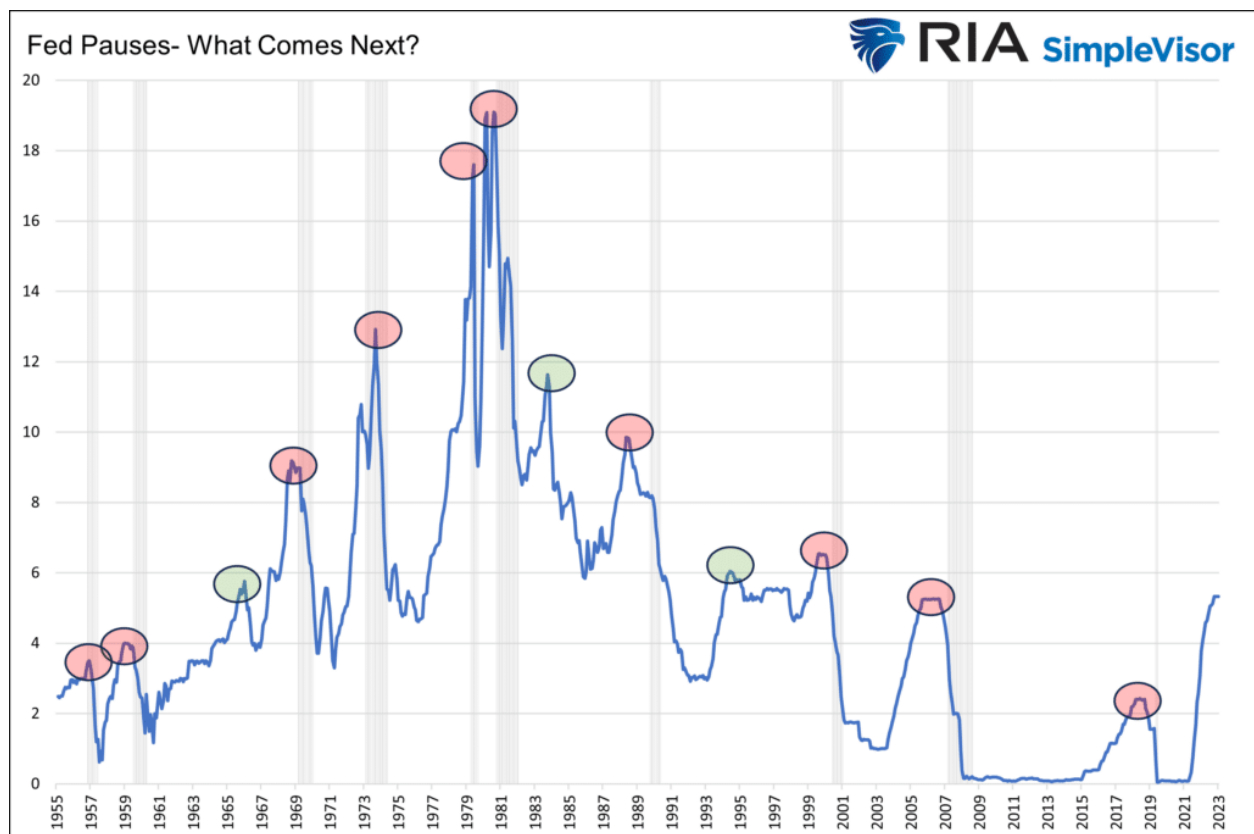


The Fed's pause since the last rate increase is five months old. To help appreciate the tightrope the Fed walks between recession and inflation, we closely follow Fed communications and appreciate history.

At yesterday's FOMC meeting, Jerome Powell used the balance of risks between inflation and recession as the justification for the pause of rate hikes. He notes several times they are still prioritizing getting inflation to its target. At the same time, the Fed remains concerned that the lag effects of the sharp rate increases have yet to impact the economy fully. As Powell states, the "*current balance of risks*" makes a pause the logical stance. Looking ahead, might they cut rates prematurely to avoid a recession, albeit at the risk of upsetting the bond markets and possibly reigniting inflation? Such is the tightrope the Fed is walking.

