

[What's New]

Stocks Climb Despite Fed's Revised Rate Forecast

Fed Predicts Just One Rate Cut in 2024

The Federal Reserve has signaled only one rate cut this year, contrary to market expectations of two. This projection, derived from the "dot plot" of individual forecasts, shows that four members foresee no changes in 2024.

Back in March, the Fed had narrowly supported three rate cuts.

Fed Chairman Jerome Powell attributed the revised forecast to an increased target for year-end core PCE inflation. However, some indicators suggest that inflation might not meet the Fed's targets, potentially allowing for earlier rate cuts.

Powell expressed a positive outlook on the economy, noting that growth remains robust while labor markets and inflation are gradually easing.

Moderate CPI Inflation

The Labor Department reported that the May consumer price index remained unchanged from April, slightly below expectations. CPI inflation stood at 3.3%, with the annual increase cooling unexpectedly for the second consecutive month.

Core CPI rose by 0.2%, also lighter than anticipated. Core inflation was 3.4% compared to the previous year, marking the smallest increase since April 2021.

Following the Fed's announcement and the CPI report, the likelihood of a September rate cut rose to 61.5% from 52.8% on Tuesday. Markets now consider at least one rate cut in 2024 nearly certain (92.8%), with a 60.7% chance of two cuts this year.

Stock Market Rally

On Wednesday, the stock market rallied on unexpectedly mild inflation data released before the market opened. It maintained these gains despite a somewhat hawkish Fed rate outlook and Powell's comments, though it lost some momentum in the final half-hour as Treasury yields continued to decrease.

The Dow Jones Industrial Average dipped 0.1% in Wednesday's trading, missing out on the broader market's advance despite strong performances by Apple and Microsoft (MSFT). The S&P 500 index rose by 0.85%, while the Nasdaq composite surged by 1.5%.

The small-cap Russell 2000 jumped 1.6%, climbing back above the 50-day line but closing near session lows. The Invesco S&P 500 Equal Weight ETF (RSP) increased by 0.5%, also moving above the 50-day. The First Trust Nasdaq 100 Equal Weighted Index ETF (QQEW) advanced 0.8%, nearing all-time highs.

Leading stocks generally had a strong session, though many faded late in the day.

The Nasdaq closed 7.4% above its 50-day line, surpassing the 5-6% range that starts to look extended. While the tech-heavy composite might continue to extend, the risk of a pullback increases. Nvidia stock is 31% above its 50-day line, although it has exceeded 40% a few times in the past year. Apple stock is 17% above its 50-day line.

U.S. crude oil prices rose by 0.8% to \$78.50 a barrel.

The 10-year Treasury yield fell by 11 basis points to 4.29%, creeping up to 4.32% after the official 3 p.m. ET close. The yield hit a two-month low of 4.25% before the slightly hawkish Fed rate outlook.

Megacap Winners

Apple stock soared 2.9% on Wednesday after a 7.3% surge on Tuesday. Nvidia stock gained 3.55%. Microsoft stock rose 1.9%, moving into a buy zone. Microsoft remains the most valuable company at \$3.277 trillion. Apple is close behind at \$3.267 trillion, and Nvidia is at \$3.086 trillion.

Tesla stock, meanwhile, jumped 3.9% as Cathie Wood's Ark Invest set a new price target of 2,600. The EV giant retook its 50-day line but remains below the 200-day. Tesla's market cap is \$565.4 billion.

ETFs

Among growth ETFs, the iShares Expanded Tech-Software Sector ETF (IGV) gained 2.3%, with Microsoft as a major holding. The VanEck Vectors Semiconductor ETF (SMH) leapt 3%, with Nvidia, ASML, and Broadcom as key components.

Reflecting more speculative stocks, the ARK Innovation ETF (ARKK) rose 2.1%, and the ARK Genomics ETF (ARKG) increased by 2.6%. Tesla stock is the top holding across Ark Invest's ETFs.

The SPDR S&P Metals & Mining ETF (XME) edged up 0.4%. The SPDR S&P Homebuilders ETF (XHB) jumped 3.55%. The Energy Select SPDR ETF (XLE) fell by 1.1%, while the Health Care

Select Sector SPDR Fund (XLV) dipped by 0.2%.

The Industrial Select Sector SPDR Fund (XLI) gained nearly 0.95%. The Financial Select SPDR ETF (XLF) fell by 0.1%.