

## Fed Speakers Signal Near-Term Caution, Ultimately Lower Rates

Second tier economic releases took a backseat to *Fed-speak* during a week dominated by political news. A parade of Fed officials weighed in on inflation and the interest rate outlook following Chair Powell's surprisingly hawkish remarks last week. Responses were generally cautious, but nothing remarkable was said.

On Wednesday, Fed Governor Lisa Cook told *Bloomberg News* that risks to the Fed's dual inflation/employment mandates were "roughly balanced," and although the direction of interest rates is still downward, the timing and magnitude will depend on incoming data and the economic outlook.

In a *Barron's* interview on Thursday, New York Fed President John Williams pointed to a "significant decline in inflation," while acknowledging that we're "not there yet." Williams expects the economy to grow at a solid +2.5% pace in 2025, continuing to feed the fabled soft-landing narrative.

Richmond Fed President Tom Barkin was a little more cautious in an interview with the *Financial Times*, arguing that the committee should wait on further easing until the new administration's economic policy becomes clear.

Chicago Fed President Austan Goolsbee was optimistic on labor market conditions and the path of inflation and was confident that interest rates would ultimately be "a fair amount lower than they are today."

This week's economic data had a housing focus. Both housing starts and building permits fell in October for the second straight month. This may be the result of a continued shortage of skilled construction workers, or it may be that builders were taking a wait-and-see approach to an unusually uncertain 2025 outlook.

Existing home sales rebounded in October, increasing by a better-than-expected +3.4% after slipping in September. The improved 3.96 million seasonally-adjusted annual pace reflected the drop in mortgage rates immediately following the Fed's September rate cut. However, the recent increase in lending rates doesn't hint at further improvement in the coming months.

Initial jobless claims fell to the lowest point since late April, while continuing claims climbed to the highest level in three years. Employers are laying off fewer workers as the holiday season approaches. At the same time, it's taking much longer for sidelined workers to find new employment. Although the two series seems to be telling different stories, the elevated level of ongoing benefit recipients implies softening labor conditions.

Yields on the short end of the curve rose during the week, although the extreme amount of recent volatility points to a lack of direction. On the longer end, yields were mostly flat.

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## Market Indications as of 3:25 P.M. Central Time

DOW	Up 426 to 44,297 (NEW HIGH)
NASDAQ	Up 31 to 19,004 (HIGH: 19,299)
S&P 500	Up 21 to 5,969 (HIGH: 6,001)
1-Yr T-bill	current yield 4.41%; opening yield 4.36%
2-Yr T-note	current yield 4.38%; opening yield 4.34%
3-Yr T-note	current yield 4.32%; opening yield 4.29%
5-Yr T-note	current yield 4.30%; opening yield 4.30%
10-Yr T-note	current yield 4.41%; opening yield 4.42%
30-Yr T-bond	current yield 4.60%; opening yield 4.60%

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