MARKET VIEWS

Charts of the Week

September 23th,2024

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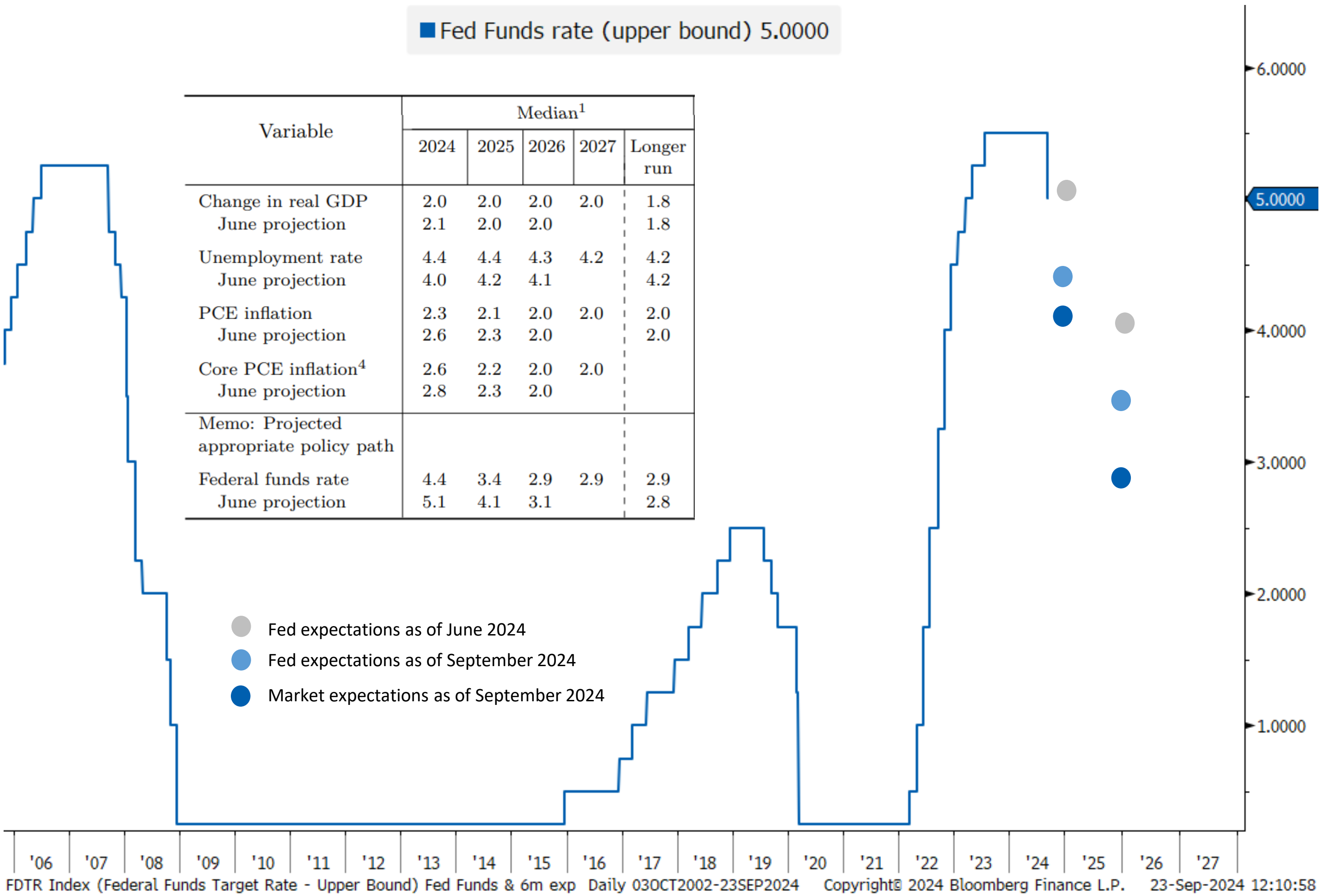
The Fed validates the market's dovish stance

Last week saw the Fed opt for a 50bps rate cut and revise lower their economic projections (see table). While not forecasting a recession, the Fed confirmed that more cuts are coming, moving in the direction of the market's expectations, firmly reinstating the "Fed put". It is however noteworthy that market expectations continue to exceed the Fed's, as can be seen below.

