

Did the Fed Put a Lid on Stock Prices?

The S&P 500 (SPY) was off to another great start in 2024. That was until Chairman Powell grabbed the mic at his January 31st press conference. And things went south in a hurry. Why is that? And what does that mean for stock investors in the days and weeks ahead? Investment expert Steve Reitmeister shares his views along with this top 13 trades in the commentary that follows below.

Stocks were merrily on their way towards a rendezvous with new all time highs at 5,000 before Fed Chairman Powell took the podium on Wednesday afternoon. At first investors liked what they heard with some buoyancy in stock prices.

But once Powell made it clear that he sees rate cuts as highly unlikely at the next meeting in March, then stock prices tumbled into a -1.61% loss for the S&P 500 (SPY).

Gladly it was not all bad. In fact, I would say that it was a bit of an overreaction.

So, let's spend our time today digging into the key Fed statements and what that means for the market in the days and weeks ahead.

Market Commentary

I religiously watch the Fed press conferences which commences 30 minutes after they release their rate hike decision. The prepared statements typically reflect the same sentiment as found in the aforementioned press release.

The key to the event always resides in the Q&A section. These unprepared remarks by Powell reveal much more insight. Beyond the words is also the body language and emphasis from the Fed

chairman. You can instantly see the market's reaction to every positive and negative comment.

The net result of the January 31st press conference was a near free fall in stock prices. Beyond the -1.61% we see a much more painful -2.45% slashing of small caps in the Russell 2000 index.

Why?

It pretty much comes down to one vital sentence:

"I don't think it's likely that the committee will reach a level of confidence by the time of the March meeting to identify March is the time to do that (start cutting rates)."

With that the odds of a March rate cut were lowered...short term bond rates went higher...and stocks imploded.

Gladly on Thursday cooler heads prevailed. That's because Powell also made it clear that the committee still thinks that 3 rate cuts are on the way this year. So shifting out expectations for the first cut to May 1st is not so bad in the grand scheme of things.

Net-net, the 10 year Treasury rate has dropped back under 4% and stock prices are back on the upswing with 5,000 looming large on the horizon.

Now let's get into some of the granular detail from Powell's press conference as there are some very interesting concepts to share. In general, I am paraphrasing what was said to get straight to the point.

(Here are the key ideas from the prepared statement section)

Inflation still too high and thus path forward is uncertain.

Policy is well into restrictive territory. And thus, doing well on dual mandate to get inflation back down to 2% goal

while also achieving maximum employment.

Reversing policy too soon would risk re-igniting inflation which is bad news for the average consumer.

Reversing too late has downside risks to the economy and the labor market.

They are acutely aware of the balancing act required and continue to do what they believe is necessary.

(After Powell's prepared statements investors are realizing it's the same old song from the Fed and that they overreacted to some of the language in the press release. With that bond rates fell and stock prices climbed temporarily.

Now onto the Q&A portion which, as noted above, typically unlocks much more valuable insights.)

The committee is still all agreeing to cut rates. And 3 times this year is the most recent prediction. The key question is WHEN to start the cuts?

Would a weakening in the employment picture hasten your desire to cut rates? Yes!

But right now employment is still a bit strong...and that provides still too much wage inflation. Less of a problem than before...but still too high.

You didn't agree that soft landing has happened. But would you say that a hard landing is off the table?

Executive Summary from Powell: Growth is solid to strong. Ditto for labor market. And have seen inflation come down. Overall, this is a pretty good picture.

And thus he side stepped the soft/hard landing discussion.

Key statement: Don't think March rate cut is likely based on meeting today. And from there the bottom dropped out of the

stock market.

Wednesday @ 2pm ET the S&P 500 stands at 4,889. Yet at the closed all the way down to 4,845.65 (1.61%). Russell 2000 was even worse at -2.45%.

(End of Powell press conference statements).

As noted earlier, traders were overly zealous to hit the sell button on Wednesday afternoon. Yet as they woke up Thursday they saw that in reality the investment landscape had not changed that much.

Meaning that a 6 to 12 week delay for the first rate cut doesn't really change the economic outlook nor bullish case for stocks.

On the other hand, the S&P 500 is pretty fully valued at PE of 20. Thus, as this stage we need to see an acceleration in the economy to stoke earnings growth to substantiate much higher share prices.

This most recent earnings season does not help that picture as future estimates have actually been cut. In fact, the next 3 quarters are expected to average a tepid 1.5% average earnings growth which is well below the long term average closer to 8%.

No...this is not a case for a large scale correction nor to go bearish. This is simply a case for 5,000 likely to be a place of stiff resistance for a while leading to an extended consolidation and trading range.

In those periods the overall market average may flat line, but the cream of the crop companies will rise to the top. Especially those with healthy growth prospects trading at reasonable or discounted valuations.

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Steve Reitmeister...*but everyone calls me Reity (pronounced "Righty")*

CEO, StockNews.com and Editor, Reitmeister Total Return

SPY shares were trading at \$493.59 per share on Friday morning, up \$4.39 (+0.90%). Year-to-date, SPY has gained 3.85%, versus a % rise in the benchmark S&P 500 index during the same period.

About the Author: Steve Reitmeister

Steve is better known to the StockNews audience as “Reity”. Not only is he the CEO of the firm, but he also shares his 40 years of investment experience in the Reitmeister Total Return portfolio. Learn more about Reity’s background, along with links to his most recent articles and stock picks.

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