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Markets Advance as Energy Prices Retreat and the Fed Holds Steady

All three major indices ended in the green with the Nasdaq and tech stocks leading the way forward.

*"Fortune befriends the bold."
– Emily Dickinson*

Markets rallied again last week. All three major indices ended in the green with the Nasdaq and tech stocks leading the way forward. The SpaceX IPO and subsequent acquisition of AI company, Cursor, provided momentum in the AI/tech space. The interim peace deal between the United States and Iran also supported the indices appreciation. The deal called for the reopening of the Strait of Hormuz, which will release a lot of pent-up oil supply in the region. Crude prices fell to nearly pre-war levels. The Fed meeting in the middle of the week did shake up the risk-on mentality with the central bank expecting lingering inflation from the oil supply shock and its next policy move to be a rate 'hike' instead of the previously projected rate 'cut'.

Interest Rates

In Chairman Warsh's first meeting, the Fed voted last week to keep the federal funds rate unchanged at a range of 3.50-3.75%. This was the expected outcome as inflationary pressures and an improving labor market put the central bank in wait and see mode. Notably, in the press release following the announcement, the Fed affirmed its intent to deliver price stability following the energy supply shock which has ignited inflation to multi-year highs.

Percent

Variable	Median			
	2026	2027	2028	Longer run
Change in real GDP	2.2	2.3	2.2	2.0
March projection	2.4	2.3	2.1	2.0
Unemployment rate	4.3	4.3	4.2	4.2
March projection	4.4	4.3	4.2	4.2
PCE inflation	3.6	2.3	2.0	2.0
March projection	2.7	2.2	2.0	2.0
Core PCE inflation	3.3	2.5	2.1	
March projection	2.7	2.5	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.8	3.6	3.4	3.1
March projection	3.4	3.1	3.1	3.1

Source: Federal Reserve Board

According to the latest Summary of Economic Projections, the Fed raised its guidance on expected core inflation from 2.7% to 3.3%. The energy price shock has reversed the projected policy pathway, which now shows an expected rate hike at some point this year. We expect other central banks to take similar stances in the coming months. The Bank of England similarly held its key interest rate steady, but the European Central Bank (ECB) has increased its key interest rate by a quarter point. Now that the Strait of Hormuz is expected to open again for commercial traffic, we will have to see how fast energy markets stabilize and how producers in the region adjust. Many were forced to find alternative routes for their oil over the past few months and we expect them to continue to reduce their overreliance on the Strait moving forward, especially in light of potential tolls. For example, the United Arab Emirates has already stated that they will be building up their infrastructure to send more oil to its eastern ports. It's possible that we see rates held steady, rather than any moves higher or lower, for an extended period of time if energy inflation starts coming down in the next few reports.

**In case you missed it: Watch Kevin Simpson on CNBC's 'Closing Bell'
Bought SpaceX and looking at it as an investment, not a trade, says
Capital Wealth Planning's Kevin Simpson**

MARKET ZONE | CLOSING BELL 2:53

COMMUNICATION SVCS	470.87	+1.33%
ALPHABET CLASS A GOOGL	368.69	+1.35%
META PLATFORMS META	578.26	+1.88%
NETFLIX NFLX	77.67	+0.92%

CLOSING BELL

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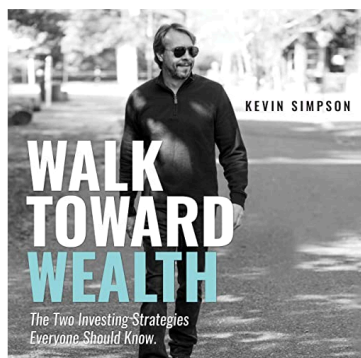
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The Road Ahead

This week will be relatively light for economic releases. We will receive May's PCE report and a final look at Q1 GDP.

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