on the precipice of a recession. Late in the week Fed speakers pushed back on the panic by saying the decision is made on data, and inflation is still above target and the labor market still healthy. The economy might be softening, but that doesn't support a plunge in rates. And in any case, this is a very cautious Fed that is unlikely to run in the other direction, and certainly not on the basis of one data point. Rather, we expect a pivot, with the first cut—a quarter-point one—coming in September and one more by year-end.