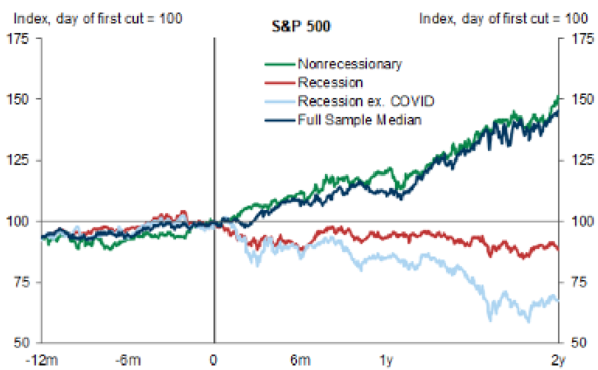


Variable	Median[1]				
	2024	2025	2026	2027	Longer run
Change in real GDP	2.0	2.0	2.0	2.0	1.8
June projection	2.1	2.0	2.0		1.8
Unemployment rate	4.4	4.4	4.3	4.2	4.2
June projection	4.0	4.2	4.1		4.2
PCE inflation	2.3	2.1	2.0	2.0	2.0
June projection	2.6	2.3	2.0		2.0
Core PCE inflation[4]	2.6	2.2	2.0	2.0	
June projection	2.8	2.3	2.0		
Memo: Projected appropriate policy path					
Federal funds rate	4.4	3.4	2.9	2.9	2.9
June projection	5.1	4.1	3.1		2.8

What tends to happen after the first cut?

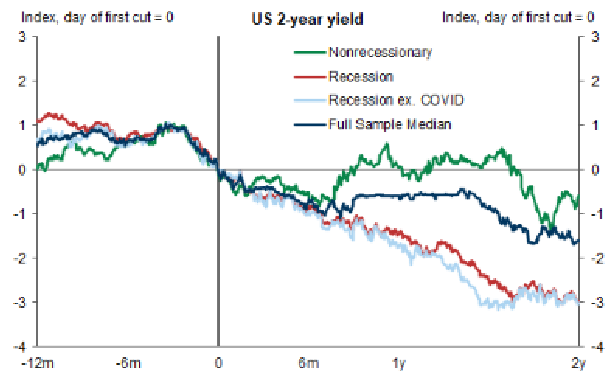
Goldman Sachs show the importance of the economic picture for equities following the first cut, with a recession inevitably leading to declines. Given the current bearish consensus against the USD, it is noteworthy that the USD has tended to rise following the first cut, while the curve steepened.

Exhibit 2 : Equities tend to rally after the Fed starts to cut...
Median across each sample



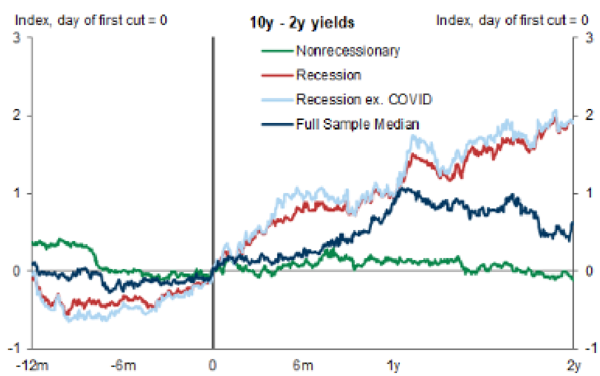
Source: Goldman Sachs Global Investment Research

Exhibit 3 : ...while yields tend to fall
Median across each sample



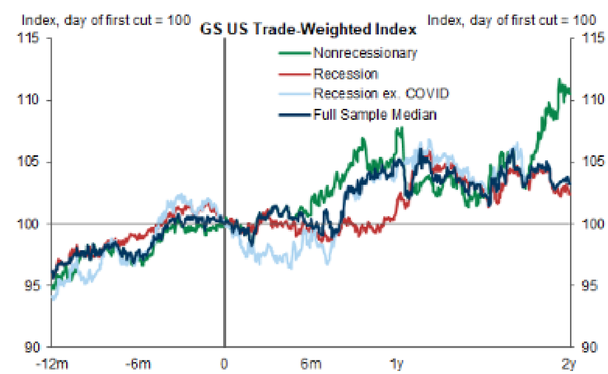
Source: Goldman Sachs Global Investment Research

