



# The Federal Reserve Bank Begins its Rate Cutting Cycle with a 50 Basis Points Rate Cut, Wall Street Tanks.

September 18, 2024

by Francisco Rodríguez-Castro  
[frc@birlingcapital.com](mailto:frc@birlingcapital.com)

The U.S. and European stock markets closed the session with losses following the Federal Reserve's much-anticipated rate decision, which lowered rates by 50 basis points today, beginning a new rate-cutting cycle.

When the Federal Reserve lowers interest rates, the immediate expectation is that it will stimulate the economy by making borrowing cheaper, encouraging investment and consumer spending. However, today's drop in the stock market suggests that investors are weighing the broader implications of the Fed's decision. One key concern is that a rate cut might indicate underlying economic weakness. If the Fed is lowering rates to counter a slowdown, investors may interpret it as a signal that the economic outlook is more fragile than anticipated, sparking fear and a stock sell-off. In today's case, a mix of these factors—fears about economic weakness, profit-taking, concerns over inflation, and unmet market expectations—has combined to send stocks lower despite the Fed's attempt to stimulate growth.

Meanwhile, U.S. Treasury 10-year note closed at 3.70%, slightly up but remains near yearly lows, reflecting the expectation of a prolonged rate-cutting environment. Elsewhere, oil prices have dropped, trading around \$70 a barrel, which could lower gasoline prices—a positive for the economy and consumer spending in the months ahead.

## Fed Begins Easing Cycle

Following the most aggressive tightening campaign in forty years and the second-longest pause in history, the Federal Reserve, as expected, announced its first rate cut in four years. For good measure, it cut rates by 50 basis points. Inflation has moved closer to the Fed's target, and signs of a cooling labor market are allowing policymakers to gradually shift toward normalizing rates, likely in the 3.0%-3.5% range over the next year. During the Fed's press conference, Fed Chair Powell offered his views on the rate cut and updated economic forecasts showing resilient growth and gradual inflation improvement, with a slight uptick in unemployment as the labor market softens.

## The Federal Reserve Bank projections:

Benchmark	2024	2025	2026
Gross Domestic Product	2.0%	2.0%	2.0%
Unemployment Rate	4.4%	4.4%	4.3%
PCE	2.3%	2.1%	2.0%
Core PCE	2.6%	2.2%	2.0%
Fed Funds Rate	4.4%	3.4%	2.9%

## Market Impact of Rate Cuts

Historically, the market's response to rate cuts has depended on economic conditions. When rate cuts occur outside of a recession, equity markets tend to perform strongly in the 12 months following the first cut. In contrast, stock market losses have often accompanied rate cuts in response to economic downturns. This time, the rate cuts appear to be more of an "insurance" measure, with the Fed acting because inflation is improving rather than out of economic necessity. Recent data, such as retail sales and industrial production, indicate that the economy is still growing above trend, with the Atlanta Fed's GDPNow Q3 GDP forecast to 2.90%. Consumer spending remains strong, and the uptick in unemployment appears driven by increased labor supply rather than layoffs, pointing toward the potential for a soft landing. If a recession is avoided, the bull market in stocks could persist, though with volatility along the way. Cyclical and undervalued stocks may start to catch up with mega-cap tech stocks. In fixed income, a lower path for rates historically boosts investment-grade bond returns, and this cycle is expected to follow that trend, with longer-term bonds offering more stability than short-term cash investments amidst falling rates.

## GDPNow Update:

- The GDPNow for the Third Quarter of 2024 was updated on September 18 to 2.90% from 3.00%.

## Key Economic Data:

- **Target Federal Funds Rate Upper Limit:** fell to 5.00%, compared to 5.50% yesterday.
- **U.S. Housing Starts:** rose to 1.356 million, up from 1.237 million last month, increasing 9.62%.
- **U.S. Building Permits:** rose to 1.475 million, up from 1.406 million last month, increasing 4.91%.
- **Eurozone Inflation Rate: Excluding Energy, Food, Alcohol, and Tobacco:** fell to 2.80%, compared to 2.90% last month.
- **U.K. Consumer Price Index YoY:** is unchanged at 2.20%, compared to 2.20% last month.
- **U.K. Core Consumer Price Index YoY:** rose to 3.62%, compared to 3.31% last month.
- **U.K. Producer Price Index: Input YoY:** fell by -1.21%, compared to 0.27% last month.
- **U.K. Producer Price Index: Output YoY:** fell to 0.22%, compared to 0.89% last month.
- **U.K. Average House Price YoY:** fell to 2.18%, compared to 2.73% last month.

