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Will Interest Rates Come Down Soon?

Some think that the recent slight improvement in the inflation rate and the Consumer Price Index (CPI) will result in a dramatic lowering of the interest rates by the Federal Reserve. I do not. ^{1,2}

Although the unexpected improvement in the reported Consumer Price Index (CPI) on July 11th resulted in an immediate sell-off in many tech sector stocks and a rally in the stocks of the Russell 2000, it was somewhat short-lived. Most of the tech sector favorites regained their status on the next day when the Producer Price Index (PPI) and the Michigan Sentiment Indices reported their less cheery inflation data. ^{1,2}

Much excitement was also voiced about the increase in jobless claims from 4.0 % to 4.1% on July 5th. I think that this is an over-reaction to a single data point and potentially could be ephemeral. ³

At the recent ECB Forum on Central Banking meeting of the world's central bankers in Sintra, Portugal (1-3 July 2024), U.S. Federal Reserve Chairman Powell said that he didn't expect the U.S. inflation rate to come down to his target of 2% this year or next, well, maybe by the end of next year. ⁴

I would continue to give far greater weight to Chair Powell's comments, rather than those of the TV commentators. After all, he is the one, with the advice of the Federal Open Market Committee (FOMC) who will make the actual decision.

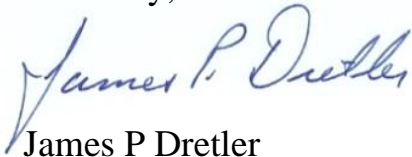
Nothing so far, in my opinion, justifies any significant reason to think that the current positive economic situation is about to end. Furthermore, I continue to recommend taking advantage of temporary market weakness to increase investment in favored companies.

The current conditions in the economy and the stock market, in my opinion are positive for continued investor participation despite the worldwide political and macro-economic uncertainties.

We continue to favor those companies that have shown past ability to operate successfully in normal interest rate environments, especially those that have paid dividends, issued debt and bought-back stock in times more usual than the last fifteen years.

Please call to discuss those that could fit your individual investment objectives.

Sincerely,



James P Dretler
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1. Sam Goldfarb and Nick Timiraos, 'Milder Inflation Bolsters Rate-Cut Chances', WSJ July 12, 2024, p. A1, <https://www.wsj.com/public/resources/documents/WIXTzJj7PUF4RChbDEJb-WSJNewsPaper-7-12-2024.pdf>
2. Jed Graham, 'Here's How Fast The Fed Will Cut Rates; S&P 500 Rallies After PPI, 1:10 PM ET 07/12/2024, investors.com/news/econom/federal-reserve-rate-cuts-ppi-june-sp-500/
3. Reuters, 'US weekly jobless claims fall more than expected ', July 11, 2024 5:53 AM MST, [reuters.com/markets/us/us-weekly-jobless-claims-fall-more-than-expected—2024-07-11/](https://reuters.com/markets/us/us-weekly-jobless-claims-fall-more-than-expected-2024-07-11/)
4. ECB Forum on Central Banking- Tuesday 2, July 2024, [youtube.com/watch?v=-QzORdTcmGg,https://www.ecb.europa.eu/press/conferences/ecbforum/html/index.en.html](https://www.ecb.europa.eu/press/conferences/ecbforum/html/index.en.html)

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