

# Markets Struggle Amid Fed's New Projections: Dow Jones Holds Steady as 'The Good, the Bad, and the Ugly' Unfold.

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The US and European stock markets attempted to rebound from the Fed-driven decline as its new projections raised the rates for 2025 to 3.9%, allowing it to record one of the worst trading sessions in 50 years. However, only the Dow Jones could close with a small gain. On the economic front, third-quarter real GDP growth was revised upward from an annualized 2.8% to 3.1%, showcasing continued robust economic performance. Meanwhile, initial jobless claims came in at 220,000 for the week, beating expectations of 229,000 and marking a significant drop from last week's 242,000.

Asian markets closed lower, along with European markets are also under pressure. In bond markets, longer-term yields continue to climb, with the 10-year Treasury yield rising to 4.57%, while the 2-year Treasury yield edged down to 4.32%.

## The Bad: Market Reaction to Fed Policy

The Federal Reserve implemented a second consecutive quarter-point rate cut yesterday, bringing the target range for the federal funds rate to 4.25%-4.50%. Alongside the rate decision, the Fed unveiled updated economic projections. These include a revised median forecast for PCE at 2.50% and Core PCE at 2.5% by the end of 2025, up from 2.2% in September. The Fed now anticipates the fed funds rate will close 2025 at 3.9%, suggesting only two rate cuts in 2025, and projects a rate of 3.1% by the end of 2027, indicating a prolonged period of elevated interest rates.

## The Good: Key Drivers for Optimism

- 1. Sustained Economic Growth:** The U.S. economy continues to demonstrate resilience, with real GDP growing at an annualized 3.1% in the third quarter. Consumer spending, which accounts for nearly 70% of GDP, expanded by 3.7%, while nonresidential investment grew by 4%, indicating robust business activity despite higher borrowing costs. The Fed has revised its GDP growth estimate for this year to 2.5%, up from 2%. Additionally, the NFIB Small Business Optimism Index reached its highest level since 2021, signaling renewed confidence among small businesses.
- 2. Strong Labor Market:** A solid labor market has underpinned economic resilience over the past two years. The unemployment rate remains low at 4.2% in November, well below the long-term median of 5.1%. November's substantial nonfarm payroll gain brought the 2024 monthly average to 190,000 jobs, surpassing the 10-year average of 160,000 jobs per month. While this marks a slowdown from 2023's average of 251,000, the pace of job creation remains robust.
- 3. Rising Corporate Profits:** After flat earnings growth in 2023, S&P 500 earnings per share are projected to grow by 9% in 2024, the strongest rate since 2021. Analysts forecast nearly 15% EPS growth for 2025, supported by a healthy economic backdrop that provides a solid foundation for corporate profitability.
- 4. Global Central Bank Dynamics:** Central bank policies are in the spotlight, with the Bank of England holding rates steady at 4.75% amid sluggish economic growth and persistent inflation.

In Japan, the Bank of Japan also maintained its policy rate at 0.25%, while signaling readiness to raise rates as the country continues efforts to escape decades of deflationary pressures.

The combination of strong economic growth, a resilient labor market, rising corporate earnings, and central bank policy adjustments sets the stage for potential equity market gains in 2025.

### The Ugly: The Five Key Index Returns fell

1. **Dow Jones** fell from a YTD Return on December 5 of 18.77% to 12.34% on December 19.
2. **S&P 500** fell from a YTD Return on December 5 of 27.87% to 23.0% on December 19.
3. **Nasdaq Composite** fell from a YTD Return on December 5 of 31.24% to 29.05% on December 19.
4. **Birling Capital Puerto Rico Stock Index** fell from a YTD Return of 15.35% on December 5 to 6.04% on December 19.
5. **Birling US Bank Index** fell from a YTD Return of 49.49% on December 5 to 39.44% on December 19.

### Key Economic Data:

- **US Initial Claims for Unemployment Insurance:** fell to 220,000, down from 242,000., is a change of -9.09%.
- **US Existing Home Sales:** rose to 4.15 mm, up from 3.96 mm, increasing 4.80%.
- **US Total Vehicle Sales:** rose to 17.00 mm, up from 16.72 mm, increasing 1.72%.
- **Japan Consumer Price Index YoY:** fell to 2.30%, compared to 2.50% last month.

### Eurozone Summary:

- **Stoxx 600:** Closed at 506.66, down 7.77 points or 1.51%.
- **FTSE 100:** Closed at 8,105.32, down 93.79 points or 1.14%.
- **DAX Index:** Closed at 19,969.86, down 272.71 points or 1.35%.

