CAPITAL INVESTMENT COUNSEL

# The Columns

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The Fed finally cut rates. After twiddling his thumbs all summer, Jerome Powell realized it was time to play catch-up. So, let's break it down.

The Fed Funds rate is the overnight lending rate, basically what the Fed thinks short-term interest rates should be. With the 50-basis point cut, it's now at 5%.

But the 2-year Treasury Note? That's the market's opinion on short-term rates, and it's trading at 3.6%, currently. I've got more faith in the market's judgment here. After all, the 2-year reflects the collective wisdom of millions of investors, not just what a handful of government economists think.

Back in May, the Fed Funds rate sat at 5.5%, and the 2-year Note was right there with it at 5%. But as the economy softened, the Fed held rates at 5.5%, while the 2-year quickly slid to 3.6%, pricing in the rise in unemployment.

Now, the Fed says inflation is currently at 2.5%, and with Fed Funds at 5%, that's a full 250 basis points over inflation. The 2-year, at 3.6%, is just 110 basis points over, which feels like a more realistic assessment of where rates should be.

I'm on board with the 50-basis point cut, and Powell's tone at Wednesday's presser was solid. He's showing commitment to keeping the economy and jobs on track. It's a good start, but how about another 25 basis points at each of the next three meetings?

Ever heard of the Deadlift Index? Yeah, it's a thing—or at least it should be. This hypothetical "Index" includes only companies led by CEOs who lift weights or are into combat sports like Brazilian Jui Jitsu. The Deadlift sector is made up of eight heavy hitters, and I bet you know them all: META, Amazon, Goldman, UBER, Microsoft, Apple, Blackrock, and Nvidia.

Now, I'm convinced by most of these, but I'm a little skeptical about Microsoft and Apple. Let's be real—Nadella and Cook don't exactly scream "intimidating". And how do you have a mostly tech index without Google? Well, take a look at Sundar Pichai, and you'll see why—he could use a little "iron therapy" at the gym, haha.

We all saw what hitting the weights did for Zuck and Meta. Meta's up 90% over the last 12 months. Jokes aside, the Deadlift "Index" has outperformed the S&P by 140% over the last four years. Maybe there's something to hitting the gym.

There's a lot of fear floating around when it comes to artificial intelligence — folks worried about robots taking over the world, that kind of thing. But let's not forget about the labor-saving benefits that are already happening.

Take Amazon, for example. They're using their Amazon Q AI assistant to help streamline app development. What used to take 50 developer days now takes around 3 hours. They've saved 4,500 developer years and racked up $260 million in efficiency gains. That's serious money.

Google's got its own stories too. The head of Google Cloud is working with a big European insurance company to speed up claims processing. They analyze 800 documents per claim on average. That used to take 30 minutes per claim. Now, AI does it in 3 seconds. Not bad!

The real opportunity is for us to use the time AI frees up to work on tasks AI *can't* do. I'm excited to see what's coming next.

One final Fed thought - when the Fed starts cutting rates, the market tends to stumble a bit in the short term. People argued about 25 versus 50 but that's missing the mark. Last week was a "maintenance" cut. There's no financial disaster lurking out there like 1998. There's no housing crisis to deal with, like 2008. This one was like you and me cutting the grass every week – because it needed to be done.

Probably the best news is that when the Fed has cut in similar situations, the market was higher 12 out of 12 with an average gain of 15%. Thanks to JP Morgan for the stat. Those are odds I can get on board with. If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.



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