The graph below helps us appreciate every pause following rate hikes since 1955. The red circles show that each of the last ten recessions followed a series of rate hikes and a pause. The three green instances show brief pauses followed by rate cuts but no immediate recession. Given how much the Fed raised rates and the record debt levels, the odds favor another red circle.



What To Watch Today

Earnings

| Time | Symbol | Company Name | Market Cap▼ | Fiscal Quarter Ending | Consensus EPS* Forecast | # Of Ests | Last Year's Report Date | Last Year's EPS* |
|------|--------|------------------------------|-------------------|-----------------------|-------------------------|-----------|-------------------------|------------------|
| 🕒 | COST | Costco Wholesale Corporation | \$276,887,946,627 | Nov/2023 | \$3.44 | 15 | 12/08/2022 | \$3.10 |
| 🕒 | LEN | Lennar Corporation | \$39,707,318,096 | Nov/2023 | \$4.64 | 8 | 12/14/2022 | \$5.02 |
| 🕒 | LEN.B | Lennar Corporation | \$36,761,401,342 | Nov/2023 | | 4 | N/A | \$5.02 |
| 🌞 | JBL | Jabil Inc. | \$15,480,073,293 | Nov/2023 | \$2.30 | 3 | 12/15/2022 | \$1.61 |

Economy

| Time | Event | Impact | Actual | Dev | Consensus | Previous | |
|-----------------------|---|------------------------|--------|-----|-----------|----------|---|
| THURSDAY, DECEMBER 14 | | | | | | | |
| 13:30 | 🇺🇸 USD Continuing Jobless Claims(Dec 1) | <div><div></div></div> | - | - | 1.887M | 1.861M | 🔔 |
| 13:30 | 🇺🇸 USD Export Price Index (MoM)(Nov) | <div><div></div></div> | - | - | -1% | -1.1% | 🔔 |
| 13:30 | 🇺🇸 USD Export Price Index (YoY)(Nov) | <div><div></div></div> | - | - | - | -4.9% | 🔔 |
| 13:30 | 🇺🇸 USD Import Price Index (MoM)(Nov) | <div><div></div></div> | - | - | -0.8% | -0.8% | 🔔 |
| 13:30 | 🇺🇸 USD Import Price Index (YoY)(Nov) | <div><div></div></div> | - | - | - | -2% | 🔔 |
| 13:30 | 🇺🇸 USD Initial Jobless Claims(Dec 8) | <div><div></div></div> | - | - | 220K | 220K | 🔔 |
| 13:30 | 🇺🇸 USD Initial Jobless Claims 4-week average(Dec 8) | <div><div></div></div> | - | - | - 220.75K | | 🔔 |
| 13:30 | 🇺🇸 USD Retail Sales (MoM)(Nov) | <div><div></div></div> | - | - | -0.1% | -0.1% | 🔔 |
| 13:30 | 🇺🇸 USD Retail Sales Control Group(Nov) | <div><div></div></div> | - | - | - | 0.2% | 🔔 |
| 13:30 | 🇺🇸 USD Retail Sales ex Autos (MoM)(Nov) | <div><div></div></div> | - | - | -0.1% | 0.1% | 🔔 |
| 15:00 | 🇺🇸 USD Business Inventories(Oct) | <div><div></div></div> | - | - | 0% | 0.4% | 🔔 |
| 15:30 | 🇺🇸 USD EIA Natural Gas Storage Change(Dec 8) | <div><div></div></div> | - | - | - | -117B | 🔔 |
| 16:30 | 🇺🇸 USD 4-Week Bill Auction | <div><div></div></div> | - | - | - | 5.285% | 🔔 |