Exhibit 4 : The yield curve tends to steepen...
Median across each sample



Source: Goldman Sachs Global Investment Research

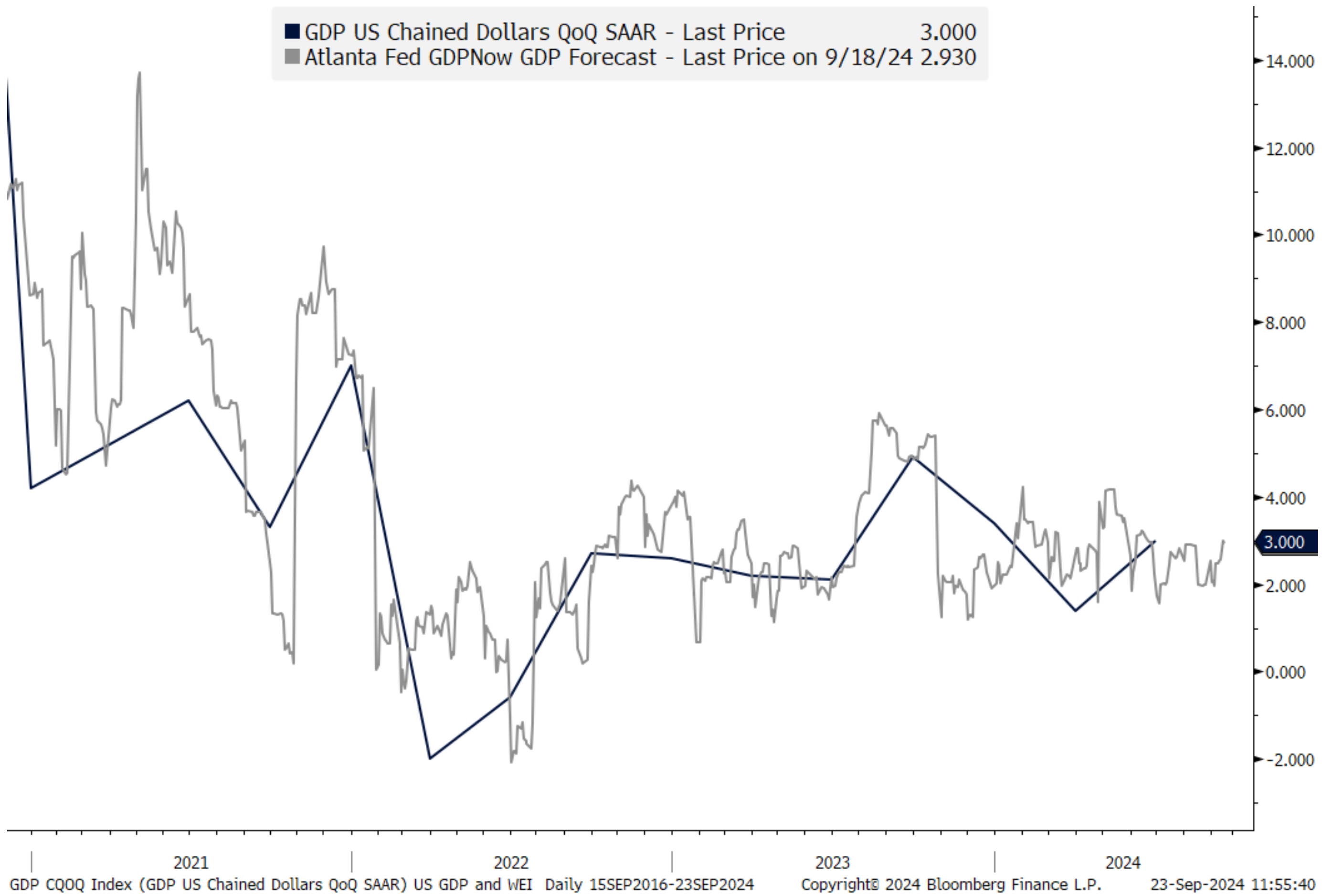
Exhibit 5 : ...while the Dollar stays flat and then strengthens
Median across each sample



