WEEKLY ECONOMIC UPDATE FEB. 24, 2025

Stocks fell last week as concerns about sticky inflation and the pace of economic growth rattled investors.

The Standard & Poor's 500 Index declined 1.66 percent, while the Nasdaq Composite Index dropped 2.51 percent. The Dow Jones Industrial Average also fell 2.51 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, was essentially flat (+0.04 percent).[1,2]

S&P 500 Hits New High, Then Slips

Following the Presidents' Day holiday, stock prices were largely range-bound on Tuesday despite some intraday volatility. Then stocks edged higher, shaking off some new tariff talk and disappointing housing starts data. The S&P 500 marked its third record close of the year on Wednesday.[3,4]

On Thursday, stocks were under pressure from the start of trading after a weaker-than-expected outlook from a mega-retailer. The update reinforced some concerns that the economy may be slowing. The selling accelerated on Friday after a consumer sentiment survey showed investors are unsettled about the inflation outlook.

Friday's decline was the worst of the young year.[5]

MARKET INSIGHTS

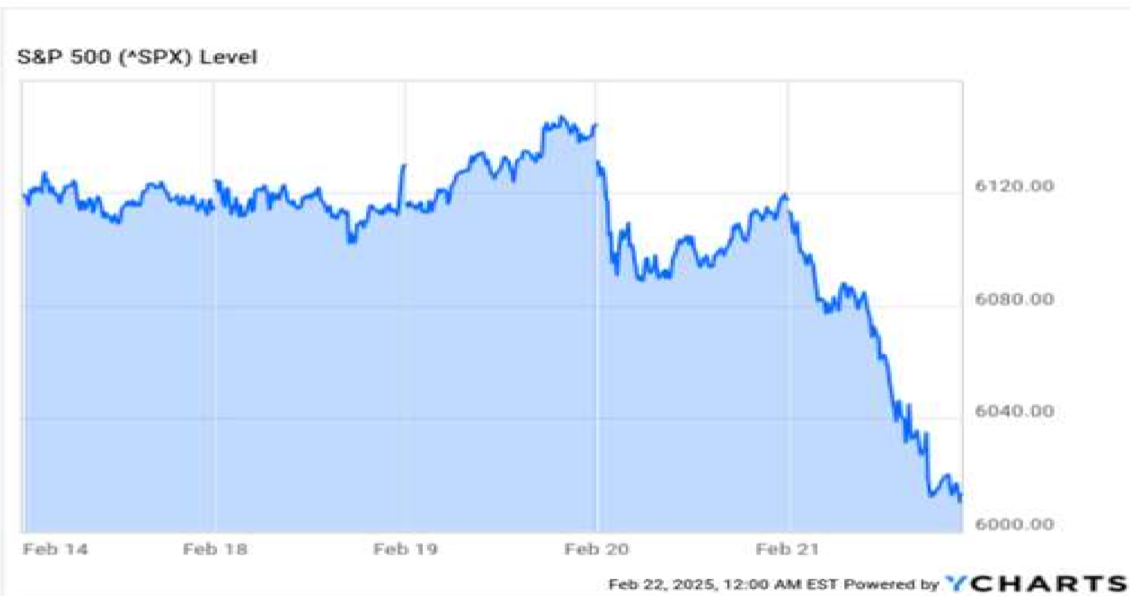
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	1.75%	4.05%	16.63%	67.23%
MSCI EAFE	5.51%	8.00%	10.93%	41.47%
Nasdaq Composite	1.75%	3.45%	28.62%	112.8%
S&P 500	2.14%	4.20%	24.63%	96.10%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 02/21/25	4.42%	4.57% 4.43% 4.32%	-3.28% ▼ -0.23% ▼ 2.31% ▲

Economic Jitters

Investors were forced to navigate a week of disappointing news about the economy and inflation.

First, traders were surprised to hear about slowing demand at the country's biggest retailer, which soured the outlook for the consumer and the economy. Then, the University of Michigan Consumer Confidence survey fell by 10 percent in February as consumers expressed concerns about higher inflation ahead of possible new tariffs.[6]

This combination prompted investors to move into a "risk-off" position before the weekend.

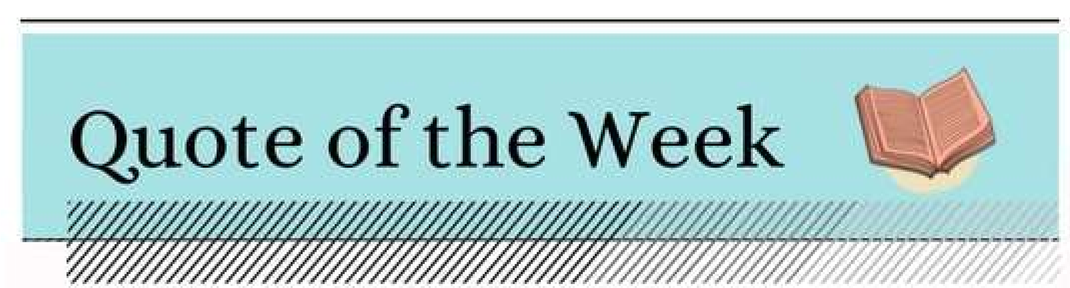
This Week: Key Economic Data

Tuesday: Consumer Confidence. Fed Officials Lorie Logan and Thomas Barkin speak.

Wednesday: New Home Sales. Fed Officials Thomas Barkin and Raphael Bostic speak.

Thursday: Gross Domestic Product (GDP). Durable Goods. Weekly Jobless Claims. Pending Home Sales. Fed Balance Sheet.

