

## Key Takeaways:

- The Federal Reserve meets for the final time of 2024 this week.
- The committee's SEP will be in full focus as investors search for details of path forward.
- Inflationary pressures remain a stubborn headwind.
- Powell confirms the committee has time to react to Trump policy changes.
- 25bps cut is our base-case, by 2025 becomes cloudy.

## Breaking Down the Fed's Last Meeting of 2024

The Federal Reserve will meet for the final time in 2024 this week, and investors anticipate the committee to cut interest rates by 25bps. This would bring the total level of interest rate cuts for the year to 100bps. In addition to an interest rate decision, investors will get the latest look at the committee's expectations for the future, as they are set to release their Summary of Economic Projections (SEP). We expect this, in addition to Chairman Powell's comments, to be scrutinized the most by investors this week. The committee's job remains far from easy, or over, however, as inflationary pressures remain a key headwind. Additionally, the economic impact of President-elect Trump's proposed policies remains uncertain, adding another layer of challenges for the Fed in 2025 and beyond. This week, we wanted to highlight some of the key difficulties the Federal Reserve faces and why the path forward might not be as smooth or as easy as some expect.

- **SEP in full focus:** The SEP compiles projections from every Federal Reserve Governor and President. It includes forecasts for economic indicators, such as inflation and employment, as well

as assumptions about appropriate monetary policy. The latest SEP, released in September, showed the widest dispersion among committee members of long-run interest rates (2.375% - 3.75%),<sup>1</sup> emphasizing the path forward is highly uncertain.

- **Inflation continues to prove stubborn:** The Federal Reserve has been committed to bringing inflation back down to 2% YoY. However, last week's slightly hotter-than-expected inflation reading from the Consumer Price Index indicated pressures remain. Driving price pressures continue to be services (4.5% YoY) and shelter (+4.8% YoY) costs. Core inflation, which is a better representation of inflation for the Fed, has proved to be even more challenging, increasing at a 3.3% annualized pace for the last four months, well above the Fed's 2% target.
- **Fed has time to assess Trump policies:** President-elect Trump has announced plans to impose strict tariffs and crackdown on immigration, both of which have the potential to be inflationary policies. Federal Reserve

Chairman Powell stated at a conference in Dallas, "[the committee] has time to make assessments about what the net effects of policy changes will be on the economy before we react with policy."

## The Bottom Line:

We believe the Federal Reserve will move forward with a 25bps rate cut this week, but will continue to emphasize their commitment to remain data dependent. The latest SEP (September) report suggested the median forecast for interest rates to be in a range of 3.25% - 3.5% in 2025, suggesting four quarter-point rate cuts next year (assuming a 25bps cut this week). With inflation remaining a stubborn problem, and the uncertain economic impact of President-Elect Trump's policies, we think this expectation is too optimistic. Instead we think the Fed will pause in 1Q25 to assess the path of several sticky inflation pressures (e.g. services, housing). In addition, they will want to see what tariffs actually get through and what impact that may have on the inflation environment.

## Weekly Economic Recap –

Business Sentiment Climbs Despite  
Inflationary Pressure Remaining Sticky

Small business optimism increased to the highest level since June 2021 (101.7). The share of business owners expecting the economy to improve surged 41 points, the largest increase since June 2020.

Headline inflation, as tracked by the Consumer Price Index, increased at a faster than expected pace in November (2.7%) and slightly more than October's 2.6% reading. Shelter costs pulled back slightly from the previous month, but still accounted for nearly 40% of the overall increase. Core CPI, which excludes volatile food and energy prices, increased 0.3% on a monthly basis, and 3.3% on an annualized basis.

Inflation as measured by the Producer Price Index increased more than expected in November (+0.4%) and by the most since June. Goods prices contributed the most to the headline increase, posting its largest advance since February. Food prices accounted for roughly 80% of the advance. Egg prices surged over 50% from last month, largely due to impacts from bird flu.

The US budget posted a ~\$367 billion deficit in November, up ~17% from a year earlier. The deficit for the first two months of the fiscal year (2025) moved to a record ~\$624 billion. The increase in the deficit was driven by higher outlays (+14% YoY), specifically health, defense, and Social Security. Net interest expenses totaled \$79 billion in November and sit at ~\$160 billion for the fiscal year.

## Key Takeaways:

- Small business optimism climbs to highest since June 2021.
- Inflationary pressures remain stubborn.
- U.S. budget deficit climbs to highest on record.
- Tech/growth outperform, not enough to boost broad market.
- Treasury yields surge on inflation readings.
- Crude prices rally to three-week high; lead commodities.