## Eurozone Summary:

- **Stoxx 600:** Closed at 514.59, down 2.60 points or 0.50%.
- **FTSE 100:** Closed at 8,253.59, down 56.18 points or 0.68%.
- **DAX Index:** Closed at 18,711.49, down 14.59 points or 0.078%.

## Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 41,503.10, down 103.08 points or 0.25%.
- **S&P 500:** closed at 5,618.26, down 16.32 points or 0.29%.
- **Nasdaq Composite:** closed at 17,573.30, down 54.76 points or 0.31%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,796.99, up 25.41 points or 0.67%.
- **Birling Capital U.S. Bank Stock Index:** closed at 5,207.91, up 38.38 points or 0.74%.
- **U.S. Treasury 10-year note:** closed at 3.70%.
- **U.S. Treasury 2-year note:** closed at 3.61%.



# Federal Reserve Bank Interest Rate Actions

<b>Date</b>	<b>Change</b>	<b>Fed Funds Rate</b>
<b>9/18/2024</b>	<b>-0.50%</b>	<b>5.00%-5.25%</b>
<b>7/31/2024</b>	<b>No Change</b>	<b>5.25%-5.50%</b>
<b>6/12/2024</b>	<b>No Change</b>	<b>5.25%-5.50%</b>
<b>5/1/2024</b>	<b>No Change</b>	<b>5.25%-5.50%</b>
<b>3/20/2024</b>	<b>No Change</b>	<b>5.25%-5.50%</b>
<b>1/31/2024</b>	<b>No Change</b>	<b>5.25%-5.50%</b>
<b>12/13/2023</b>	<b>No Change</b>	<b>5.25%-5.50%</b>
<b>11/1/2023</b>	<b>No Change</b>	<b>5.25%-5.50%</b>
<b>9/20/2023</b>	<b>No Change</b>	<b>5.25%-5.50%</b>
<b>7/26/2023</b>	<b>0.25%</b>	<b>5.25%-5.50%</b>
<b>5/3/2023</b>	<b>0.25%</b>	<b>5.00%-5.25%</b>
<b>3/22/2023</b>	<b>0.25%</b>	<b>4.75%-5.00%</b>
<b>2/1/2023</b>	<b>0.25%</b>	<b>4.50%-4.75%</b>
<b>12/14/2022</b>	<b>0.50%</b>	<b>4.25%-4.50%</b>
<b>11/2/2022</b>	<b>0.75%</b>	<b>3.75%-4.00%</b>
<b>9/21/2022</b>	<b>0.75%</b>	<b>3.00%-3.25%</b>
<b>7/27/2022</b>	<b>0.75%</b>	<b>2.25%-2.50%</b>
<b>6/16/2022</b>	<b>0.75%</b>	<b>1.50%-1.75%</b>
<b>5/5/2022</b>	<b>0.50%</b>	<b>0.75%-1.00%</b>
<b>3/17/2022</b>	<b>0.25%</b>	<b>0.25%-0.50%</b>

