

## Weekly Bottom Line

December 20, 2024

Note: The next issue of the Weekly Bottom Line will be published in early January 2025

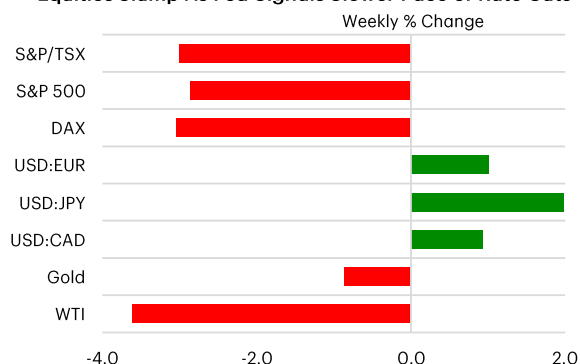
### Highlights

- The Federal Reserve cut its policy rate by 25 basis points to 4.25-4.5%, as expected. But, updated forecasts showed that FOMC members now expect inflation to be a bit hotter next year, and as a result expect to make only 50 basis points in cuts next year, down from 100 bps in September.
- Economic growth was revised upwards in the third quarter. Real GDP rose 3.1%, up from 2.8% previously.
- There was also good news on the Fed's preferred inflation gauge. The Core PCE Deflator held steady at 2.8% in year-on-year terms in November, but cooled noticeably on a month-to-month basis.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	5881	6051	6090	4689
S&P/TSX Comp.	24530	25274	25692	20585
DAX	19791	20406	20426	16432
FTSE 100	8064	8300	8446	7446
Nikkei	38702	39470	42224	31458
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	4.52	4.40	4.70	3.62
Canada 10-yr Bond	3.29	3.18	3.87	2.87
Germany 10-yr Bund	2.29	2.26	2.69	1.90
UK 10-yr Gilt	4.53	4.41	4.58	3.44
Japan 10-yr Bond	1.06	1.04	1.10	0.57
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.70	0.70	0.76	0.69
Euro (USD per EUR)	1.04	1.05	1.12	1.04
Pound (USD per GBP)	1.25	1.26	1.34	1.24
Yen (JPY per USD)	156.7	153.7	161.7	140.6
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	68.8	71.3	86.9	65.8
Natural Gas (\$US/MMBtu)	3.14	3.14	13.20	1.22
Copper (\$US/met. tonne)	8770.4	8940.5	10800.8	8065.0
Gold (\$US/troy oz.)	2626.2	2648.2	2787.6	1992.3

\*As of 10:32 AM on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion. Source: Bloomberg.

### Equities Slump As Fed Signals Slower Pace of Rate Cuts



### Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.25 - 4.50%
Bank of Canada (Overnight Rate)	3.25%
European Central Bank (Refi Rate)	3.15%
Bank of England (Repo Rate)	4.75%
Bank of Japan (Overnight Rate)	0.25%

Source: Bloomberg.

### TD Economics Key Financial Forecasts

	Current Rate 12/20/24	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	4.50	5.00	5.25	5.50	5.50	5.50	5.50	5.00	4.50	4.25	4.00	3.75	3.50
2-yr Govt. Bond Yield	4.29	4.06	4.87	5.03	4.23	4.59	4.71	3.66	4.25	4.00	3.75	3.50	3.25
10-yr Govt. Bond Yield	4.52	3.48	3.81	4.59	3.88	4.20	4.36	3.81	4.40	4.15	4.05	3.90	3.75
30-yr Govt. Bond Yield	4.72	3.67	3.85	4.73	4.03	4.34	4.51	4.14	4.60	4.35	4.35	4.20	4.05

Forecast by TD Economics as of December 2024; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

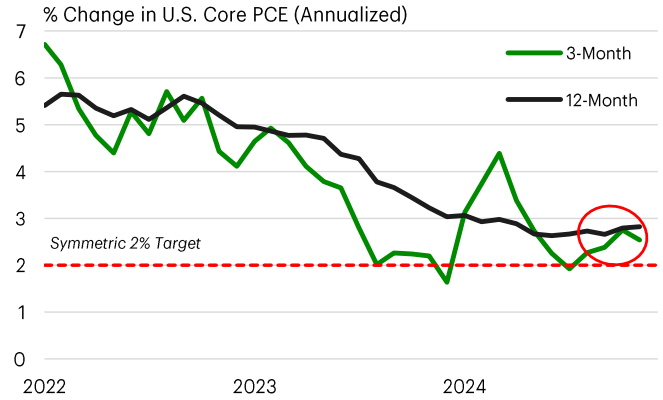
# Fed Signals a More Cautionary Stance on Rate Cuts Next Year

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The Federal Reserve delivered some sour candy to cap off 2024, cutting its policy rate by 25 basis points, but signaling a more moderate pace of cuts next year. This hawkish tilt sent Treasury yields higher, with the 10-year rising from just under 4.4% to briefly over 4.6%. Equity markets took the news hard, with the S&P 500 down roughly 3.5% from pre-meeting levels at time of writing. Part of the weak equity market performance may also have to do with a looming government shutdown. Washington has only a few hours to pass a funding bill into law. Failure to do so will lead to a partial government shutdown. Essential services would continue, but most federal workers wouldn't receive a paycheck. In addition, some workers would be furloughed until Congress passes new funding. The Bipartisan Policy Center estimates that some 875 thousand federal workers would be furloughed.