Market Trading Update

With a very "dovish" statement from the Federal Reserve yesterday, the green light to buy equities was turned on, and investors piled into stocks. With investors getting a bit of "F.O.M.O.," the push higher into the end of the year seems pretty assured. However, as we have discussed, the market remains extremely overbought, but as we stated, such can remain the case for longer than expected when "fear of missing out," outweighs the logic of potential losses. With portfolio managers needing to play catch up by the end of the year, performance chasing is definitely in vogue. Continue to maintain exposure currently; however, we recommend being cautious chasing the market at these more overbought levels. As shown in the chart below, previous deviations from the 50-DMA of this current magnitude set the table for an eventual reversal. This time will likely not be any different...but timing is everything.



The FOMC Minutes and Powell's Presser

The Fed minutes were largely unchanged from the prior meeting in November. However, they did acknowledge growth has slowed, and inflation has eased. This meeting included the Fed's quarterly economic and rate projections along with comparisons from the last projections in September. As we show below, the Fed's median estimate is for three 25bps rate cuts next year. One participant sees rates falling 1.25% by the end of next year. The minutes and projections are more dovish than the market expected.

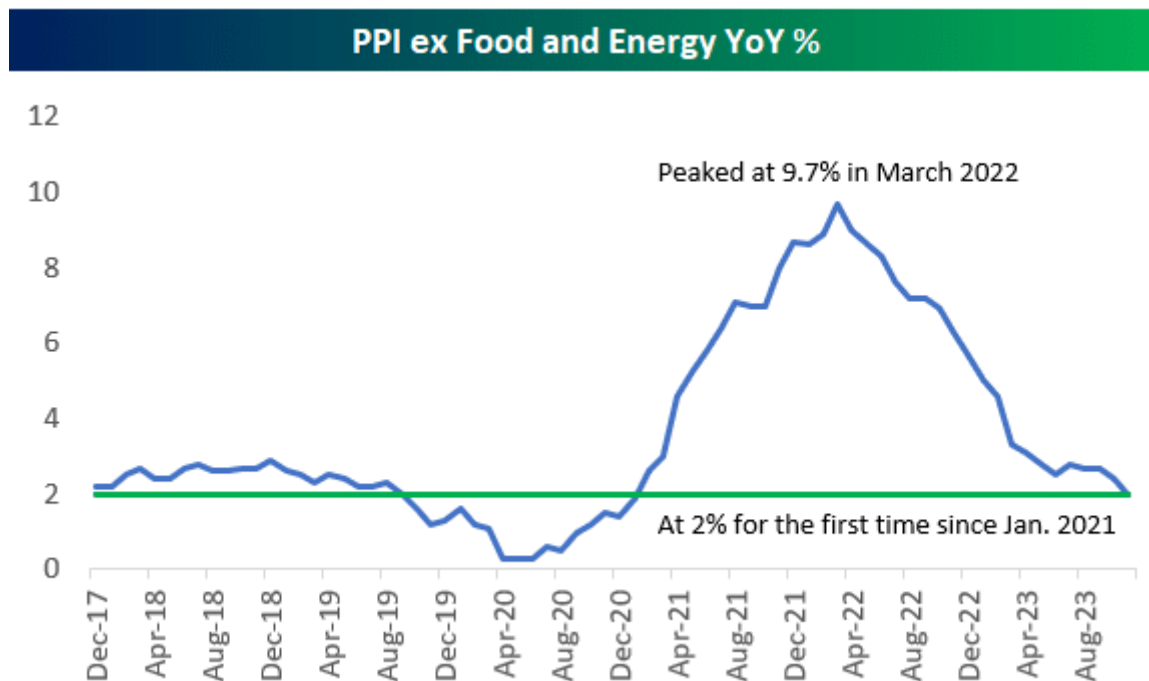
Jerome Powell's press conference did nothing to dispel the slightly dovish tilt within the minutes and projections. Per Powell: "*We are likely at or near the peak rates for this cycle.*" While he seems to think more rate hikes are unlikely, they are not yet ready to declare victory against inflation and cut rates.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2023