Source: Goldman Sachs Global Investment Research

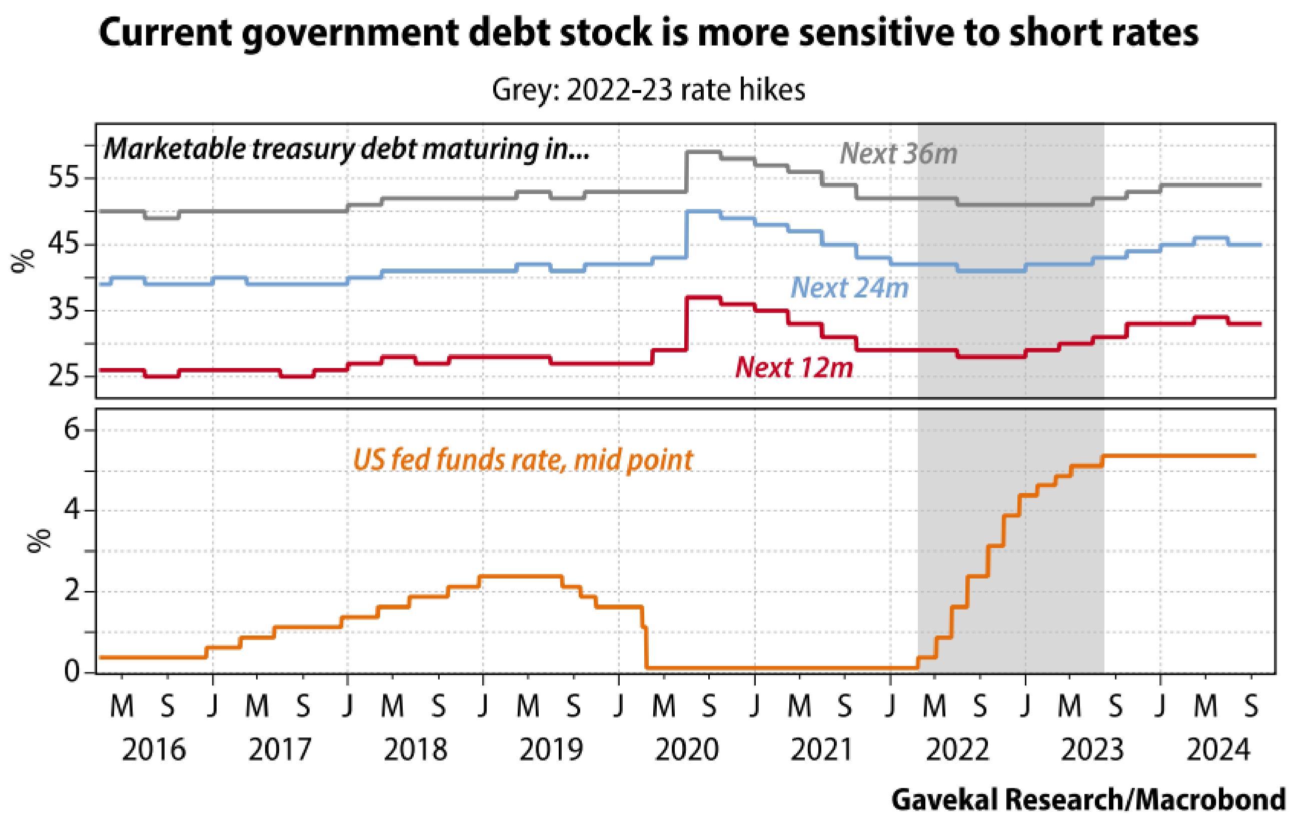
Recent data support the no-recession scenario

We continue to see scant evidence of an imminent recession, with recent data being marginally better than expected, particularly jobless claims, building permits and housing starts. The Fed's validation of the recent easing in financial conditions also reinforces the odds of growth (and inflation) rebounding in coming months. The Atlanda Fed GDPNow growth forecast remains stuck between 2 and 3% real.



