MV CAPITAL MANAGEMENT

# Weekly Market Flash

## Oil, Jobs and Money

***April 5, 2024***

Let's just say that it has not been a great time in recent weeks for the Six Cut Crowd. You remember these folks, the ones who took the Fed's three rate cut scenario at last December's FOMC meeting and promptly doubled that scenario. Not three, no, no, no, but six rate cuts in 2024! That seemingly (to us, anyway) outlandish view fully priced itself into the bond market and pushed yields down as the year came to an end. The 10-year Treasury yield, which had briefly touched five percent in October, ended the year around 3.8 percent. Equity investors got a nice little rally in stocks thanks in large part to those lower yields.

The problem we had back then with the six cut scenario was threefold. First, the Fed itself was making no such prognostication, saying (as it had been saying for months before then) that there was much more to be done before declaring victory over inflation. Second, the economy was running strong. Real GDP growth of 3.1 percent, which is where it finished in 2023, is well above the Fed's own long-term growth estimate of 1.8 percent. And, third, the idea of a studiously apolitical Fed knocking down rates six times in an election year seemed like a complete non-starter.

### Still Growing After All This Time

That was then. What has happened since then? Well, the economy is still growing. As diligently as everyone is looking for signs of a consumer slowdown, the numbers keep telling us that household spending continues apace. The labor market is not showing signs of slowing. Today's report from the Bureau of Labor Statistics showed payroll gains of 303,000 in March, significantly higher than the 205,000 predicted by economists. Yes, jobs numbers are a lagging, not a leading indicator. But the average number of payroll gains for the last four BLS reports is 279,000, along with an unemployment rate that has not varied from a range of 3.7 to 3.9 percent since last August. As for GDP growth, the numbers for Q1 will come out in a couple weeks, but the most recent median forecast by *the Blue Chip Economic Indicators* consortium of economists is 2.0 percent, and the Atlanta Fed's GDPNow forecast is 2.5 percent.

### Crude Observations

There is another curve ball messing up the rate cut outlook, and that is the recent surge in oil prices. Now, as we have discussed many times in these pages, changes in the price of oil and other energy commodities do not factor directly into the Fed's deliberations on inflation; the volatile categories of energy and food are stripped out so as to focus on the less volatile "core" categories of goods and services. But that hardly means that the impact of higher energy prices goes unobserved. After all, energy commodities are a key input into the manufacturing of those other products that do figure into core inflation, as well as transportation costs for the performance of services and so forth. West Texas Intermediate crude oil is up more than 21 percent so far this year, and that will probably not come as a surprise to you if you have been driving past your local neighborhood filling stations recently.

The March Consumer Price Index report will come out next Wednesday. Economists are expecting to see a core CPI reading of 3.7 percent year-on-year, based on an assumption that the month-to-month change in March will be 0.3 percent. Headline CPI, which includes the volatile food and energy categories, is expected to bump up to 3.4 percent from the previous 3.2 percent reading, mostly due to those increases in energy commodities. If the numbers come in hotter than forecast – as they did for both the January

and February reports – the chances of a first rate cut in May or June will likely diminish accordingly. At that point the calendar gets tricky. We think it likely that the period from Labor Day to November 5 will be effectively a blackout period as the Fed will seek to keep monetary policy out of the election.

## One And Done?

Will there in fact be any rate cuts at all? Raphael Bostic, the head of the Atlanta Fed, opined recently that he thinks there will only be one, and that would come after the election. Bostic is an outlier among FOMC members, the majority of whom still think a two or three rate cut scenario is most likely. But the numbers we're seeing today – oil prices, economic growth, jobs and consumer spending – don't paint a rosy picture for those still hoping for a rate cut pony out back. One rate cut may be lowballing things. But six? That's right out.

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