WEEKLY MARKET COMMENTS – JUNE 20, 2024

Last week, the U.S. market got an upward boost from the May C.P.I. and P.P.I. indexes which both came in slightly lower than expected and as a result, this could possibly be paving the way for two 25 basis point cuts from the Fed by year-end, according to the CME Fed Watch tool.

On the other hand, the latest summary of Economic Projections released by the Federal Open Market Committee last Wednesday showed just one such cut by year-end, to 5.1% from the current range of 5.25% to 5.50%.

Interest rate moves imply more reductions than the F.O.M.C. median projection. Perhaps Fed policymakers might have tilted more dovish if they had the data released after their meeting which included an uptick in weekly jobless claims, lower import prices and weakness in the latest U. of Michigan Consumer Sentiment Survey.

And the counter argument to this is that easier money is perhaps not needed when the stock market is doing so well. The highest interest rates was widely expected to hurt the stock market and perhaps inducing the economy into some sort of economic slowdown. But the ongoing strength in the S&P and Nasdaq, making new record highs almost on a daily basis as the economy continues to expand with full employment.

The ability of investors to attain these higher yields on risk-free returns actually encourage them to invest more thoroughly in the high-flying technology stocks by putting 60-70% earning more than 5% while going all-in on the likes of NVDA, AVGO, MSFT, AAPL, NFLX, META and others of this ilk. These stocks alone have been responsible for over 60% of the S&P's returns this year. After living in the interest rate desert, so to speak for several years as the extra income now provided makes investors feel that they can take more risk elsewhere.

We have seen just three stocks – NVDA, MSFT and AAPL now account for 20% of the S&P's market cap and the last time this took place was near the market peak in the spring of 2000, but this time the fundamentals of the AI revolution seem to imply that this trend can continue for the near-term or perhaps longer.

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