## Weekly Market Recap –

Growth Trade Fails to Support Broad U.S. Markets; Yields Surge

**Equities:** The MSCI AC World Index was lower for the first time in four weeks. Investors digested hotter-than-expected inflation readings out of the U.S. and the implications of the path forward for monetary policy. The Dow Jones Industrial Average officially posted its longest run of consecutive daily losses (7) since 2020 to end the week. The S&P 500 was lower for the first time in four weeks. Tech/growth outperformed in the U.S., helping the Nasdaq post its fourth straight week of gains.

**Fixed Income:** The Bloomberg Aggregate Index was lower for the first time in four weeks and posted its worst week since October 2023. U.S. Treasury yields surged as investors digested inflation readings in the U.S. Floating rate instruments were the only area of fixed income higher.

**Commodities/FX:** The Bloomberg Commodity Index was higher for the first time in three weeks. Crude oil prices finished the week at a three-week high on expectations of further sanctions on Russia and tighter global supply. Gold prices were higher on expectations of a Fed rate cut.

Headline Inflation Increases at Fastest Since June



Footnotes: Data is as of November 2024.

Data Source: FactSet Research Systems, Verdence Capital Advisors.

## Global Equities Suffer on Hotter Inflation Data

| U.S. Equities                |         |       |       |       |       |       |                          | International Equities |       |      |       |       |       |  |  |
|------------------------------|---------|-------|-------|-------|-------|-------|--------------------------|------------------------|-------|------|-------|-------|-------|--|--|
|                              | Current | 1WK   | 1MO   | 3MO   | 1YR   | YTD   |                          | Current                | 1WK   | 1MO  | 3MO   | 1YR   | YTD   |  |  |
| Dow Jones Industrial Average | 43,828  | -1.8% | 0.0%  | 6.4%  | 20.4% | 18.4% | MSCI AC World (USD)      | 866                    | -0.8% | 1.4% | 5.0%  | 24.0% | 20.9% |  |  |
| S&P 500                      | 6,051   | -0.6% | 1.3%  | 7.9%  | 30.3% | 28.5% | MSCI EAFE (USD)          | 2,319                  | -1.5% | 2.0% | -3.4% | 10.8% | 6.4%  |  |  |
| Russell 1000 Growth          | 4,165   | 0.3%  | 4.0%  | 13.1% | 38.9% | 37.4% | MSCI Europe ex UK (USD)  | 2,545                  | -1.6% | 2.0% | -5.6% | 7.1%  | 3.5%  |  |  |
| Russell 1000 Value           | 1,884   | -2.0% | -1.6% | 3.8%  | 20.4% | 18.0% | MSCI Japan (USD)         | 3,961                  | -1.8% | 2.4% | -1.0% | 12.8% | 9.0%  |  |  |
| Russell Midcap               | 3,692   | -2.3% | 0.0%  | 8.1%  | 23.4% | 20.4% | MSCI UK (USD)            | 1,243                  | -1.1% | 2.7% | -3.4% | 14.5% | 9.8%  |  |  |
| Russell 2000                 | 2,347   | -2.5% | -0.8% | 7.9%  | 22.2% | 17.3% | MSCI EM (USD)            | 1,107                  | 0.3%  | 1.3% | 2.4%  | 16.5% | 10.6% |  |  |
| Nasdaq                       | 19,927  | 0.4%  | 3.7%  | 12.9% | 36.3% | 33.7% | MSCI Asia ex Japan (USD) | 722                    | 0.2%  | 1.6% | 4.2%  | 20.9% | 14.8% |  |  |

  