The Fed's quarter point interest rate cut was as expected, but the accompanying Summary of Economic Projections (SEP) raised a few eyebrows. While the median forecasts for economic growth and the unemployment rate were little changed, the outlook for inflation and the policy rate were raised noticeably (Chart 1). Focusing on the year ahead, the median projection now has the Fed Funds Rate ending next year 50 basis points higher than expected in September. This is in tune with a firmer outlook for core inflation. Asked about the more cautious stance on rate cuts, Fed Chair Powell listed several reasons. These included the economy growing at a better pace and inflation coming in a bit hotter than expected recently. Powell also highlighted an elevated uncertain-

**Chart 2: Progress on Inflation Has Slowed, But November Marked Some Softness in Core Inflation**



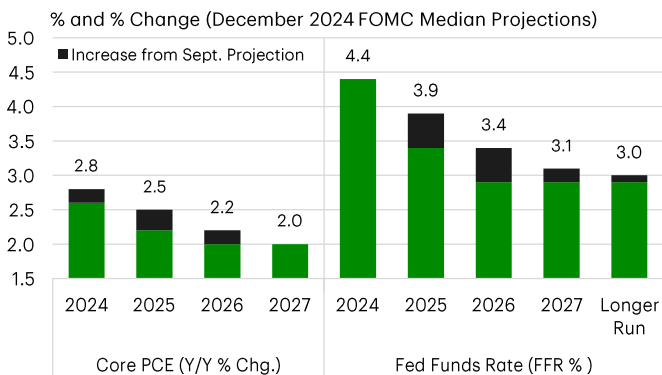
Source: Bureau of Economic Analysis, TD Economics. Last Observation: Nov 2024.

ty around the inflation projections – a theme that was visible in the SEP document, with uncertainty and upside risks to core PCE inflation both up noticeably since September. Pressed on how much of the difference could be explained by the evolving data versus potential policy changes from the new Trump administration, the Fed Chair acknowledged that some policymakers did take preliminary steps to incorporate “highly conditional estimates of economic effects of policies into their forecast at this meeting”.

This week's economic data buttressed several of Powell's comments. The third estimate of Q3 GDP indicated that the economy grew at an improved pace of 3.1% annualized, up from 2.8% previously. At the same time, the November personal income and spending report indicated that consumer spending should end the year on solid footing. Consumer spending is on track for a solid 3% pace in the fourth quarter of 2024. That is only a small downshift from 3.5% pace in the third quarter. The November report also carried some better news on inflation, with the Fed's preferred inflation gauge – core PCE – cooling noticeably in November, up a modest 0.1% month-over-month. While the annual pace remained at 2.8%, this latest cooldown helped reverse near-term trends lower (Chart 2).

Overall, with the economy remaining on decent footing and inflation seemingly having resumed its downward path, there is room for further policy normalization next year. But, the potential for major policy changes from the new U.S. administration remains a wildcard.

**Chart 1: FOMC Members See Slower Progress on Inflation, Pencil in Slower Reduction in Policy Rate**



Source: Federal Reserve, TD Economics.

