

## Dialing Back

Tame inflation data led the S&P 500 and NASDAQ higher last week, even though the Federal Reserve dialed back its projections for interest rate reductions. For the week, the S&P 500 Index was +1.6%, the Dow was -0.5%, and the NASDAQ was +3.5%. Within the S&P 500 Index, the Technology, Real Estate, and Consumer Discretionary sectors led, while the Energy, Financials, and Industrial sectors lagged. The 10-year U.S. Treasury note yield decreased to 4.209% at Friday's close versus 4.431% the previous week.

May inflation data came in below consensus expectations. The Consumer Price Index (CPI) was flat month-over-month and +3.3% year-over-year and core CPI, which excludes food and energy prices, was +0.2% month-over-month and +3.4% year-over-year. The Producer Price Index (PPI) was -0.2% month-over-month and +2.2% year-over-year. Core PPI, which excludes food, energy, and trade prices, was flat month-over-month and +3.2% year-over-year.

The Federal Open Market Committee (FOMC) held the Fed funds rate at its current 5.25% to 5.50% target range at its June meeting. In its quarterly update to the Summary of Economic Projections the Committee revised its year-end Fed funds target range to a 5.00% to 5.25% range versus previous target range of 4.50% to 4.75%. Based on CME Fed funds futures, the probability of a September rate cut is currently 68.5%. Futures also imply a second rate cut by year end, contrary to the Fed's current projections.

Second quarter earnings reports start in a few weeks. For the second quarter, earnings growth is expected to be 9.0% higher year-over-year with revenue growth of 4.6%. Full-year 2024 earnings for the S&P 500 Index are expected to grow by 11.3% with revenue growth of 5.0%.

In our *Dissecting Headlines* section, we look at the FOMC's updated Summary of Economic Projections.

## Financial Market Update

|                                   | <u>Weekly Return</u> | <u>YTD Return</u> |                             | <u>Weekly Return</u> | <u>YTD Return</u> |
|-----------------------------------|----------------------|-------------------|-----------------------------|----------------------|-------------------|
| S&P 500 Index                     | 1.6%                 | 14.6%             | Aggregate Bond Index        | 1.2%                 | 0.4%              |
| Dow Jones Industrial Average      | -0.5%                | 3.3%              | U.S. Dollar Index           | 0.6%                 | 4.2%              |
| NASDAQ 100                        | 3.5%                 | 17.3%             | WTI Crude Oil               | 3.9%                 | 9.5%              |
| Russell 2000 (Small Cap Index)    | -1.0%                | -0.4%             | Gold                        | 1.7%                 | 13.0%             |
| International Stocks (MSCI ex-US) | -1.7%                | 5.3%              | Real Estate (US REIT Index) | 1.4%                 | -1.8%             |

Sources: S&P Global, FactSet

## Dissecting Headlines: Summary of Economic Projections

At the conclusion of FOMC meetings in March, June, September, and December the Committee updates its Summary of Economic Projections. The projections cover FOMC projections for economic growth as measured by Gross Domestic Product (GDP), the labor market as measured by the unemployment rate, and inflation as measured by the Personal Consumption Expenditures (PCE) Price Index. The Committee also publishes what it believes is an appropriate monetary policy path for short-term interest rates.

The current 2024 projections are GDP growth of 2.1%, the unemployment rate at 4.0%, PCE inflation 2.6% higher and core PCE, which excludes food and energy prices, 2.8% higher. The GDP and unemployment forecasts are consistent with the previous update from March, while the PCE forecast was raised to 2.6% from 2.4% and the core PCE was raised to 2.8% from 2.6%. The stickiness of inflation also prompted the FOMC to reduce the number of interest rate cuts for 2024 with the year-end Fed funds target rate at a 5.00% to 5.25% range from a previous projection of 4.50% to 4.75%. This implies only a single 0.25% reduction from the current range of 5.25% to 5.50%.

For 2025, the Committee currently projects GDP leveling at 2.0% growth, unemployment inching up to 4.2%, and the rate of inflation receding on PCE and core PCE Prices to 2.3% year-over-year. While early, the Committee also forecasts the Fed funds rate to decline by a full percentage point to a 4.00% to 4.25% range by the end of 2025.

The Federal Reserve will likely stay data dependent and we can look for additional fine tuning of these projections and monetary policy following the September FOMC meeting.

## The NovaPoint 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 an endurance athlete and three-time IRONMAN finisher.



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Frederick has over 30 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 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at 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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Larry leads NovaPoint's accounting, tax and outsourced CFO business. He built his previous company, Atlas Solutions, as a solo entrepreneur before merging into NovaPoint CFO. Larry began his career as a Field Artillery officer in the United States Army. Larry earned his Bachelor of Science degree from the U.S. Military Academy at West Point, where he was a four-year letterman on the football team. Larry is a certified Enrolled Agent, recognized by the U.S. Department of the Treasury to represent taxpayers before the Internal Revenue Service.



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Steven is a Vice President at NovaPoint. Prior to joining NovaPoint, Steven's financial experience includes corporate finance at The Home Depot, contributing on Seeking Alpha, and leading investments in real estate projects. Prior to starting his business career, he served in the U.S. Army as a Special Forces Medic with 1st Special Forces Group. Steven is currently attending the Georgia Institute of Technology, Scheller College of Business for his MBA. He also has a Master of Science in Finance degree from Auburn University and a Bachelor of Science in Mechanical Engineering degree from Georgia Southern University. He is currently a member of a local Special Forces Association Chapter.

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