40 YEARS CLAYTON WEALTH PARTNERS

JUNE 2024

MONTHLY MARKET PERSPECTIVE

Now Down to One Cut

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DASHBOARD

- Business Cycle
- Valuation
- Trend

At its June policy meeting, the Federal Reserve held its target interest rate steady. Chair Jerome Powell again stated that officials wanted more confidence in continued progress on the Fed's mission to bring down inflation. No surprise there.

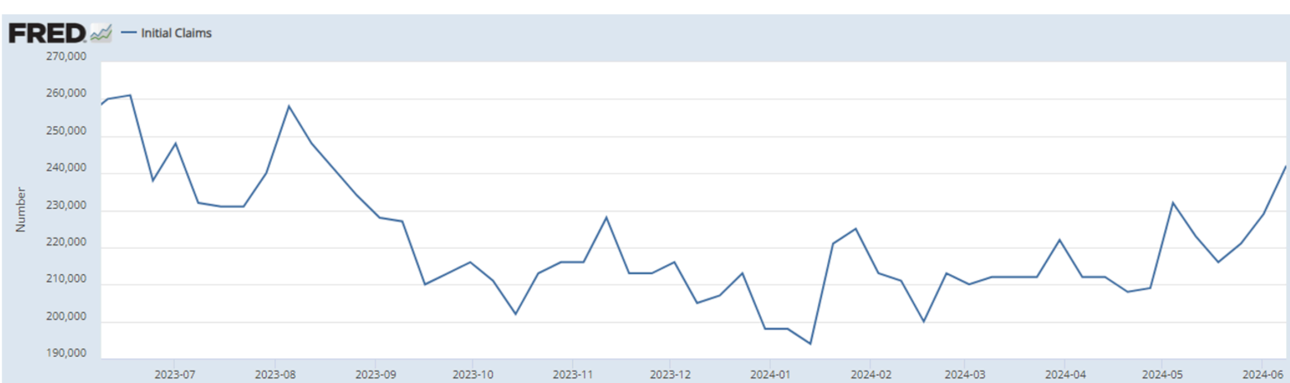
But in the Fed's updated quarterly projections, it penciled in just one rate cut in 2024. Here was the surprise. Just three months ago, the Fed had anticipated three cuts in 2024. At the beginning of 2024, market participants were betting on six or seven cuts during the year. To be sure, economic conditions remain fluid, and we can't rule out the possibility of two cuts this year, beginning as soon as September.

We think the Federal Reserve is right to remain fixated on inflation in the near term. History has shown that when the Fed cuts rates too early or by too much, inflation can reaccelerate. The Fed certainly wants to avoid undoing all the progress it has made over the past couple of years.

The Fed's biggest risk to this approach is that it waits too long to begin cutting or doesn't cut enough. We're at the point in the business cycle where the lagged impact of previous rate hikes historically has started to bite. And by now, consumers have largely spent down the massive excessive-savings buffer accumulated from the pandemic stimulus that was unique to this cycle.

To that end, we'll return to the topic of last month's Monthly Market Perspective: initial unemployment claims. Initial claims have historically been an excellent leading indicator of future employment trends. In the past month, weekly claims have continued to trend higher (see exhibit). This comes as the unemployment rate has already risen to 4% from its cycle low of 3.4%.

Exhibit: Initial Claims for Unemployment Insurance (Weekly)



Source: U.S. Employment and Training Administration, retrieved from FRED, Federal Reserve Bank of St. Louis, Clayton Wealth Partners.

We continue to remain open to the possibility of the economy achieving the so-called "soft landing" (tame inflation and no recession). We also continue to believe it's too early to make that determination. With stocks offering little relative value, we remain cautious for now.

Bullish

- The Fed has made good progress in reducing inflation since 2022.
- The Fed appears poised to start cutting interest rates in 2024.
- The services sector of the U.S. has remained strong.
- The most attractive yields for fixed income and cash in years.
- Consumer and corporate balance sheets generally remain healthy.

Bearish

- Slowing global economic growth with recession pressures mounting.
- Banks are tightening lending standards.
- Housing affordability remains at a decades-low.
- Leading indicators of unemployment are generally trending down.
- Delinquency rates on consumer loans are rising.
- Russia-Ukraine war, Israel-Hamas conflict, and other geopolitical concerns.
- China is experiencing a growth recession, with deflation fears growing.
- Federal debt and deficits have ballooned.

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As Partner and Chief Investment Officer, James Walden strives to maximize our clients' long-term, risk-adjusted portfolio returns. This includes determining strategic and tactical asset allocations, as well as specific investment analysis and prudent rebalancing. Jim is also a partner and management team member. His expertise includes advanced investment research and valuation, and he is passionate about his role in helping clients reach and exceed their financial goals.

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