It might not really be about growth

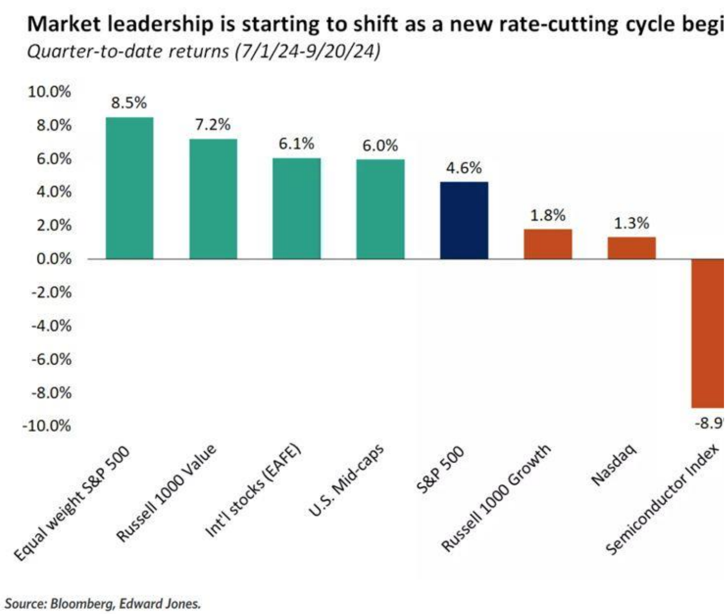
Our premise remains that the Fed will be more accommodative than justified by the growth/inflation environment, due to the upcoming wall of maturing debt. There is over 30% of the debt stock maturing in the coming 12 months, and 45% over the coming 24 months.

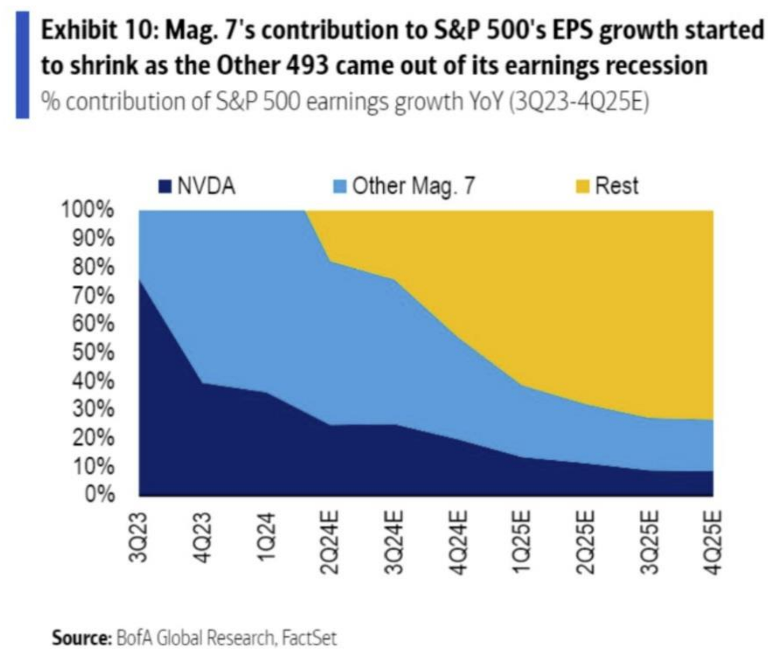


Change in leadership as equities attempt to break out

A slowing but resilient economy combined with a dovish Fed would be an ideal scenario for equities, which are attempting to break out to new highs following a couple of months of consolidation.