| Percent | | | | | | | | | | | | | | | |
|---|---------------------|------|------|------|------------|-------------------------------|---------|---------|---------|------------|--------------------|---------|---------|---------|------------|
| Variable | Median ¹ | | | | | Central Tendency ² | | | | | Range ³ | | | | |
| | 2023 | 2024 | 2025 | 2026 | Longer run | 2023 | 2024 | 2025 | 2026 | Longer run | 2023 | 2024 | 2025 | 2026 | Longer run |
| Change in real GDP | 2.6 | 1.4 | 1.8 | 1.9 | 1.8 | 2.5-2.7 | 1.2-1.7 | 1.5-2.0 | 1.8-2.0 | 1.7-2.0 | 2.5-2.7 | 0.8-2.5 | 1.4-2.5 | 1.6-2.5 | 1.6-2.5 |
| September projection | 2.1 | 1.5 | 1.8 | 1.8 | 1.8 | 1.9-2.2 | 1.2-1.8 | 1.6-2.0 | 1.7-2.0 | 1.7-2.0 | 1.8-2.6 | 0.4-2.5 | 1.4-2.5 | 1.6-2.5 | 1.6-2.5 |
| Unemployment rate | 3.8 | 4.1 | 4.1 | 4.1 | 4.1 | 3.8 | 4.0-4.2 | 4.0-4.2 | 3.9-4.3 | 3.8-4.3 | 3.7-4.0 | 3.9-4.5 | 3.8-4.7 | 3.8-4.7 | 3.5-4.3 |
| September projection | 3.8 | 4.1 | 4.1 | 4.0 | 4.0 | 3.7-3.9 | 3.9-4.4 | 3.9-4.3 | 3.8-4.3 | 3.8-4.3 | 3.7-4.0 | 3.7-4.5 | 3.7-4.7 | 3.7-4.5 | 3.5-4.3 |
| PCE inflation | 2.8 | 2.4 | 2.1 | 2.0 | 2.0 | 2.7-2.9 | 2.2-2.5 | 2.0-2.2 | 2.0 | 2.0 | 2.7-3.2 | 2.1-2.7 | 2.0-2.5 | 2.0-2.3 | 2.0 |
| September projection | 3.3 | 2.5 | 2.2 | 2.0 | 2.0 | 3.2-3.4 | 2.3-2.7 | 2.0-2.3 | 2.0-2.2 | 2.0 | 3.1-3.8 | 2.1-3.5 | 2.0-2.9 | 2.0-2.7 | 2.0 |
| Core PCE inflation ⁴ | 3.2 | 2.4 | 2.2 | 2.0 | | 3.2-3.3 | 2.4-2.7 | 2.0-2.2 | 2.0-2.1 | | 3.2-3.7 | 2.3-3.0 | 2.0-2.6 | 2.0-2.3 | |
| September projection | 3.7 | 2.6 | 2.3 | 2.0 | | 3.6-3.9 | 2.5-2.8 | 2.0-2.4 | 2.0-2.3 | | 3.5-4.2 | 2.3-3.6 | 2.0-3.0 | 2.0-2.9 | |
| Memo: Projected appropriate policy path | | | | | | | | | | | | | | | |
| Federal funds rate | 5.4 | 4.6 | 3.6 | 2.9 | 2.5 | 5.4 | 4.4-4.9 | 3.1-3.9 | 2.5-3.1 | 2.5-3.0 | 5.4 | 3.9-5.4 | 2.4-5.4 | 2.4-4.9 | 2.4-3.8 |
| September projection | 5.6 | 5.1 | 3.9 | 2.9 | 2.5 | 5.4-5.6 | 4.6-5.4 | 3.4-4.9 | 2.5-4.1 | 2.5-3.3 | 5.4-5.6 | 4.4-6.1 | 2.6-5.6 | 2.4-4.9 | 2.4-3.8 |