| Fixed Income          |               |       |      |       |       |       |                           | Commodities |       |       |        |        |        |  |  |
|-----------------------|---------------|-------|------|-------|-------|-------|---------------------------|-------------|-------|-------|--------|--------|--------|--|--|
|                       | Current Yield | 1WK   | 1MO  | 3MO   | 1YR   | YTD   |                           | Current     | 1WK   | 1MO   | 3MO    | 1YR    | YTD    |  |  |
| U.S. Aggregate        | 4.8%          | -1.4% | 0.6% | -2.8% | 3.3%  | 2.0%  | Bloomberg Commodity Index | 238         | 1.3%  | 2.4%  | 3.8%   | 7.8%   | 5.1%   |  |  |
| U.S. Govt/Credit      | 4.7%          | -1.3% | 0.6% | -2.7% | 3.2%  | 1.9%  | Crude Oil (USD/bbl)       | \$70.8      | 3.6%  | 3.8%  | 0.7%   | -0.6%  | -0.9%  |  |  |
| U.S. 10 Year Treasury | 4.4%          | -1.9% | 0.7% | -4.9% | 0.9%  | -0.5% | Gold (\$/oz)              | \$2,648.2   | 0.1%  | 3.8%  | 3.1%   | 31.8%  | 29.0%  |  |  |
| U.S. TIPS (1-10YR)    | 4.4%          | -0.5% | 0.5% | -1.0% | 4.5%  | 3.7%  | Copper                    | \$414.9     | -1.3% | 2.6%  | -1.0%  | 7.3%   | 7.2%   |  |  |
| U.S. High Yield       | 7.2%          | -0.2% | 0.7% | 1.8%  | 11.4% | 8.9%  | Wheat                     | \$552.3     | -0.2% | 0.6%  | -6.7%  | -16.9% | -17.9% |  |  |
| EM Bonds (USD)        | 6.5%          | -0.7% | 0.9% | 0.3%  | 10.1% | 7.7%  | U.S. Dollar               | 107         | 0.7%  | 0.2%  | 6.1%   | 4.3%   | 5.5%   |  |  |
| Municipal Bonds       | 3.5%          | -0.9% | 0.5% | 0.0%  | 3.6%  | 2.0%  | VIX Index                 | 13.8        | 8.1%  | -1.5% | -16.6% | 13.3%  | 10.9%  |  |  |

Footnotes: Data is as of December 13, 2024.

Data Source: Bloomberg Finance LP, Verdenca Capital Advisors.

<sup>1</sup>: <https://www.bloomberg.com/news/articles/2024-12-12/neutral-rate-guessing-game-comes-with-high-stakes-in-bond-market>

**Disclaimer:**

© 2024 Authored by Megan Horneman, Chief Investment Officer, Verdense Capital Advisors, LLC. Reproduction without permission is not permitted. The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index.

This material was prepared by Verdense Capital Advisors, LLC ("VCA" or "we", "our", "us"). VCA believes the information and data in this document were obtained from sources considered reliable and correct and cannot guarantee either their accuracy or completeness. VCA has not independently verified third-party sourced information and data. Any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur. These projections, market outlooks or estimates are subject to change without notice. This material is being provided for informational purposes only and is not intended to provide, and should not be relied upon for, investment, accounting, legal, or tax advice. Past performance is not a guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product or any non-investment related content, made reference to directly or indirectly in these materials will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. You should not assume that any discussion or information contained in this report serves as the receipt of, or as a substitute for, personalized investment advice from VCA. Alternative investments are designed only for sophisticated investors who are able to bear the risk of the loss of their entire investment. Investing in alternative investments should be viewed as illiquid and generally not readily marketable or transferable. Investors should be prepared to bear the financial risks of investing in an alternative investment for an indefinite period of time. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. All indexes are unmanaged, and you cannot invest directly in an index. Index returns do not include fees or expenses. Sector Watch Use of this website is intended for U.S. residents only. Any recommendation, opinion or advice regarding securities or markets contained in such material does not reflect the views of Verdense Capital, and Verdense Capital does not verify any information included in such material. Verdense Capital assumes no responsibility for any fact, recommendation, opinion, or advice contained in any such research material and expressly disclaims any responsibility for any decisions or for the suitability of any security or transaction based on it. Any decisions you may make to buy, sell, or hold a security based on this research will be entirely your own and not in any way deemed to be endorsed or influenced by or attributed to Verdense Capital. It is understood that, without exception, any order based on such research that is placed for execution is and will be treated as an UNRECOMMENDED AND UNSOLICITED ORDER. Further, Verdense Capital assumes no responsibility for the accuracy, completeness, or timeliness of any such research or for updating such research, which is subject to change without notice at any time. Verdense Capital does not provide tax, or legal advice. Under no circumstance is the information contained within this research to be used or considered as an offer to sell or a solicitation of an offer to buy any particular investment/security. Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Lower rated securities are subject to greater credit risk, default risk, and liquidity risk. Commodity-related products, including futures, carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by underlying commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions, regardless of the length of time shares are held. Data is provided for information purposes only and is not intended for trading purposes. Verdense Capital shall not be liable for any errors or delay in the content, or for any action taken in reliance on any content.