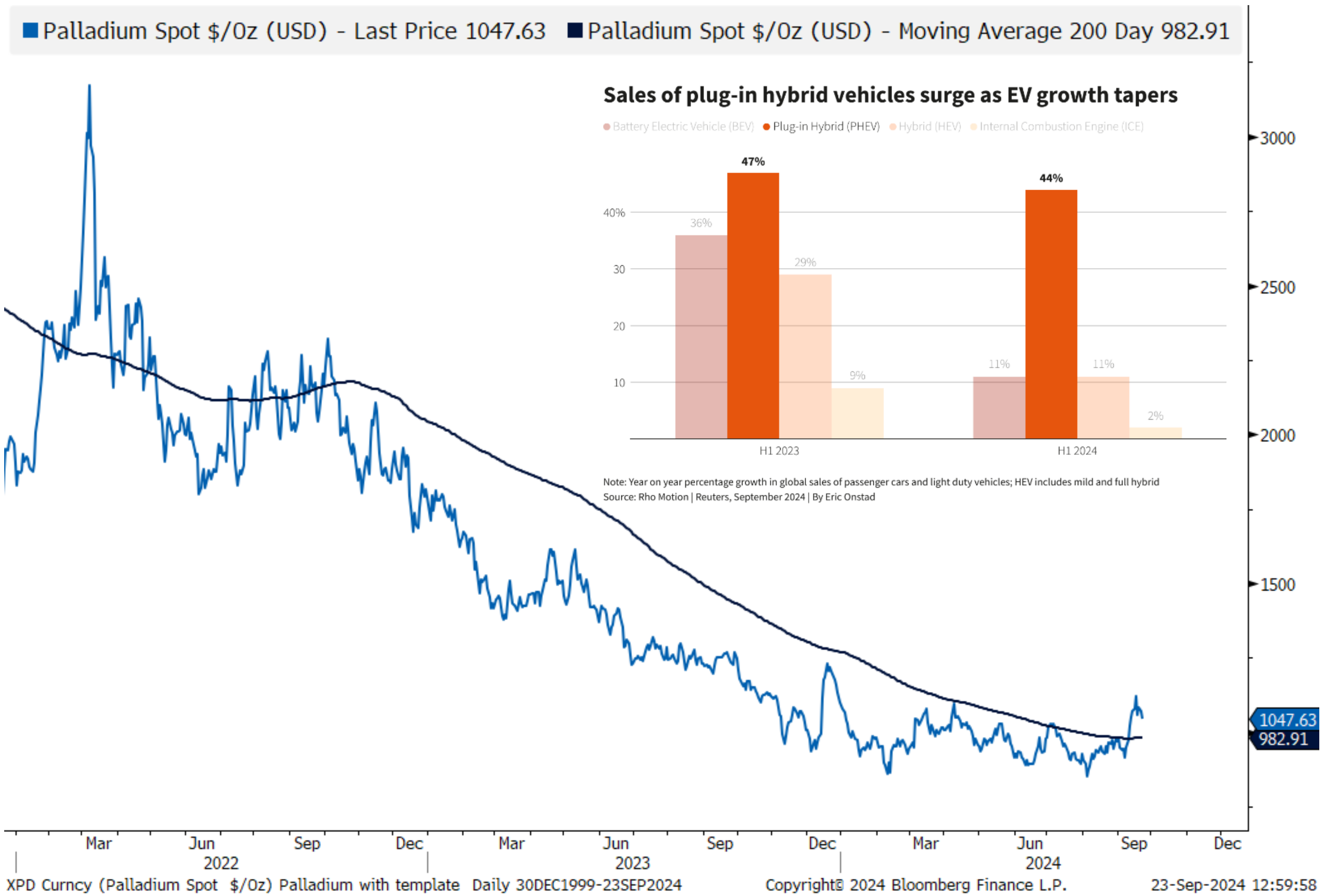
Interestingly, a change in leadership may be underway, with the equal weight S&P500 outperforming, which suggests broadening participation. With the contribution to S&P500 earnings growth from NVDA and the Mag7 set to keep falling, this trend should continue.





Narrative shift on EVs set to put PGMs back on investor radars

While commodities are likely to be back on investors' radars in the coming months as inflation concerns resurface, Platinum Group Metals (PGMs) in particular are set to benefit from an ongoing narrative shift. With EVs increasingly losing ground to hybrids, the demand picture for PGMs is improving, which opens the door to significant upside, as Reuters' recent article details,



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