Ropes Wealth Wonders Whether To Cut or Not to Cut

In a week that saw the French government collapse, bitcoin trade above $100,000, and crude oil fall below $70 a barrel, the stock market hit new all-time highs as technology stocks like Amazon, Apple, and Nvidia continued their relentless momentum. Consumer discretionary stocks that include airlines, automakers, retailers, restaurants, cruise lines, and others were also solid performers in a sign of firm economic hopes heading into 2025. Financials, including big banks, also bounced back.

Markets are poised to trade higher today following a stellar update on the labor market. The Bureau of Labor Statistics reported today that the U.S. economy added 227,000 jobs in the month of November, after coming to a near standstill in October thanks to strikes and storms. The unemployment rate edged higher to 4.2%, though this slight increase was expected. A broader measure of employment that includes discouraged workers and those holding part-time jobs for economic reasons also edged higher to 7.8%. Job gains were focused in health care (54,000), leisure and hospitality (53,000) and government (33,000), sectors that have consistently led payroll growth for the past few years. At the same time, retail trade saw a decline of 28,000 heading into the holiday season. Worker pay continued to rise, with average hourly earnings up 0.4% from a month ago and 4% on a 12-month basis.

Fed Chair Powell indicated Wednesday that officials have been surprised by how well the economy and labor market have held up since they opted for a larger-than-usual 0.50% cut in September and acknowledged slower inflation progress in recent months. *“Growth is definitely stronger than we thought, and inflation is coming a little higher,”* he said. Though the outlook remains clouded by uncertainty, *“The good news is that we can afford to be a little more cautious as we try to find neutral,”* he said. At the same time, traders still see a 70% chance that interest rates will be cut by 25 basis points at the conclusion of the upcoming Federal Open Market Committee (FOMC) meeting December 17-18, and Powell did not go so far as to use his comments to dissuade the markets from that thinking. To cut, or not to cut, that will be the question dominating market conditions as we enter the final weeks of this trading year.

Powell notably also addressed president-elect Trump’s baiting that he may try to pull strings on monetary policy both by legislation and possibly by installing a “shadow chair” who could undermine Powell’s authority. Powell said he believes there’s strong support in Congress to keep the Fed’s decision-making separate and distinct from the political swirl in Washington: *“I think there is very, very broad support for that set of ideas in Congress in both political parties on both sides of the Hill, and that’s what really matters. It’s the law of the land, and I’m not concerned that there’s some risk that we would lose our statutory independence.”* Of course, those could be famous last words, but for now the financial markets liked Powell’s show of confidence and his steady leadership.

Even as markets surge, investors are twisting in the wind a bit right now as we try to understand the nature of this inflection point we seem to have reached. Are we peaking at these lofty levels or about to reach surge velocity? It is worth noting that equity exchange-traded fund (ETF) inflows last month reached the highest level in three years, and investor stock exposure is the heaviest since 2021. This raises questions about the sustainability of bullish sentiment, as such readings can be contrarian indicators. Current low volatility and market momentum are eyebrow raisers too. Finally, there is the uncomfortable statistic that the S&P 500’s price-to-book ratio has surged to 5.3x in 2024, having last approached a peak of 5.5 in March 2000 during the height of the technology bubble, according to data compiled by Bloomberg. While we do not believe we are on the precipice of that kind of turning point, we do believe caution is warranted as we consider some market segments right now. For these reasons, we are working to do some rebalancing across portfolios, taking profits in areas where we think valuations are more than full and redistributing back to other pockets less stretched from a valuation perspective. These rebalances will happen into year-end and early next year as we spread capital gains realizations over the two tax years and set our course for 2025. Being disciplined in extreme market conditions is what helps you to achieve your long-term goals: we add to positions when there is fear and uncertainty, but we believe strong fundamentals exist; we trim back those positions when market euphoria is ignoring risks caused by valuations too perfect for the unknowns ahead.

Thank you for your interest in our weekly investment commentary. If you would like to speak personally with a member of our team at any time, please click **here**.

Ropes Wealth Advisors
800 Boylston Street Boston, MA 02199-3600