



PACIFIC GLOBAL
Investment Management Company

Weekly Recap

December 20, 2024

Market Returns

INDEX ¹	CLOSE	WEEKLY CHANGE	YTD CHANGE
Dow Jones Industrial Avg.	42,840.26	-987.80 / -2.25%	13.67%
S&P 500 [®]	5,930.85	-120.24 / -1.99%	24.34%
Nasdaq	19,572.60	-354.12 / -1.78%	30.39%
Russell 2000 [®]	2,242.37	-104.53 / -4.45%	10.62%

	12/20/24 CLOSE	12/20/23 CLOSE
10-Year U.S. Treasury	4.53%	3.86%

Data: Bloomberg, Federal Reserve

The Bottom Line

The cautious outlook emerging from the Federal Reserve meeting triggered a severe sell-off on Wednesday; the Dow Jones Industrial Average fell over 1,100 points to extend its losing streak to 10 sessions, the longest since 1974. The Fed, as expected, lowered interest rates by 25-basis points to a range of 4.25% and 4.5%. However, the updated Summary of Economic Projections (SEP) and post-meeting commentary revealed a more cautious outlook on the **timing and extent** of future rate cuts. The major indices, while partially recovering later in the week, ended lower as funding to avoid a Government shutdown remained unresolved late Friday: the Nasdaq (-1.78%) suffered the least, followed by the S&P 500[®] Index (-1.99%), the Dow Jones Industrial Average (-2.25%) and the Russell 2000[®] Index (-4.45%). The yield on the 10-Year U.S. Treasury Note rose to 4.53% from 4.40% last Friday.

Chair Powell's post-meeting comments emphasized that the "outlook for the economy is pretty bright," adding, "the economy and policy is in a really good place." "From here, it's a new phase, and we're going to be cautious." He stressed that future rate cuts, following the 100-basis point cuts to date, would continue until achieving a 'neutral rate'; he estimated that a neutral rate would likely be between 2.5% and 4.0%, consistent with pre-Great Recession averages. He noted that **the path forward to achieving the Fed's 2% goal was uncertain, "not unlike driving on a foggy night or walking into a dark room full of furniture."** The quarterly SEP update forecasts two rate cuts in 2025, down from four, with the year-end 2025 fed funds rate projection raised to 3.9% from 3.4%. And, Fed spokespeople continue to emphasize that decisions will be data dependent.

Economic data continue to reflect growth. The second estimate of third quarter GDP (3.1%) compared favorably to both the earlier 2.8% estimate and economists' 2.9% target. November **Personal Consumption Expenditures (PCE)** Index rose 0.1% month-over-month, less than estimates, for a year-over-year 2.4% increase. The closely watched **core PCE** also rose 0.1% for a lower-than expected 2.8% annual increase. November retail sales rose 0.7%, higher than both projections and October's upwardly revised 0.5%. Initial jobless claims fell from 242,000 to 220,000 while continuing claims (1.874 million) were lower than estimates (1.886 million).

The economic outlook for 2025 remains bullish. Computer trading models likely sparked this week's sell off which then triggered additional selling. A similar sell off occurred in August following Japan's rate increase announcement; the markets recovered once computer models and trading strategies adjusted. Chair Powell commented on Wednesday that he expects another really good year. One might expect, though, a bumpy road ahead.

¹The Dow Jones Industrial Average is an unmanaged, price weighted measure of 30 U.S. stocks selected by the Averages Committee to represent the performance of all U.S. stocks outside the Transportation and Utilities sectors. The S&P 500[®] Index is an unmanaged, market capitalization weighted index which measures the performance of the large cap segment of the U.S. equities market, covering approximately 75% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy. The Nasdaq Composite Index is an unmanaged, market capitalization weighted measure of all domestic and international common stocks listed on The Nasdaq Stock Market. The Russell Midcap[®] Index measures the 800 smallest companies within the Russell 1000[®] Index based on a combination of their market cap and current index membership. The Russell 2000[®] Index is an unmanaged, market-weighted measure of stock market performance. It contains stocks of the 2,000 smallest publicly traded companies of the Russell 3000[®] Index. It is not possible to invest in the Indices.

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