

US Markets Pullback on Fears of Interest Rates

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After a fantastic first quarter of 2024, the US stock market took a bit of a breather in April. The S&P 500 and the Nasdaq both ended the month down over 4% while the Dow Jones lost less than half of that amount. On the year, this still leaves the major indices in positive territory, with the S&P 500 up over 5% followed by the Nasdaq with gains over 4% and the Dow Jones just

edging into positive territory.

Iran and Israel's trading military blows caused short-term market uncertainty. The recent Israeli strike in

and garnered much attention domestically given recent protests, for the markets in the near-term, the major focus remains on interest rates. As 2024 progresses, hopes for multiple interest rate cuts are diminishing as the Fed has been increasingly clear that they do not see any reason to start lowering rates given recent growth.

Yet, growing weakness in various parts of the economy may give the Fed reason to act. First quarter GDP numbers were surprisingly weak at 1.6% seasonally and inflation adjusted, according to the Commerce department. Growth lagged the 2.4% projected by economists polled by The Wall Street Journal. Since interest rates are seen as such a large driver of future corporate profitability, the news did not have a negative impact on markets because it could mean that the Fed may move sooner rather than later to lower rates.

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retaliation for Iran's bombardment added momentum to pullbacks in both the S&P 500 and Nasdaq Composite. For the week of April 15th, the tech-heavy Nasdaq lost 5.5%, its worst performance since 2022, while the S&P 500 dropped 3.1% for the week. The Dow Jones Industrial Average managed a tiny gain.

Yet, amazingly, after declining for three weeks, the Nasdaq and the S&P 500 recovered some of their losses after the recent breakout in fighting before a minor end-of-the-month pullback. While international conflict in the middle east and Ukraine have dominated headlines

Signs that the economy is cooling are also appearing in other areas. After mortgage rates recently climbed back above 7%, home sales in March posted their biggest monthly drop in more than a year. Low-income Americans are saving far less than they did pre-pandemic, and March's average hourly earnings rose at their slowest annual pace since June 2021. Many economists believe these problems will continue, ultimately slowing inflation, and likely causing the labor market to eventually loosen.

Earlier this year, the Bureau of Economic Analysis reported GDP numbers discussed above, but also macro statistic, or gross output (GO) percentages. While GDP measures only final output, GO measures spending at all stages of production, including the supply chain's value. Real GO grew more slowly than GDP for the last two quarters, which often means danger. When gross output grows at a slower pace than GDP, it suggests a slowdown and perhaps a recession.

All these arguments ignore a much bigger challenge. The US is now deficit spending at a rate previously only experienced during times of war. Since this cannot continue, America must at some point make some major changes to avert a real disaster. But when? Who knows.

For now, the US economy continues to plow forward despite obstacles making the Fed's immediate decisions on interest rates difficult. The timing and scale of the Fed's interest rate reductions will likely be the primary driver of market performance in the immediate future and the short-term key to US market performance.

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