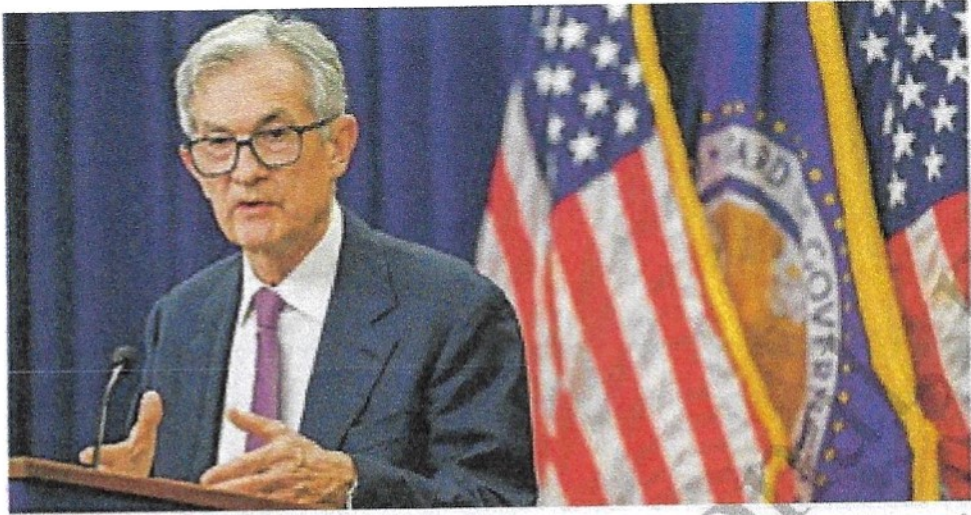


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Jerome Powell's Federal Reserve is expected to cut interest rates at its December meeting. ANNABELLE GORDON/REUTERS

### Investors Shouldn't Count on Much Help From Fed Next Year

Could the Federal Reserve be done cutting rates after December? That shouldn't be ruled out.

Markets seemed undisturbed by Wednesday's inflation data, which showed consumer prices rising 2.7% in November from a year earlier, up from 2.6% in October. The S&P 500 climbed 0.8%, and the Nasdaq closed above 20,000 for the first time. Perhaps that reflected relief that the reading was merely in line with expectations instead of ticking even higher and delivering a nasty surprise.

Nonetheless, the data confirms an unsettling trend that inflation's decline has halted, or at least stalled. Core consumer prices excluding food and energy rose 3.3% from a year earlier, similar to the pace at which they have been rising for several months now. Of particular concern was services inflation which, excluding energy services, came in at 4.6% year over year.

That doesn't seem like enough to discourage the Fed from plans to cut rates at its December meeting. As of Wednesday, futures markets were pricing in a 96% chance of that happening, according to the CME Fed-Watch tool. Markets are betting that the gradual slowdown in hiring over the past few months makes the Fed still comfortable with some additional easing. Month-to-month swings in such factors as labor strikes and hurricanes have made the data somewhat hard to read, but the underlying trend is still clear: The three-month average for job gains is down to 173,000 in November from 243,000 at the start of 2024.

Beyond December, futures prices now imply two or three more quarter-point cuts by the end of next year, assigning a roughly 30% chance to each scenario.

That could be too optimistic. Despite the slowdown, jobs are still posting decent gains, and overall economic momentum remains strong, with real gross domestic product growth measuring an annualized 2.8% in the third quarter. With inflation now clearly stuck at around 3%, above the Fed's 2% target, what compelling reason is there to keep cutting?

And that is before taking into account likely Trump administration policies such as tax cuts, an immigration crackdown and new tariffs. Just how much of each we will get and when remains uncertain, but it seems highly likely that there will be at least some of all three. And all of these policies would likely be inflationary.

The Fed publicly insists it isn't even thinking about these policy implications yet. But the public data already gives the Fed enough reason to pause rate cuts, which would have the added benefit of allowing it to wait and see what happens under President Trump.

So at the very least, don't expect the Fed to keep merrily cutting in the early months of next year. And don't dismiss the possibility that this could be a kind of "one and done" easing cycle: 1 full percentage point off interest rates, and no more.

—Aaron Back

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