

Decision Point

On Wednesday, the [Federal Open Market Committee \(FOMC\)](#) will make a decision on its interest rate target. The current market probabilities are for a reduction of 0.25% which would bring the target range for the Fed Funds Rate to 2.00% to 2.25%. We can attribute most of the stock market tailwind over the past month to the view that the FOMC will reduce interest rates to balance the risk to economic expansion caused by global trade and tariff issues.

The Advance [GDP](#) report for the 2nd quarter showed 2.1% growth in the U.S. economy. This is a decrease from the 3.1% rate of growth seen in the 1st quarter and supports investors view that a reduction in interest rates is warranted. Fed Chairman Jerome Powell stated in early June that the Fed will act appropriately to sustain the current economic expansion.

A generally positive corporate earnings season has also contributed to pushing the S&P 500 Index to all-time highs. Two hundred eighteen companies in the S&P 500 have reported quarter-to-date with 75% reporting earnings above expectations, 18% below expectations, and 7% in-line. Earnings reports were mixed last week. The current [consensus expectations](#) for the S&P 500 Index earnings growth for the quarter moderated to +0.5% from +1.0% the week prior, but is higher than the -0.4% expectation at the start of the earnings reporting season. The expectation for revenue growth increased slightly week-to-week from +3.4% to +3.6%.

Financial Market Update

	Weekly Return	YTD Return		Weekly Return	YTD Return
S&P 500 Index	1.7%	20.7%	International Stocks (MSCI ex-US)	-0.1%	11.5%
Dow Jones Industrial Average	0.1%	16.6%	Aggregate Bond Index	0.0%	4.4%
NASDAQ 100	2.3%	26.7%	U.S. Dollar Index	0.9%	1.8%
Russell 2000 (Small Cap Index)	2.0%	17.1%	WTI Crude Oil	1.0%	23.8%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: Fed Funds

At the FOMC meeting this week, the Fed is widely expected to lower its Fed Funds target rate by 0.25% to a range of 2.00% to 2.25%. What are Fed Funds and how does this impact the economy?

The term Fed Funds is short for Federal Funds. These are the excess reserves that commercial banks and other financial institutions have on deposit at the Federal Reserve’s regional banks. These excess funds are lent to other market participants with insufficient cash on hand to meet their reserve or lending needs. The FOMC sets the rates on these loans, the Fed Funds Rate, which serves as a benchmark for overnight loans between financial institutions.

When the FOMC adjusts this interest rate target it makes the cost of borrowing money more or less expensive. When money is less expensive to borrow it generally provides stimulus to the economy. This is why we see the expectation of a reduction in the Fed Funds Rate target be a stimulus for the stock market as investors believe the lower interest rates should boost economic growth.

The NovaPoint Capital Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is Certified Plan Fiduciary Adviser (CPFA) and an endurance athlete and three-time IRONMAN finisher.



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Jeff has 9 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).



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Frederick has over 25 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 and has also worked at Balentine & Co, Wright Investment Management, and Smith Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).

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