

MARKET ASSESSES FIRST REPUBLIC, GDP REPORT

Financial markets can be challenging to understand. And when markets enter a “bad news is good news” cycle, it becomes even more challenging to follow along.

Stock prices rallied at the end of April after the Commerce Department reported that first-quarter gross domestic product (GDP) rose at a 1.1% annualized rate. That was well short of the 2% that economists were expecting.¹

Then, a few days later, the financial markets shrugged off news that a regional bank was rescued by federal regulators and was acquired by a multinational U.S. bank. It was the third bank issue in the past 60 days.²

So why would stocks rally on a bad GDP report and news of another bank being closed?

With the GDP report, Wall Street concluded that despite the lower-than-expected number, the overall report showed the consumer was still spending, so the “bad news” had a “good news” silver lining. Remember, consumer spending accounts for about 70% of total economic activity.³

With the regional bank, the markets focused on the good news from the winning bidder, which expressed confidence that the regional bank crisis was ending.²

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Stair-Stepping Lower

The markets anticipate that the Fed is prepared to lower short-term interest rates later this year.

From the table you can see that it's only a matter of time before rates head lower.

FOMC Meeting Date	3.5% - 3.75%	3.75% - 4%	4.0% - 4.25%	4.25% - 4.5%	4.5% - 4.75%	4.75% - 5%	5% - 5.25%	5.25% - 5.5%
5/3/2023	0%	0%	0%	0%	0%	15.2%	84.8%	0%
6/14/2023	0%	0%	0%	0%	0%	10.7%	64.2%	25%
7/26/2023	0%	0%	0%	0%	2.7%	24%	54.5%	18.8%
9/20/2023	0%	0%	0%	1.4%	14.2%	40.5%	35.2%	8.7%
11/1/2023	0%	0%	1.1%	11.5%	34.8%	36.4%	14.4%	1.9%
12/13/2023	0%	1%	10.5%	32.6%	36.2%	16.5%	3.1%	0%
1/31/2024	1%	9.8%	31.1%	36.0%	17.8%	4%	0.4%	0%
3/20/2024	9.5%	30.4%	35.8%	18.4%	4.4%	0.5%	0%	0%
5/1/2024	41.4%	32.5%	15.7%	3.7%	0.4%	0%	0%	0%
6/19/2024	32.0%	22.9%	8.8%	1.8%	0.2%	0%	0%	0%

The CME Group publishes a table that shows probability of the Federal Funds Rate's level by the FOMC's scheduled meeting dates. The blue highlights show the highest probability, by meeting date.

Disclosure: The CME Group's table changes on a daily basis. Probabilities are based on assumptions and subject to revisions. Financial, economic, political, and regulatory issues may cause the actual results to differ from the expectations expressed in the table. The data and output from this tool does not constitute investment advice and is not a personal recommendation from CME Group. Any investment activities based on this table are at the sole risk of the investor. Partial table shown for illustrative purposes.

Source: CME Group, April 27, 2023



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*“Risk comes
from not
knowing what
you are doing.”*

- WARREN BUFFETT

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If you respond, “that’s nonsense,” you’re not alone. When the market enters a “bad news is good news” cycle, it can be difficult for even the most seasoned investors to anticipate how markets will react to any economic update or news event.

When we created your portfolio, we anticipated there would be times of financial uncertainty. So we’re not letting the market dictate any decisions. Instead, we base our decisions on your goals, time horizon, and risk tolerance.

Citations

1. CNBC.com, April 27, 2023. “U.S. GDP Rose at 1.1% Pace in the First Quarter as Signs Build that the Economy Is Slowing”
2. FoxBusiness.com, May 1, 2023. “JPMorgan buys First Republic: Bank share rise as deal reached”
3. Fred.StLouis.org, 2023

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IN OBSERVANCE OF MEMORIAL DAY.**