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Lower Rates Are No Longer a Sure Thing

Could the Federal Reserve be nearly done easing already? Market moves on Friday suggest it's possible.

Following remarks by Fed Chair Jerome Powell on Thursday that threw cold water on rate-cut expectations, and a fairly hot retail-sales reading on Friday, investors are abruptly shifting their bets. That is bad news for stock and bond prices. *

"The economy is not sending any signals that we need to be in a hurry to lower rates," Powell said Thursday. As if to back him up, retail-sales data on Friday morning came in strong, rising 0.4% in October compared with economists' expectations for a 0.3% rise. Perhaps even more significant, September's retail-sales growth was revised upward sharply to 0.8% from 0.4%.

Some other details of the report suggested economic strength as well. As BMO Capital Markets pointed out in a note, car purchases climbed at the fastest pace in three months, and restaurant sales have now risen for seven straight months, "suggesting that households are not holding back on discretionary spending."

The likelihood of a December rate cut as implied by futures markets fell to about 58% on Friday, according to the CME Group's FedWatch tool, down from 72% one day earlier and 86% one month ago. Even more ominously, the chance that there could be just one or zero rate reductions between now and June 2025 have risen to 26%, from just 1% a month ago.

If that turns out to be the case, it could mean that a lot of relief already baked into share prices needs to be unwound. Since the Fed kicked off this easing cycle with a jumbo half-point cut in September, the S& P 500 is up around 4% and the Nasdaq Composite has risen around 6%.

—*Aaron Back*

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Boston Fed President Susan Collins, shown last year ANDREW HARRER/ BLOOMBERG NEWS

Rate-Cut Doubts Nettle Nervous Investors

Major indexes move lower after solid retail-sales report, Fed official's remark

BY NICK TIMIRAOS

Stocks fell Friday, following a solid retail-sales report that could bolster the case that the economy is strong and may not need support in the form of lower borrowing costs.

Separately, a Federal Reserve official said it was too soon to say whether the central bank should cut interest rates at its meeting next month.

Another rate cut in December is "certainly on the table, but it's not a done deal," said Boston Fed President Susan Collins in an interview late Thursday. "There's more data that we will see between now and December, and we'll have to continue to weigh what makes sense."

All three major U.S. stock indexes finished the day in the red. The Nasdaq Composite fell 2.2% on Friday and was down more than 3% for the week. The S& P 500 lost more than 2% on the week, and the Dow Jones Industrial Average lost more than 1% for the week, including Friday's drop of nearly 306 points, or 0.7%.

The week marked a sharp reversal from the red-hot performance at the start of the month. In the previous week, stocks rose to new highs after Donald Trump won the presidential election and the Federal Reserve cut rates by a quarter point.

The latest moves highlighted investor uncertainty about whether the Fed is in a position to continue cutting rates as much as markets have come to expect—in part because the economy continues to hold up well.

Also weighing on U.S. and global markets: Shares of ma-

jor drugmakers, including Moderna, Pfizer and Astra-Zeneca, dropped Friday after Trump nominated Robert F. Kennedy Jr., a vaccine skeptic, to be health and human services secretary.

On Friday, the Commerce Department said that retail sales gained 0.4% in October from September, better than economists' forecasts for a 0.3% increase. Officials also revised their figures for September sales growth sharply upward to 0.8%, from an initial estimate of 0.4% growth.

"Various speeches by Fed officials show growing concern that disinflation is hitting a wall," Jefferies analyst Thomas Simons wrote to clients after the data Friday. "But we do not think there will be enough evidence to confirm these hypotheses before the next meeting."

The Fed's next meeting is Dec. 17-18. Officials will see data on inflation and employment for November before that meeting.

Collins said Thursday she didn't see any evidence that inflation was picking up due to new sources of strength in the economy, aligning herself with a view Fed Chair Jerome Powell expressed last week. Both of them suggested recent inflation stickiness has instead been an echo or "catch-up" effect of large price increases from the past few years, such as car insurance costs rising to reflect past increases in car prices that have since subsided.

"As far as I can tell, I do not see evidence of new price pressures," said Collins. Firmer inflation in recent months instead reflects "the effects of the longer-term dynamics of past shocks," she said.

The Fed cut interest rates at its two most recent meetings, beginning with a halfpercentage- point reduction in September amid signs the labor market might be weakening. Officials lowered their benchmark rate by a quarter point, to a range between 4.5% and 4.75%, at their meeting last week.

Collins, who will take a turn next year as a voting member of the Fed's rate-setting committee, said she supported both of those cuts. "We will get to a place where it will be appropriate to feel our way more slowly and more cautiously," said Collins.

Expectations in futures markets for a December rate cut have bounced around in recent days. They jumped to around 80% on Wednesday, from 60%, after the October consumer-price index wasn't as bad as feared. But then they fell back to 60% after Powell said Thursday that "stout" economic performance recently would allow the Fed to proceed carefully with rate cuts.

Collins said she thought it would be appropriate to continue lowering interest rates to a so-called "neutral" stance that neither spurs nor slows economic activity after more than a year in which the Fed held interest rates at a restrictive setting. Collins said she thinks policy is still restrictive.

"I don't see an argument for maintaining restrictive policy when there is not evidence of new price pressures, and the old dynamics are perhaps unevenly and gradually resolving over time," she said.

Chip stocks led the technology sector lower. Applied Materials shares plunged more than 9% after the semiconductor-equipment company gave a weaker-than-expected sales outlook. Nvidia and KLA also retreated about 3% and 5%, respectively.

—Jack Pitcher and Paul Kiernan contributed to this article.