

Stocks Slide, Rates Jump After Fed Decision and Comments

The stock market logged sharp declines.



The week started in better form, but equities hit a wall Wednesday after the Fed implied with its words and guidance that further rate cuts can wait until there is more progress on inflation. Wednesday's session left the S&P 500 178 points lower, the Nasdaq Composite was 3.5% lower, and the Dow Jones Industrial Average closed more than 1,100 points lower, logging its tenth consecutive decline.

This followed the FOMC's decision to cut rates 25 basis points to 4.25-4.50%, as expected. It was not a unanimous vote. Cleveland Fed President Hammack dissented in favor of leaving the target range for the fed funds rate unchanged at 4.50-4.75%.

The Summary of Economic Projections showed that the median estimate for PCE inflation and core PCE inflation

was increased for 2024 and 2025, and the estimate for unemployment was decreased for 2024 and 2025.

Additionally, the median estimate for the 2025 fed funds rate was bumped up to 3.9% from 3.4%, signaling an outlook for only 50-basis points of easing in 2025 versus 100-basis points when the September projection was released.

Rising market rates put added pressure on stocks. The 10-yr yield jumped 12 basis points to 4.52% and the 2-yr yield settled seven basis points higher.

Small and mid cap stocks underperformed their larger peers, leading the Russell 2000 to sink 4.5% since last Friday and the S&P Mid Cap 400 to close 4.7% lower than last week. The S&P 500 declined 2.0%, the Nasdaq Composite fell 1.8%, and the Dow Jones Industrial Average logged a 2.3% loss.

Mega cap stocks held up better than the "rest" of the market, but still garnered selling interest. The equal-weighted S&P 500 fell 3.0% and the Vanguard Mega Cap Growth ETF (MGK) registered a 1.4% loss.

The S&P 500 energy sector struggled more than other sector, falling 5.6%. The rate-sensitive real estate sector was the next worst performer, dropping 5.0%. The only sector that settled less than 1.0% lower was information technology, which declined 0.7%.

The market staged a rebound on Friday following the Personal Income and Spending Report for November, which didn't show any improvement in inflation, but importantly, the data was better than some had feared. The PCE Price Index rose to 2.4% on a year-over-year basis versus 2.3% in October, and core PCE was 2.8%, which was unchanged from October. Consensus estimates however, pegged them coming in at 2.5% and 2.9%, respectively.

- Nasdaq Composite: -1.8% for the week / +30.4% YTD
- S&P 500: -2.0% for the week / +24.3% YTD
- Dow Jones Industrial Average: -2.3% for the week / +13.7% YTD
- S&P Midcap 400: -4.7% for the week / +12.3% YTD
- Russell 2000: -4.5% for the week / +10.6% YTD

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