Ropes Wealth Runs Down Powell, Payrolls, and Protests, Urging Prudence

As expected, the Federal Reserve kept the target range for the federal funds rate at 5.25% to 5.50% at the May meeting of the Federal Open Market Committee (FOMC). Citing recent elevated inflation readings, the statement accompanying the announcement indicated that FOMC members consider it too early for rate cuts. It was also noted that the Fed is planning to “taper” its quantitative tightening program in June by reducing the dollar amount of Treasuries it allows to mature without reinvestment.

There were a few notable changes to the Fed's statement from the previous meeting. A sentence was added acknowledging “lack of progress” on inflation in “recent months.” That stickiness in inflation during the first quarter of this year is likely to keep Fed policy on hold until the latter half. The committee needs to see a resumption of their progress on fighting inflation to feel confident enough to cut rates.

In the post-meeting press conference, Fed Chair Jerome Powell addressed a few questions that have weighed on the bond market. He indicated that the committee does believe policy is “restrictive” at current levels despite the ongoing resilience in the economy. He also said that he didn't expect that the next move would be a rate hike. It hasn't been ruled out, but he indicated it isn't likely.

Overall, Powell described the Fed's stance as “patient.” We still believe there is a potential for rate cuts in the second half of the year, predicated on inflation resuming its declining trend. However, the scope will be more like one to two cuts of 25 basis points (or 0.25%) in the fed funds rate in 2024. For now, the Fed's policy will continue to be one of “higher for longer.”

Encouraged by the news of a taper in quantitative tightening and in Powell’s dismissal of potential interest rate hikes, investors crowded back into stocks. Investors were also buoyed by good earnings reports from Apple with better results from China and a blockbuster share buyback which resolved some anxieties. There is also growing anticipation over CEO Tim Cook unveiling AI features in new iPhones and the debut of a new iPad at an upcoming tech event. In related news, Qualcomm (which counts Apple as a key customer) surged on increased chip demand, especially in China.

Earnings reports continue to come in overall positive, but with a mix of misses reflecting consumer price pressures and with outlooks reflecting anxiety for the future. Notably, DoorDash plunged -11% on worse losses than expected. As the mother of a teenager, I cannot fathom how this company missed on earnings, but I would have high hopes for the future based on my son’s credit card history.

In today’s news, April jobs growth came in at 175,000, below March’s scorching 315,000 number and less than the 240,000 economists expected. The three-month average rate of growth remains strong at gains of 242,000. Unemployment rose slightly from 3.8% to 3.9%, while hourly wages rose 0.3% for the month and 3.9% year-over-year. Overall, a solid report that does not break the narrative of strong employment but still too-high inflation.

I would be remiss not to acknowledge that much of our nation’s focus this week has been on the escalating violence and charged rhetoric over the war in Gaza erupting on college campuses across the country. President Biden spoke to the country on Thursday and said that the U.S. was not an authoritarian nation that silences critics but that “order must prevail.” He noted: “dissent is essential to democracy but dissent must never lead to disorder or denying the rights of others so students can't finish the semester and college education.” The pain in our nation and our world remains palpable as the violence in the Middle East continues.

On a final note, while Trump's trial has faded into the backdrop of other news, so much so that even he is falling asleep at his own criminal trial, this week's Time magazine interview with the former President gave a preview of his proposed second term. You should review and make up your own mind, but it was notable Trump would not dismiss the potential for political violence from his supporters if he were not elected in November, suggesting it would depend on the outcome of the presidential race: "I think we're going to win. And if we don't win, you know, it depends. It always depends on the fairness of an election." As always, we recommend you stay vigilant and incorporate the potential for short-term disruptions in the long-term progress of the stock market given the backdrop of unrest and division at home and all over our world. We will work closely with you to segment liquidity needs and engage in periodic prudent rebalancing so you are prepared and even able to consider opportunities that may arise from any related dislocation.

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