

## Plunge in US stocks after the December 18 FOMC meeting

### Maintaining a Calm Stance Considering US Corporate Growth Prospects

December 19, 2024

## Stock Market Plunge Triggered by Sharp Interest Rate Hike Amid Expectations of Slower Rate Cuts

On December 18 (local time), the US stock market experienced a broad decline, with the S&P 500 plummeting by 2.95% to 5,872, and the NY Dow extending its losing streak to ten days. The FOMC meeting concluded on the same day with a 0.25% point reduction in the federal funds rate, as widely anticipated by the market. However, the turmoil was instigated by the FOMC participants' outlook on the federal funds rate. The number of rate cuts expected in 2025 was halved to two 0.25% point reductions, down from the four predicted in September. The upward revision in interest rate forecasts is attributed to the robust US economy, more persistent inflation than anticipated, and the Federal Reserve's intention to assess the policies of the incoming Trump administration. Although the rate hike outlook was somewhat priced in, the market perceived the FOMC's outcome as hawkish, resulting in a sharp rise in interest rates and a significant decline in high P/E tech stocks.

Since the US presidential election on November 5, the S&P 500 has repeatedly reached record highs driven by expectations of Mr. Trump's economic policies and rate cuts. However, the recent FOMC meeting has dampened market participants' enthusiasm. Nevertheless, there are three reasons why excessive pessimism is unwarranted: (1) the slowdown in the pace of rate cuts was already anticipated, (2) the upward revision in interest rate forecasts reflects a stronger-than-expected US economy, and (3) even if US interest rates remain elevated at current levels, the growth of AI-related semiconductors and services, which drive US corporate earnings, is unlikely to be impeded. Therefore, it is advisable to maintain an investment stance based on medium-term profit growth for US stocks.

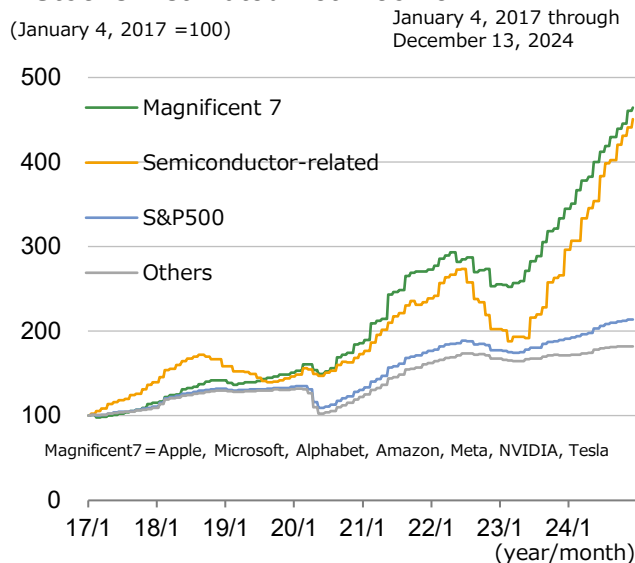
**Chart 1: Economic Outlook by FOMC Participants**

|                   | ( % )   | 2024 | 2025 | 2026 | 2027 | ~   |
|-------------------|---------|------|------|------|------|-----|
| Real GDP growth   | 2024/12 | 2.5  | 2.1  | 2.0  | 1.9  | 1.8 |
|                   | 2024/9  | 2.0  | 2.0  | 2.0  | 2.0  | 1.8 |
| Unemployment rate | 2024/12 | 4.2  | 4.3  | 4.3  | 4.3  | 4.2 |
|                   | 2024/9  | 4.4  | 4.4  | 4.3  | 4.2  | 4.2 |
| PCE               | 2024/12 | 2.4  | 2.5  | 2.1  | 2.0  | 2.0 |
|                   | 2024/9  | 2.3  | 2.1  | 2.0  | 2.0  | 2.0 |
| PCE Core          | 2024/12 | 2.8  | 2.5  | 2.2  | 2.0  |     |
|                   | 2024/9  | 2.6  | 2.2  | 2.0  | 2.0  |     |
| FF rate           | 2024/12 | 4.4  | 3.9  | 3.4  | 3.1  | 3.0 |
|                   | 2024/9  | 4.4  | 3.4  | 2.9  | 2.9  | 2.9 |

※PCE, PCE Core, Real GDP growth YoY in Oct-Dec  
Unemployment rate is Oct-Dec average; FF rate is at year-end

Source: FRB; Compiled by Daiwa Asset Management

**Chart 2: Magnificent 7 and Semiconductor Stocks' Estimated Net Income**



※Net income is forecast 12 months ahead. Forecast is for LSEG; "Other" is for M7 and S&P 500 components excluding semiconductor-related stocks

Source: LSEG; Compiled by Daiwa Asset Management

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