FINANCIAL LIFE CONCEPTS

"Financial Planning with Integrity"

What Mattered This Week? Economy Slows, Markets Cheer
Presented by Christopher Phelps

This was the week that the economy showed real signs of slowing down—and markets cheered! All right, it wasn't quite that simple. But that captures pretty much what happened, so let's look at the details.

Fed Keeps Rates Steady

We'll start with the [meeting of the Fed] this week. The Fed decided to keep rates steady, with no increase. Although that decision was in line with expectations, the commentary in the press conference made markets think there were no more increases coming at all, which was seen as a positive.

Economic Slowdown Across the Board

The economic data during the week also seemed to confirm this view. The jobs report this morning came in weaker than expected and much weaker than last month. Worse, the prior two months were revised down materially. The jobs market, while still reasonably healthy, is nowhere near as hot as the Fed had feared, which will help prevent further interest rate increases.

It wasn't just the jobs report either. Consumer confidence pulled back a bit, as did business confidence. Consumer confidence remains at healthy levels, but business confidence is worse, with manufacturing in recessionary territory and the service sector getting close. Across the board, while things are still pretty good, the slowdown is getting worse—and may be accelerating.

Lower Rates, Higher Stock Valuations

The fear that the markets and the Fed had was that last quarter's much stronger-than-expected growth would continue, driving inflation up and forcing the Fed to keep raising rates. This week's data makes that much less likely. And that has pushed interest rates down.

The U.S. Treasury 10-year yield dropped during the week from just under 5 percent (a decade-plus high) to just over 4.5 percent. This retraces most of the rise we saw in the past month. As lower rates typically mean higher stock valuations, we also saw the S&P 500 rally over 2 percent as I write this, more than reversing the decline of the last month.

Will the Soft Landing Continue?

As they say, bad news for the economy was good news for the market. But that bad news was only relative, as growth is likely to continue at a slower pace, not stop. The question going forward is whether this soft landing will continue. Over time, that may not be the case. But for right now? We are still in a good place.

Have a great weekend!

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