## Exhibits

Recent Key Economic Indicators: Dec 16 - 20, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Dec 16	Empire Manufacturing	Dec	Index	0.2	31.2
Dec 16	S&P Global US Manufacturing PMI	Dec	Index	48.3	49.7
Dec 16	S&P Global US Services PMI	Dec	Index	58.5	56.1
Dec 16	S&P Global US Composite PMI	Dec	Index	56.6	54.9
Dec 17	NAHB Housing Market Index	Dec	Index	46.0	46.0
Dec 17	Retail Sales Advance	Nov	M/M % Chg.	0.7	0.5
Dec 17	Retail Sales Ex Auto and Gas	Nov	M/M % Chg.	0.2	0.2
Dec 17	Industrial Production	Nov	M/M % Chg.	-0.1	-0.4
Dec 17	Capacity Utilization	Nov	%	76.8	77.0
Dec 17	Manufacturing (SIC) Production	Nov	M/M % Chg.	0.2	-0.7
Dec 17	Business Inventories	Oct	M/M % Chg.	0.1	0.0
Dec 18	FOMC Rate Decision (Upper Bound)	Dec 18	%	4.50	4.75
Dec 18	Housing Starts	Nov	Thsd	1289.0	1312.0
Dec 18	Building Permits	Nov	Thsd	1505.0	1419.0
Dec 19	Initial Jobless Claims	Dec 14	Thsd	220.0	242.0
Dec 19	Existing Home Sales	Nov	Mlns	4.15	3.96
Dec 19	Gross Domestic Product (Annualized)	Q3	Q/Q % Chg.	3.1	2.8
Dec 19	Personal Consumption	Q3	Q/Q % Chg.	3.7	3.5
Dec 20	Personal Income	Nov	M/M % Chg.	0.3	0.7
Dec 20	Real Personal Spending	Nov	M/M % Chg.	0.3	0.1
Dec 20	PCE Price Index	Nov	M/M % Chg.	0.1	0.2
Dec 20	PCE Price Index	Nov	Y/Y % Chg.	2.4	2.3
Dec 20	Core PCE Price Index	Nov	M/M % Chg.	0.1	0.3
Dec 20	Core PCE Price Index	Nov	Y/Y % Chg.	2.8	2.8
<b>Canada</b>					
Dec 16	Housing Starts	Nov	Thsd	262.4	242.2
Dec 16	Existing Home Sales	Nov	M/M % Chg.	2.8	7.7
Dec 17	Consumer Price Index NSA	Nov	M/M % Chg.	0.0	0.4
Dec 17	Consumer Price Index	Nov	Y/Y % Chg.	1.9	2.0
Dec 17	CPI-Median	Nov	Y/Y % Chg.	2.6	2.6
Dec 17	CPI-Trim	Nov	Y/Y % Chg.	2.7	2.7
Dec 19	CFIB Business Barometer	Dec	Index	56.4	59.8
Dec 19	Payroll Employment Change (SEPH)	Oct	Thsd	-21.1	-23.3
Dec 20	Retail Sales	Oct	M/M % Chg.	0.6	0.6
Dec 20	Retail Sales Ex Auto	Oct	M/M % Chg.	0.1	1.1
<b>International</b>					
Dec 17	UK ILO Unemployment Rate (3 Mths.)	Oct	%	4.3	4.3
Dec 18	EZ Consumer Price Index	Nov	Y/Y % Chg.	2.2	2.0
Dec 18	UK Consumer Price Index	Nov	Y/Y % Chg.	2.6	2.3
Dec 19	JN National Consumer Price Index	Nov	Y/Y % Chg.	2.9	2.3
Dec 19	UK Bank of England Bank Rate	Dec 19	%	4.75	4.75
Dec 20	UK Retail Sales Ex Auto Fuel	Nov	Y/Y % Chg.	0.1	1.6

Source: Bloomberg, TD Economics.

## Upcoming Economic Releases and Events: Dec 23, 2024 - Jan 03, 2025

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Dec 23	10:00	Conf. Board Consumer Confidence	Dec	Index	113.0	111.7
Dec 24	8:00	Building Permits	Nov	Thsd	-	1505.0
Dec 24	8:30	Cap Goods Orders Nondef Ex Air	Nov	M/M % Chg.	0.1	-0.2
Dec 24	8:30	Durable Goods Orders	Nov	M/M % Chg.	-0.3	0.3
Dec 26	8:30	Initial Jobless Claims	Dec 21	Thsd	-	220.0
Dec 27	8:30	Advance Goods Trade Balance	Nov	Blns	-101.1	-98.3
Dec 30	10:00	Pending Home Sales	Nov	M/M % Chg.	0.8	2.0
Dec 31	9:00	S&P CoreLogic CS 20-City NSA	Oct	Y/Y % Chg.	-	4.6
Dec 31	9:00	S&P CoreLogic CS US HPI NSA	Oct	Y/Y % Chg.	-	3.9
Jan 2	8:30	Initial Jobless Claims	Dec 28	Thsd	-	-
Jan 2	9:45	S&P Global US Manufacturing PMI	Dec	Index	-	48.3
Jan 3	0:00	Wards Total Vehicle Sales	Dec	Mlns	16.50	16.50
Jan 3	10:00	ISM Manufacturing	Dec	Index	48.5	48.4
Jan 3	11:00	<i>Fed's Barkin Gives Keynote Address</i>				
<b>Canada</b>						
Dec 23	8:30	Gross Domestic Product	Oct	M/M % Chg.	0.2	0.1
Dec 23	8:30	Industrial Product Price	Nov	M/M % Chg.	0.3	1.2
Dec 23	13:30	<i>BoC Releases Summary of Deliberations</i>				
<b>International</b>						
Dec 23	2:00	UK Gross Domestic Product	Q3	Y/Y % Chg.	1.0	1.0
Dec 26	18:30	JN Jobless Rate	Nov	%	2.5	2.5
Dec 26	18:30	JN Tokyo Consumer Price Index	Dec	Y/Y % Chg.	2.9	2.5
Dec 26	18:50	JN Retail Sales	Nov	Y/Y % Chg.	1.5	1.3
Dec 29	19:30	JN Jibun Bank Japan PMI Mfg	Dec	Index	-	49.5
Dec 30	20:30	CH Manufacturing PMI	Dec	Index	50.2	50.3
Jan 1	20:45	CH Caixin China PMI Mfg	Dec	Index	51.7	51.5

\*Eastern Standard Time. Source: Bloomberg, TD Economics.

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