Ropes Wealth Recaps How the Fed Made 50 the New 25

50 is the new 25, or so the Federal Reserve (Fed) said this week in their announcement that they would be cutting interest rates by 50 basis points, lowering the upper bound from 5.50% to 5.00%. This was a bit of a surprise, as moderation in inflation and moderate economic data in recent weeks seemed enough to warrant some caution from jumping into rate cuts feet first. Of course, the accompanying statement to the Fed’s decision struck a somewhat contrary, semi-hawkish tone in terms of underscoring the need for a patient stance and approach to policy going forward as the data continue to evolve.

At the press conference following the announcement of the Fed’s decision, Chair Jerome Powell appeared to be largely attempting to back pedal, posturing that the Fed is in no “rush” to cut rates and furthermore, insisting that half-point cuts should not be seen as the new pace. And yet, the so-called “dot plot” of future policy expectations released along with the Fed’s decisions reflected that the majority of Federal Open Market Committee (FOMC) members expect an additional 50 basis points of interest rate cuts by year-end and a further 100 basis points in cuts in 2025. If these changes play out, they bring the Fed Funds target rate down to 3.5% by the end of 2025.

Powell repeatedly called Wednesday's 50 bps cut and projections for an additional 200 bps of cuts a *"recalibration of our policy stance." "It's a process of recalibrating our policy stance away from where we had it a year ago,"* he explained, *"when inflation was high and unemployment low, to a place that's more appropriate given where we are now." "We don't think we're behind,"* Powell said, *"But I think you can take this [decision] as a sign of our commitment to not get behind."*

As a 48-year-old woman, I can get behind 50 being the sweet spot, for me and the economy. So could the markets as they calibrated following the news and advanced to gains that has put the S&P 500 Index back close to a 20% year-to-date return. With inflation moving slowly but steadily towards 2% and employment gains slowing, it was time to make a move lower to engineer the soft landing we hope for and deserve.

The rest of the economic data was “fire” as my kids like to say, meaning exceptionally good. Retail sales were up in August, fueled by online shopping for back-to-school. Also strong were the August reports on housing starts and building permits, which rose 9.6% and 4.9%, respectively, in the month of August on a year-over-year basis. While existing home sales in August were down -2.5% to a 3.86 million annualized rate, which is a ten-month low, markets shrugged off the news following the Fed’s interest rate cut which is expected to revive demand thanks to lower mortgage rates.

Markets were tepid following the Fed’s announcement but have soared into the week’s end and continue to demonstrate a “broadening” theme such that cyclical sectors like industrials, materials, energy, and financials, as well as small capitalization companies, are moving higher with as much gusto or more as info tech, communication services, and consumer discretionary, heretofore the market’s darlings. We are pleased to see this shift to a more broad-based rise in stock prices, as it reinforces the durability and longevity of the bull market we have experienced since the collapse in 2022.

Speaking of longevity, and with 50 being the new 25, it is a good time for us to make plans to connect before year-end to review your portfolio and overall strategy. It has been easy to let the big winners in growth and tech names drift higher over the last eighteen months, and some rebalancing may be in order. Likewise, it is always good to do a review of any interest rates on outstanding debt, so you can be poised to leap on refinance opportunities. Finally, money market yields may be dropping, but short- and intermediate-bonds are worth investigating for any cash you consider more sleep at night or "perma" cash vs. what you may want on the sidelines for expenses. As "The Great One" Wayne Gretzky liked to say, *"Skate to where the puck is going, not where it has been."*

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