WELLS FARGO
Investment Institute

Market Commentary

Weekly perspective on current market sentiment July 31, 2024

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: -0.8%

Fed decision

Key takeaways

- While consensus expectations have fallen for 2024, the number of expected cuts remains too high for 2025 in our view.
- The Federal Reserve's decision and Chair Powell's presser today should shed clarity on the possibility of a September cut.

Will he, or won't he? That is, will Federal Reserve (Fed) Chair Jay Powell announce a rate cut today or not? Our best guess is he will not announce a rate cut this afternoon. As our regular readers know, we have two cuts penciled in this year and one cut next year. And almost surely, given the still-high underlying level of consumer inflation relative to the Fed's target and modest unemployment rate, the economic fundamentals do not quite allow our central bankers to take their foot off the brake just yet.

Saying that, and with three Federal Open Market Committee (FOMC) meetings remaining over the balance of the year (September, November, and December), we believe the time is near for the Fed's first move to lower the fed funds target rate. But, as stated, not at this week's meeting. Many investors are wondering how the financial markets might react to the post-meeting statement that will be released today as well as Chair Powell's comments at the upcoming press conference.

First, consider that stock and bond markets have been quite optimistic for some time that the Fed is going to make meaningful rate cuts. We would argue that much of this optimism has been priced into markets already. Relative to the consensus, we have been far less aggressive in terms of the number of cuts for nearly all of this year. While consensus expectations have fallen for 2024, the number of expected cuts remains too high for 2025 in our view. The Fed itself is projecting four cuts next year with the consensus largely in line with that magnitude of adjustment. Our projection currently calls for one rate cut next year as rental apartment inflation has its typically delayed bounce late next year. We expect the Consumer Price Index (CPI) to post a 3% gain in 2025.

While we expect the S&P 500 Index to be higher (5,600 – 5,800) and the yield on the 10-year Treasury note to be largely in line with current levels (4.0% – 4.5%) at the end of next year, we would expect increased volatility as market participants come to grips with the likelihood that inflation could very well not come down closer to the Fed's target in the near-to-intermediate term, resulting in fewer rate cuts than the consensus expects today

Interest-rate markets have had a habit of getting too optimistic when it comes to rate cuts over the past two years. We suspect markets are overly optimistic now. And while we have been most favorable short-term fixed income and using it as a "parking spot," the volatility that typically accompanies market consensus abandoning excess optimism is a reason we want to make sure that bond ladders make good use of the intermediate maturities.

The Fed's decision and Chair Powell's presser today will likely shed clarity on the possibility of a September cut. Investors will be anxiously waiting.

Risk considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. Although **Treasuries** are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate.

An index is unmanaged and not available for direct investment.

General Disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. PM-01302026-6845205.1.1