PPI

PPI came in slightly below expectations, adding further credence to the belief that inflation is heading toward the Fed's 2% target. Importantly, PPI often leads CPI, so current rates of PPI should bolster the Fed's decision to remain on pause. Core PPI is now 2%, year over year, the lowest level since January 2021. As shown below, it is now at or below the running rate of the three years leading up to the pandemic. The monthly headline and core PPI were 0.0%, indicating that recent trends are below 2%. PPI has now averaged slightly below 0% for the last three months.



Tweet of the Day



Dean Christians, CMT

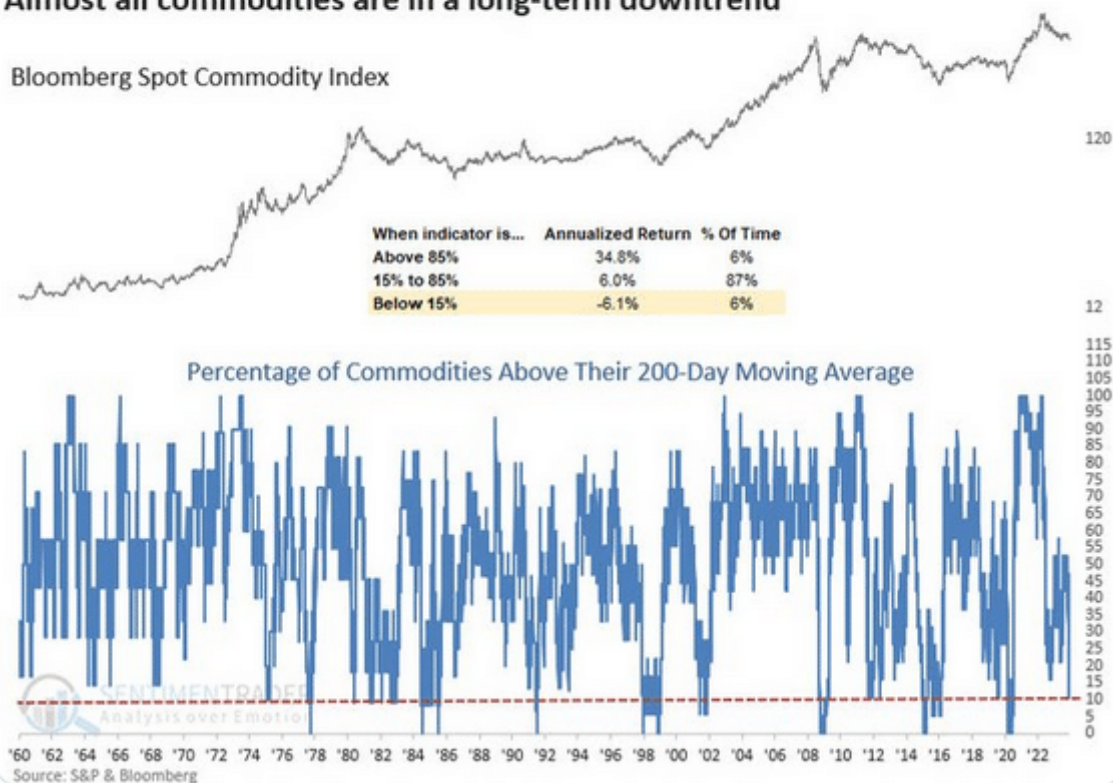
@DeanChristians

...

The percentage of commodities trading above their 200-day moving average has fallen to the lowest level since the Covid crash.

Almost all commodities are in a long-term downtrend

Bloomberg Spot Commodity Index



Please [subscribe to the daily commentary](#) to receive these updates every morning before the opening bell.

If you found this blog useful, please send it to someone else, share it on social media, or contact us to set up a meeting.