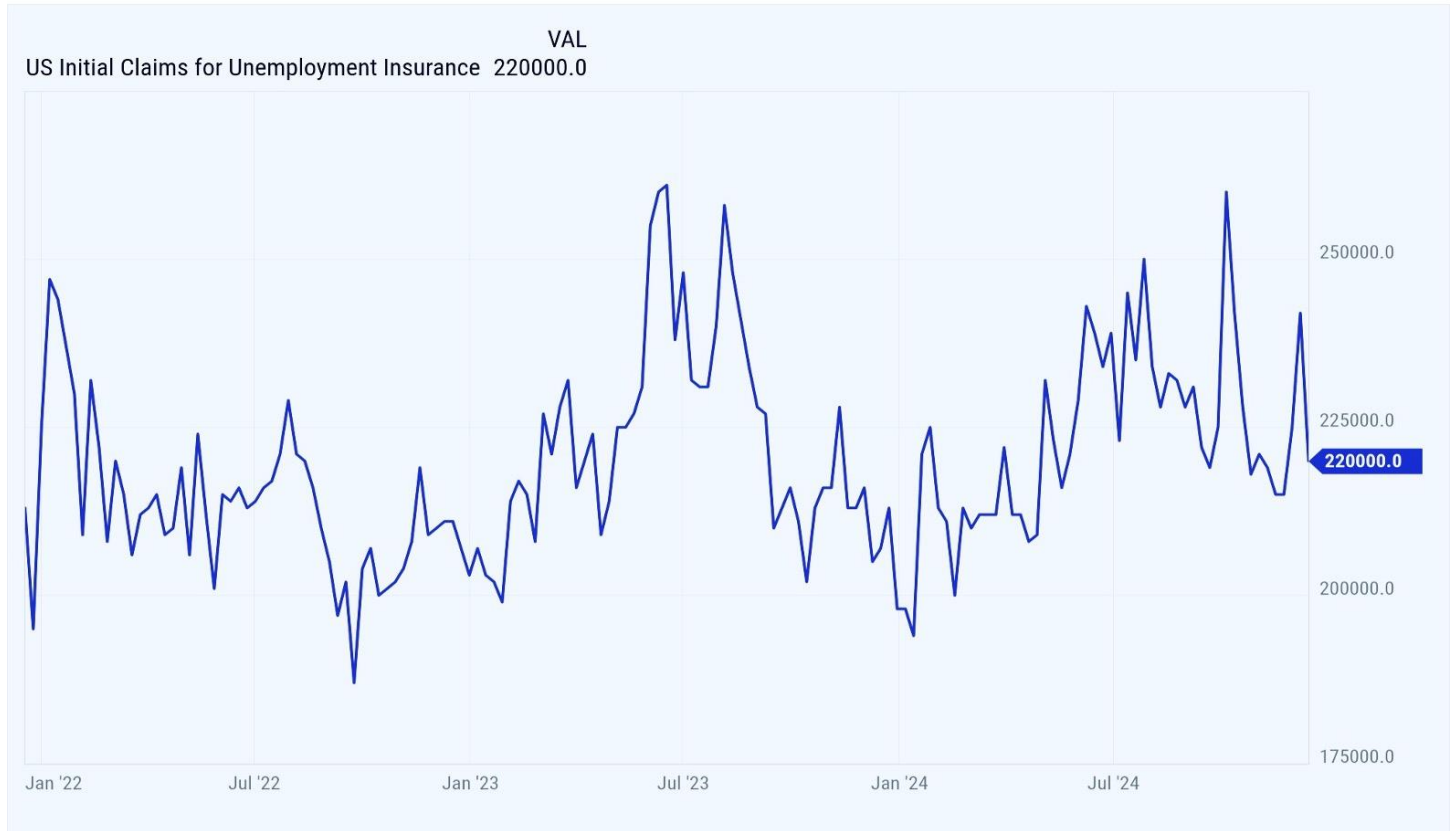
### Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 42,342.24, up 15.37 points or 0.04%.
- **S&P 500:** closed at 5,867.08, down 5.08 points or 0.09%.
- **Nasdaq Composite:** closed at 19,372.77, down 19.92 points or 0.10%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,545.16, down 149.78 points or 4.05%.
- **Birling Capital US Bank Stocks Index:** closed at 6,078.81, down 247.41 points or 3.91%.
- **US Treasury 10-year note:** closed at 4.57%.
- **US Treasury 2-year note:** closed at 4.32%.

## Forecasts for the Fourth Quarter

<b>Date</b>	<b>GDPNow 4Q24</b>	<b>Change</b>
<b>10/31/24</b>	<b>2.70%</b>	<b>Initial Forecast</b>
<b>11/1/24</b>	<b>2.30%</b>	<b>-14.81%</b>
<b>11/5/24</b>	<b>2.40%</b>	<b>4.35%</b>
<b>11/7/24</b>	<b>2.50%</b>	<b>4.17%</b>
<b>11/15/24</b>	<b>2.50%</b>	<b>0.00%</b>
<b>11/19/24</b>	<b>2.60%</b>	<b>4.35%</b>
<b>11/27/24</b>	<b>2.70%</b>	<b>3.85%</b>
<b>12/2/24</b>	<b>3.20%</b>	<b>18.52%</b>
<b>12/5/24</b>	<b>3.30%</b>	<b>3.13%</b>
<b>12/9/24</b>	<b>3.30%</b>	<b>0.00%</b>
<b>12/17/24</b>	<b>3.10%</b>	<b>-6.06%</b>
<b>12/18/24</b>	<b>3.20%</b>	<b>3.23%</b>

# US Initial Claims for Unemployment,





# US Total Vehicle Sales & US Existing Home Sales





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