# Federal Reserve Bank Updated Projections 9/18/24

**Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2024**

Percent

Variable	Median <sup>1</sup>					Central Tendency <sup>2</sup>					Range <sup>3</sup>				
	2024	2025	2026	2027	Longer run	2024	2025	2026	2027	Longer run	2024	2025	2026	2027	Longer run
Change in real GDP	2.0	2.0	2.0	2.0	1.8	1.9-2.1	1.8-2.2	1.9-2.3	1.8-2.1	1.7-2.0	1.8-2.6	1.3-2.5	1.7-2.5	1.7-2.5	1.7-2.5
June projection	2.1	2.0	2.0		1.8	1.9-2.3	1.8-2.2	1.8-2.1		1.7-2.0	1.4-2.7	1.5-2.5	1.7-2.5		1.6-2.5
Unemployment rate	4.4	4.4	4.3	4.2	4.2	4.3-4.4	4.2-4.5	4.0-4.4	4.0-4.4	3.9-4.3	4.2-4.5	4.2-4.7	3.9-4.5	3.8-4.5	3.5-4.5
June projection	4.0	4.2	4.1		4.2	4.0-4.1	3.9-4.2	3.9-4.3		3.9-4.3	3.8-4.4	3.8-4.3	3.8-4.3		3.5-4.5
PCE inflation	2.3	2.1	2.0	2.0	2.0	2.2-2.4	2.1-2.2	2.0	2.0	2.0	2.1-2.7	2.1-2.4	2.0-2.2	2.0-2.1	2.0
June projection	2.6	2.3	2.0		2.0	2.5-2.9	2.2-2.4	2.0-2.1		2.0	2.5-3.0	2.2-2.5	2.0-2.3		2.0
Core PCE inflation <sup>4</sup>	2.6	2.2	2.0	2.0		2.6-2.7	2.1-2.3	2.0	2.0		2.4-2.9	2.1-2.5	2.0-2.2	2.0-2.2	
June projection	2.8	2.3	2.0			2.8-3.0	2.3-2.4	2.0-2.1			2.7-3.2	2.2-2.6	2.0-2.3		
Memo: Projected appropriate policy path															
Federal funds rate	4.4	3.4	2.9	2.9	2.9	4.4-4.6	3.1-3.6	2.6-3.6	2.6-3.6	2.5-3.5	4.1-4.9	2.9-4.1	2.4-3.9	2.4-3.9	2.4-3.8
June projection	5.1	4.1	3.1		2.8	4.9-5.4	3.9-4.4	2.9-3.6		2.5-3.5	4.9-5.4	2.9-5.4	2.4-4.9		2.4-3.8

<b>Date</b>	<b>GDPNow 3Q24</b>	<b>Change</b>
<b>7/25/2024</b>	<b>2.80%</b>	<b>Initial Forecast</b>
<b>8/1/2024</b>	<b>2.50%</b>	<b>10.71%</b>
<b>8/6/2024</b>	<b>2.90%</b>	<b>16.00%</b>
<b>8/8/2024</b>	<b>2.90%</b>	<b>0.00%</b>
<b>8/15/2024</b>	<b>2.40%</b>	<b>-17.24%</b>
<b>8/15/2024</b>	<b>2.00%</b>	<b>-16.67%</b>
<b>9/3/2024</b>	<b>2.00%</b>	<b>0.00%</b>
<b>9/4/2024</b>	<b>2.10%</b>	<b>5.00%</b>
<b>9/9/2024</b>	<b>2.50%</b>	<b>19.05%</b>
<b>9/17/2024</b>	<b>3.00%</b>	<b>20.00%</b>
<b>9/18/2024</b>	<b>2.90%</b>	<b>-3.33%</b>



# Wall Street Recap

## September 18, 2024



Global Market Square © es una publicación preparada por Birling Capital LLC y resume los recientes desarrollos geopolíticos, económicos, de mercado y otros que pueden ser de interés para los clientes de Birling Capital LLC. Este informe está destinado únicamente a fines de información general, no es un resumen completo de los asuntos a los que se hace referencia y no representa asesoramiento de inversión, legal, regulatorio o fiscal. Se advierte a los destinatarios de este informe que busquen un abogado profesional adecuado con respecto a cualquiera de los asuntos discutidos en este informe teniendo en cuenta la situación de los destinatarios. Birling Capital no se compromete a mantener a los destinatarios de este informe informados sobre la evolución futura o los cambios en cualquiera de los asuntos discutidos en este informe. Birling Capital. El símbolo de registro y Birling Capital se encuentran entre las marcas registradas de Birling Capital. Todos los derechos reservados.