Friday: Personal Consumption and Expenditures (PCE) Index.



"As individuals increasingly offload cognitive tasks to AI tools, their ability to critically evaluate information, discern biases, and engage in reflective reasoning diminishes."

– Michael Gerlich

Of Note

Are the central bankers at the Federal Reserve just winging it? It sure seems that way if you step back and take a long view of their decision-making. Fed officials project this aura of authority. You might imagine them as hyper-intelligent experts in the field of economics and finance making carefully calculated monetary policy decisions based on a thorough understanding of all the dynamics in the economy. After all, they must have risen to these important positions at the Fed based on their economic acumen, right? Or maybe they are just politicians making stuff up as they go along. A more accurate word picture would probably be a bunch of people wearing expensive suits throwing darts at a dartboard.

Last year, we got minutes from the FOMC meeting held on April 30 and May 1. As you may recall, the committee elected to hold rates steady at 5.25 to 5.5 percent. But the messaging that came out of that meeting was relatively hawkish after several previous CPI reports showed stubbornly sticky price inflation.

In its official statement, the Committee conceded that rates will remain at this level into the foreseeable future. “The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent."

During the post-meeting press conference, Powell admitted that he and his fellow central bankers don’t have a clue when that might happen. “I would say my personal forecast is that we will begin to see further progress on inflation this year. I don't know that it will be enough, sufficient. I don't know that it won't. We're going to have to let the data lead us on that.”

The May meeting minutes reveal that the FOMC members were even more hawkish behind closed doors. They lamented the lack of progress on the price inflation front. “Participants observed that while inflation had eased over the past year, in recent months there had been a lack of further progress toward the Committee’s 2 percent objective. The recent monthly data had showed significant increases in components of both goods and services price inflation.”

And with price inflation still running hot, “The market-implied path for the federal funds rate through 2024 increased markedly, and federal funds futures rates suggested that market participants were placing lower odds on significant policy easing in 2024 than they did just before the March FOMC meeting."

In fact, according to the minutes, “Various participants mentioned a willingness to tighten policy further should risks to inflation materialize in a way that such an action became appropriate.” In other words, as of May 1, 2024, the central bankers at the Fed weren’t thinking about rate cuts and they put further rate hikes back on the table.

Now let’s take a trip back into the deep recesses of time known as March ‘24. After the March FOMC meeting, the committee released its “dot plot” projecting the expected trajectory of interest rates over the next several years.

Based on the dot plot, the FOMC indicated that it still planned to cut interest rates three times in 2024. If it moved in typical 25-basis point increments, that would lower rates to between 4.5 and 4.75 percent by the end of the year.

The committee projected additional cuts in 2025, dropping rates to around 3 percent. Now, stop and think about this. Six weeks earlier, the FOMC was convinced that three rate cuts were the appropriate trajectory of monetary policy. Six weeks later, we might need rate hikes. Did I mention this flip-flop happened in just six weeks?

This doesn’t exactly inspire confidence that these people know what they’re doing, does it?
Now, you might say, “Well, monetary policy is a complex business. You can’t expect them to get it right every time.” And that might be a fair assessment. The problem is it doesn’t seem like they ever get it right.

Comparing the actual trajectory of rate cuts with the projections bear this out. How bad is their track record? Fund manager David Hay analyzed past dot plots and found the FOMC only got interest rate projections right 37 percent of the time. And as Hay pointed out, “They control interest rates!” In other words, the people who set interest rates would make better guesses about where interest rates are heading by flipping a coin.

For instance, in March 2021, the FOMC projected the interest rate would still be zero in 2022. The actual 2022 rate was 1.75 percent. And in 2023, the vast majority of FOMC members thought the rate would still be at zero. The actual rate was over 5 percent.

If the FOMC members didn't have coins handy, maybe they should try throwing darts at a chart. The point is we don’t have a good reason to believe anything Powell & Company said or to think their musings tell us anything about the central bank's next moves. I can't help but think of other Fed predictions that were wildly wrong. Do you remember when inflation was "transitory?" Or how about back in 2007 when they emphatically assured us that the subprime mortgage problems were "contained." A year later, then Fed Chair Ben Bernanke told Congress that quantitative easing was a "temporary emergency measure" and once the crisis passed, the central bank would quickly shed the bonds it was buying from its balance sheet. He insisted that the Fed was not engaged in debt monetization. Sixteen years later, most of those assets are still on the books.

I'm just going to throw this out there – given the track record, maybe the mainstream should stop with the knee-jerk reactions every time words fall out of Jerome Powell or some other Fed official's mouths. After the May '24 minutes came out, stocks tanked and gold sold off because we're hawkish again. Laer that month, stocks set new records and gold rallied because the CPI report was good making everybody think the Fed people would jump back on the rate cut train.

The fact of the matter is it's all just wild guesses and speculation. Instead of obsessing over the Fed's open-mouth operations (doing monetary policy by talking), people would do better to look at the underlying fundamentals of the economy. Consider the massive levels of debt, the stagnating growth, the amount of money creation the central bank engaged in, and the fact that the economy runs on easy money, and then place all of this into the context of a higher interest rate environment. You'll almost certainly come closer to anticipating the future than you will by listening to Fed officials. Or you could just throw darts.[7]

Footnotes and Sources

1. The Wall Street Journal, February 21, 2025

2. Investing.com, February 21, 2025

3. CNBC.com, February 18, 2025

4. The Wall Street Journal, February 19, 2025

5. CNBC.com, February 21, 2025

6. The Wall Street Journal, February 21, 2025

7. zerohedge.com/political/federal-reserve-just-winging-it

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